e·on | U.S.

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May 28, 2010

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

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and ten copies of the Joint Application of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities Company for approval of an acquisition. Please confirm your receipt of this filing by placing the stamp of your office with the date received on the enclosed additional copy of this filing.

Also, enclosed are an original and ten copies of a Petition for Confidential Protection regarding certain information contaned in Exhibit A.

Due to the unavailability of Karl-Heinz Feldmann to sign his verification page, the Company will file his verification page separately.

Should you have any questions regarding the enclosed, please contact me at your convenience.

Sincerely,

Lonnie E. Bellar

cc: Dennis G. Howard II
Michael L. Kurtz
Richard Northern
Paul E. Russell
Kendrick R. Riggs
Allyson K. Sturgeon

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP., E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL OF AN ACQUISITION OF OWNERSHIP AND CONTROL OF UTILITIES	)))))))	**CASE NO. 2010-00204**

PPL Corporation ("PPL"), E.ON AG ("E.ON"), E.ON US Investments Corp. ("E.ON US Investments"), E.ON U.S. LLC ("E.ON U.S."), Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Applicants") jointly file this application ("Application") for approval by the Kentucky Public Service Commission (the "Commission") under KRS 278.020(5) and (6) of the acquisition by PPL of ownership and control of LG&E and KU. The acquisition of ownership and control will result from the purchase by PPL from E.ON US Investments of 100% of the limited liability company interests of E.ON U.S., the parent company of LG&E and KU. The proposed acquisition will occur, subject to the approval of the Commission and other regulatory agencies, under the terms of the Purchase and Sale Agreement by and between E.ON US Investments, PPL and, solely for purposes of Articles VI, Article IX and Article X

thereof, E.ON, dated as of April 28, 2010 (the "PSA"). A copy of the PSA is attached as Exhibit A to this Application.[1]

The proposed acquisition satisfies the requirements of KRS 278.020(5) and (6). For the reasons set forth below in this Application, the proposed acquisition will be made by a person with the financial, technical and managerial abilities to provide reasonable service, it will be made in accordance with law and for a proper purpose, and it will be consistent with the public interest. The Applicants respectfully request that the Commission accept the filing of this Application, schedule a hearing for consideration of the proposed acquisition, and enter a final order approving the proposed acquisition within the period of time provided in KRS 278.010(6).

I. Introduction.

Under the terms of the PSA, PPL will purchase from E.ON US Investments 100% of the issued and outstanding limited liability interests of E.ON U.S., the parent company of LG&E and KU. Upon the completion of the proposed acquisition, E.ON U.S. will be a wholly owned direct subsidiary of PPL. There will be no other changes in the corporate structure of E.ON U.S. and its subsidiaries, although the names of the entities with "E.ON" in their current names will be changed after the closing. The current names of LG&E and KU will not be changed. PPL has not yet determined the new name of E.ON U.S. LLC. Solely for convenience, this Application will refer to E.ON U.S. LLC as

[1] The Applicants have filed a petition for confidential protection of certain exhibits and schedules to the PSA under 807 KAR 5:001, Section 7, and KRS 61.878(1)(c). In accordance with 807 KAR 5:001, Section 7, the Applicants have filed with this Application one copy of the PSA with the confidential information highlighted and 10 copies without the confidential information.

"E.ON U.S." for the period before the completion of the proposed acquisition, and as "PPL Kentucky" for the period after the completion of the proposed acquisition.

Upon the completion of the proposed acquisition, PPL Kentucky will continue to hold LG&E and KU as wholly owned direct subsidiaries, together with E.ON US Capital Corp. ("E.ON Capital"), E.ON US Foundation, Inc.; LG&E Energy Marketing, Inc., and E.ON US Services, Inc. ("E.ON US Services"); and E.ON Capital will continue to hold its current direct and indirect subsidiaries. A chart showing the corporate structure of E.ON before the completion of the proposed acquisition is attached as Exhibit B to this Application. A chart showing the same corporate structure following the consummation of the acquisition is attached as Exhibit C to this Application.

PPL is aware of the history of the regulatory requirements that the Commission imposed in previous cases involving the acquisition of ownership and control of LG&E and KU, and the importance of those requirements to the Commission. For that reason, PPL and E.ON US Investments agreed in the PSA that PPL would offer to make to the Commission in this proceeding certain regulatory commitments regarding the future operations of LG&E and KU that are listed in Exhibit B to the PSA (the "Regulatory Commitments"). The Regulatory Commitments are based substantially on commitments that were made to the Commission by Powergen plc ("Powergen") and E.ON in the two previous cases, Case Nos. 2000-095 and 2001-104. The Regulatory Commitments are

discussed in greater detail below in this Application. A copy of Exhibit B to the PSA is attached as Exhibit D to this Application.

The transactions contemplated by the PSA include the refinancing by LG&E and KU, subject to the Commission's approval, of certain unsecured notes issued by LG&E and KU to Fidelia Corporation. Fidelia Corporation is an affiliate of E.ON that is not proposed to be transferred to PPL. Contemporaneously with the completion of the proposed acquisition, PPL will cause LG&E and KU to repay and refinance all amounts outstanding and all other amounts then due and payable under the unsecured notes held by Fidelia Corporation. LG&E and KU have filed, at the same time as the filing of this Application, separate applications for the approval of these refinancings under KRS 278.300.[2]

II. The Applicants.

PPL Corporation. PPL is a Fortune 500 global energy and utility holding company headquartered in Allentown, Pennsylvania. PPL's wholly owned subsidiary, PPL Electric Utilities Corporation ("PPL Electric"), traces its origins to the merger in 1920 of eight utilities, which operated a combined total of 62 electric generating plants in and around central eastern Pennsylvania, into a single corporate entity named Pennsylvania Power & Light Company. Since that time, PPL has grown from a regional utility company to one of the 10 largest utility companies in the United States. PPL owns or controls nearly 12,000 megawatts of electrical generating capacity in the United States, supplies or

[2] *See In the Matter of: The Application of Louisville Gas and Electric Company for an Order Authorizing the Restructure and Refinancing of Unsecured Debt and the Assumption of Obligations and for Amendment of Existing Authority*, Case No. 2010-00205; and *In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Restructure and Refinancing of Unsecured Debt and the Assumption of Obligations and for Amendment of Existing Authority*, Case No. 2010-00206.

delivers electricity to about four million customers in the northeastern United States and in the United Kingdom, and employs about 10,000 people on two continents.

PPL is a publicly owned corporation. At current trading prices as of the date of this Application, PPL's market capitalization is about $9.36 billion. In 2009, PPL reported total operating revenues of about $7.56 billion.

The mailing address of PPL is Two North Ninth Street, Allentown, PA 18101. Copies of the Articles of Incorporation and Bylaws of PPL are attached as Exhibit E to this Application. A chart that shows the current corporate structure of PPL is attached as Exhibit F to this Application.

E.ON AG. E.ON is an Aktiengesellschaft formed under the laws of the Federal Republic of Germany. An Aktiengesellschaft under German law corresponds to a U.S. stock corporation. E.ON's shares are traded on all German stock exchanges, including the electronic stock exchange, and its American Depositary Receipts are traded on the over-the-counter market.

E.ON's mailing address is E.ON-platz 1, 40474 Düsseldorf, Federal Republic of Germany. Copies of the Articles of Association of E.ON are attached as Exhibit G to this Application.

E.ON US Investments Corp. E.ON US Investments is a corporation formed under the laws of Delaware. E.ON US Investments is a wholly owned indirect subsidiary of E.ON, and is the immediate parent company of E.ON U.S. The mailing address of E.ON US Investments is 220 West Main Street,

Louisville, KY 40202. Copies of the Certificate of Incorporation and Bylaws of E.ON US Investments are attached as Exhibit H to this Application.

E.ON U.S. LLC. E.ON U.S., also referred to in this Application as PPL Kentucky for the period after the closing of the proposed acquisition, is a limited liability company formed under the laws of Kentucky. The mailing address of E.ON U.S. is 220 West Main Street, Louisville, KY 40202. Copies of the Articles of Organization and Operating Agreement of E.ON U.S. are attached as Exhibit I to this Application. As noted above, a chart of the current corporate structure of E.ON is attached as Exhibit B to this Application.

By an Order dated August 6, 2001 in Case No. 2001-104, the Commission approved the acquisition of ownership and control of LG&E and KU resulting from the acquisition by E.ON of Powergen. As a result of the acquisition by E.ON of Powergen, E.ON US Investments became the parent company of LG&E Energy Corp. ("LG&E Energy"), which was then the parent company of LG&E and KU. LG&E Energy was merged into E.ON U.S. (then named LG&E Energy LLC) on December 30, 2003 as an internal corporate reorganization under KRS 278.020(7)(b). LG&E Energy LLC changed its name to E.ON U.S. LLC on December 1, 2005. Through a series of orders issued by the Commission beginning in 1990, it is well established that E.ON U.S. is not a utility as defined in KRS 278.010(3).[3]

[3] *See* the Order dated May 25, 1990 in Case No. 89-374, in which the Commission approved the reorganization of LG&E as a regulated subsidiary of LG&E Energy; the Order dated September 12, 1997 in Case No. 97-300, in which the Commission approved the merger of KU's then-parent company, KU Energy Corporation, into LG&E Energy; the Order dated May 15, 2000 in Case No. 2000-095, in which the Commission approved the merger of LG&E Energy and a subsidiary of Powergen; and the Order dated August 6, 2001 in Case No. 2001-104, in which the Commission approved the acquisition of Powergen by E.ON.

Louisville Gas and Electric Company. LG&E is a corporation formed under the laws of Kentucky and is a wholly owned direct subsidiary of E.ON U.S. LG&E is a utility as defined by KRS 278.010(3)(a) and (b), provides retail electric service to about 393,000 customers and retail gas service to about 318,000 customers in 17 counties in Kentucky, and is subject to the Commission's jurisdiction as to its retail rates and service. The mailing address of LG&E is 220 West Main Street, Louisville, KY 40202. Copies of the Articles of Incorporation and Bylaws of LG&E are attached as Exhibit J to this Application.

Kentucky Utilities Company. KU is a corporation formed under the laws of Kentucky and Virginia and is a wholly owned direct subsidiary of E.ON U.S. KU is a utility as defined by KRS 278.010(3)(a), provides retail electric service to about 513,000 customers in 77 counties in Kentucky and about 30,000 customers in five counties in southwest Virginia, and is subject to the Commission's jurisdiction as to its retail rates and service in Kentucky. The mailing address of KU is One Quality Street, Lexington, Kentucky 40507. Copies of the Articles of Incorporation and Bylaws of KU are attached as Exhibit K to this Application. Copies of maps showing the service territories and systems of LG&E and KU are attached collectively as Exhibit L to this Application.

III. The Proposed Acquisition Satisfies All Requirements of KRS 278.020(5) and (6).

A. PPL Has the Financial Ability to Complete the Proposed Acquisition and to Cause LG&E and KU to Continue to Provide Reasonable Service After the Completion of the Proposed Acquisition.

PPL has the financial ability to complete the proposed acquisition of E.ON U.S., and thereafter to provide safe and reliable service to customers and

to facilitate and participate in the growth of PPL Kentucky and the fulfillment of its strategic goals. PPL has resources, bank facilities and confirmed commitments to finance the acquisition, including a bridge financing commitment to ensure a cash tender making up nearly 85% of the total purchase price, and a plan to issue $750 million to $1.0 billion in high-equity-content securities and $2.2 to $2.6 billion in common stock after the closing of the proposed acquisition to replace the bridge financing.

After the proposed acquisition, PPL will retain its strong financial position to provide safe and reliable service to the customers of LG&E and KU. Furthermore, the proposed acquisition will not affect the balanced capital structures of LG&E and KU. Neither PPL Kentucky nor any of PPL Kentucky's direct or indirect subsidiaries, including LG&E and KU, will incur any additional indebtedness or issue any securities to finance any part of the purchase price paid by PPL for all of the outstanding limited liability interests in E.ON U.S. As noted above, contemporaneously with the completion of the proposed acquisition, PPL will cause LG&E and KU to repay and refinance all amounts outstanding and all other amounts otherwise then due and payable under the unsecured notes held by Fidelia Corporation. LG&E and KU have filed, at the same time as the filing of this Application, separate applications for the approval of these refinancings under KRS 278.300.

PPL is a major utility holding company with approximately $22 billion in total assets, which generated over $7.56 billion in total operating revenues in 2009. PPL targets disciplined growth in its energy supply margins

and limited volatility in both its cash flows and earnings. PPL has also achieved stable long-term growth in its regulated electricity delivery businesses through efficient operations and strong customer and regulatory relationships.

LG&E and KU will benefit from PPL's history of financial strength and consistent corporate health, which have resulted in a sound return on shareholder investment. Since December 31, 2004, PPL's five-year cumulative total return on its shareholders' investment has outperformed the Edison Electric Institute Index of Investor-Owned Electric Utilities and the Standard & Poor's 500 Index. PPL has increased its shareholder dividend for eight consecutive years, with dividends paid in 258 consecutive quarters. PPL's book value and market price per share increased by 7.5% and 5.2%, respectively, from December 31, 2008 to December 31, 2009. PPL currently forecasts 2010 earnings from ongoing operations of $3.10 to $3.50 per share. PPL and its subsidiaries have substantial access to financial markets with an unused domestic credit capacity from its bank facilities exceeding $3.5 billion.

As a result of the proposed acquisition, PPL will become a more geographically diverse utility holding company with approximately $33 billion in total assets and combined annual revenues of about $10 billion. The proposed acquisition will create an enterprise value of about $25.4 billion, as measured by PPL's stock price on April 27, 2010. On a post-proposed acquisition basis, PPL and its subsidiaries, including LG&E and KU, will serve nearly five million electricity customers in the United States and the United Kingdom, and own or control about 20,000 megawatts of U.S. electricity generating capacity. PPL's

growth strategy is fiscally responsible, and the proposed acquisition exemplifies PPL's commitment to balancing its business mix and sustainable long-term growth. Finally, PPL did not consider any synergies or savings in evaluating the economics of the proposed acquisition.

In summary, PPL is a substantial utility holding company that has the financial ability to cause LG&E and KU to continue to provide reasonable service to their customers after the completion of the proposed acquisition.

B. PPL Has the Technical and Managerial Ability to Cause LG&E and KU to Continue to Provide Reasonable Service After the Completion of the Proposed Acquisition.

Through its subsidiaries, PPL is primarily engaged in the generation and marketing of electricity in two key markets (the northeastern and western U.S.), and in the delivery of electricity in Pennsylvania and the United Kingdom. PPL's principal direct subsidiaries are PPL Electric, which is responsible for regulated utility operations in Pennsylvania; PPL Energy Funding Corporation ("PPL Energy Funding"), which is responsible for unregulated energy operations; and PPL Capital Funding, Inc., ("PPL Capital"), which is responsible for certain corporate financing.

PPL delivers power to 1.4 million Pennsylvania customers through PPL Electric. PPL Electric's utility service is extremely reliable; on average, its customers have power 99.9% of the time. PPL Electric maintains more than 48,000 miles of transmission and distribution lines to provide that service. Moreover, until October 2008, PPL owned and operated PPL Gas Utilities Corporation ("PPL Gas"), a Pennsylvania company with both natural gas distribution and storage facilities, providing PPL with institutional knowledge

regarding operating and maintaining natural gas distribution and storage systems. PPL Electric has been an industry leader in helping customers in need as one of the first utilities in Pennsylvania to offer programs to help low-income customers pay electric utility bills. PPL Electric has ranked first in eight of the past eleven annual J.D. Power Study of Business Customer Satisfaction among Eastern U.S. utilities, and has received a total of 16 J.D. Power awards.

PPL Energy Funding serves as the holding company for PPL Energy Supply, LLC, the parent company of PPL's principal unregulated subsidiaries. Those principal unregulated subsidiaries are PPL Generation, LLC ("PPL Generation"), which owns and operates U.S. generating facilities; PPL EnergyPlus, LLC ("PPL EnergyPlus"), which markets and trades electricity and gas in the wholesale and retail markets, and supplies energy in some markets; and PPL Global, LLC ("PPL Global"), which indirectly owns and operates PPL's electricity distribution businesses in the United Kingdom.

PPL, through PPL Generation and its subsidiaries, owns and operates a portfolio of domestic power generating assets located primarily in Pennsylvania, Montana, Illinois, Connecticut and Maine. PPL Generation's power plants use a variety of fuel sources including coal, natural gas, oil, uranium and water to produce energy.

PPL, through PPL EnergyPlus, sells electricity produced by the portfolio of generation assets owned and operated by subsidiaries of PPL Generation. PPL Energy Plus participates and trades energy in the wholesale

and retail sectors, and also markets various energy commodities, primarily in the northeastern and western United States.

PPL, through PPL Global and its subsidiaries, operates Western Power Distribution (South West) plc ("WPD South West"), and Western Power Distribution (South Wales) plc ("WPD South Wales"), each a regional electricity delivery business operating in the United Kingdom. WPD South West and WPD South Wales are two of the 15 distribution networks providing electricity service in England and Wales, and together serve about 2.6 million customers. WPD South West serves a 5,560 square-mile area of southwest England, distributing power to about 1.5 million customers in that region. WPD South Wales operates in an area of Wales 4,500 square miles in size and located directly opposite the Bristol Channel from WPD South West's territory. WPD South Wales distributes power to about 1.1 million customers in that region.

PPL has substantial and long-established technical experience by virtue of its total generation capacity of about 12,000 megawatts, its large U.S. and U.K. electricity delivery businesses, and its status as a leader in U.S. electricity generation, supply and delivery. PPL's management team has extensive experience providing efficient and reliable customer service to its customers. PPL's managerial experience and breadth of assets demonstrates that PPL has the technical ability to ensure that Kentucky customers continue receiving high quality service from LG&E and KU after the completion of the proposed acquisition.

C. The Proposed Acquisition Will Be Made in Accordance with Law.

The proposed acquisition was unanimously approved by the Board of Directors of PPL at a meeting held on April 27, 2010. The proposed acquisition does not require the approval of the shareholders of PPL. On April 27, 2010, the Supervisory Board of E.ON accepted the recommendation of the E.ON Board of Management to proceed with the proposed acquisition.

The closing of the transactions contemplated by the PSA is subject to several regulatory conditions, in addition to approval by the Commission. PPL, E.ON U.S., LG&E and KU will make all required federal and state regulatory filings on a timely basis, and they expect to receive all required approvals.

The proposed acquisition must be approved by the Federal Energy Regulatory Commission ("FERC") under Section 203 of the Federal Power Act ("FPA"). PPL, LG&E and KU will file the necessary applications for approval under the FPA with FERC.

The proposed acquisition will involve the transfer of ultimate control of certain wireless frequency licenses held by LG&E and KU, which will require the approval of the Federal Communications Commission ("FCC"). LG&E and KU will file applications for approval of the transfer of ultimate control of the licenses with the FCC.

The proposed acquisition must be approved by the Virginia State Corporation Commission ("VSCC") and the Tennessee Regulatory Authority ("TRA"). The Applicants will file joint applications for approval, substantially similar to this Application, with the VSCC and the TRA.

A copy of each application for regulatory approval listed above will be filed with the Commission promptly after it has been filed with the appropriate commission or agency.

The proposed acquisition is subject to the premerger notification and reporting requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act"). PPL and E.ON will file the required premerger notification and report forms with the U.S. Department of Justice ("DOJ") and the Federal Trade Commission ("FTC").

The proposed acquisition, unlike the previous acquisitions by Powergen and E.ON, will not create conflicting regulatory issues under federal and state law governing public utility holding companies. Effective February 8, 2006, the Public Utility Holding Company Act of 1935 (the "1935 Act") was repealed and replaced by the Public Utility Holding Company Act of 2005 ("PUHCA 2005").[4] PPL is a holding company under PUHCA 2005, and includes a service company, PPL Services Corporation ("PPL Services"), that supplies non-power goods and services to affiliates. LG&E and KU are currently part of a holding company system that is operated by E.ON in compliance with PUHCA 2005, including the similar use of a centralized service company, E.ON US Services.[5]

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[4] Energy Policy Act of 2005, Pub. L. No.109-58, August 8, 2005, 119 Stat. 594 (the "Energy Policy Act"), §§ 1263, 1274.

[5] Before the acquisition of LG&E Energy by Powergen in 2000, LG&E and KU were exempt from the requirements of the 1935 Act. After that acquisition, Powergen and the intermediate companies between Powergen and LG&E Energy became registered public utility holding companies under the 1935 Act, and LG&E Energy, LG&E and KU became part of Powergen's newly registered holding company system. After the acquisition of Powergen by E.ON in 2001, Powergen was reclassified as a foreign utility company under the 1935 Act, and E.ON became a registered public utility holding company system under the 1935 Act. LG&E Energy, LG&E and KU became part of E.ON's newly registered holding company system.

PUHCA 2005 requires holding companies and their affiliate companies, unless they meet narrow exemptions or waivers, to maintain and make available books and records necessary and appropriate for the protection of utility customers.[6] In addition, PUHCA 2005 requires holding company service companies, such as E.ON U.S. Services, to maintain their records in accordance with FERC's Uniform System of Accounts.[7] Further, PUHCA 2005 mandates that holding companies and holding company service companies comply with FERC's record retention rules.[8] PUHCA 2005 also grants authority to state regulatory commissions to obtain access to books and records of a holding company and its affiliate companies, if the state commission determines such books and records are relevant to the costs incurred by the electric or gas distribution utility it regulates and access is necessary for the effective discharge by the state commission of its responsibilities.[9] More importantly, nothing in PUHCA 2005 precludes FERC or a state commission from exercising its jurisdiction under otherwise applicable law to protect utility customers.[10]

PPL currently is exempt from certain FERC regulations under PUHCA 2005 because the bulk of its operations, as relevant to PUHCA 2005, are intrastate in character.[11] After the completion of the proposed acquisition, PPL

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[6] 18 C.F.R. § 366.2 (2009).
[7] 18 C.F.R. § 366.22(b) (2009).
[8] 18 C.F.R. § 366.22(a) (2009); the record retention rules are contained in 18 C.F.R. pts. 125 and 225.
[9] Energy Policy Act, § 1265, codified at 42 U.S.C. 16453.
[10] Energy Policy Act, § 1269, codified at 42 U.S.C. 16457.
[11] After the completion of the proposed acquisition, PPL expects to lose its "single-state holding company system" exemption under 18 C.F.R. § 366.(3)(c)(1) and to be subject to FERC's requirements as provided under PUHCA 2005. PPL Services and E.ON US Services will operate as centralized service companies with pricing "at cost" for any services provided to LG&E, KU and PPL Electric as was the standard under the 1935 Act. *See* Order No. 667, *Repeal of the*

will no longer qualify as a single-state holding company system under PUHCA 2005, and LG&E and KU will become part of PPL's holding company system under PUHCA 2005 and will be subject to the same regulation to which they are subject today. As noted above, there will be no change in the corporate structure of E.ON U.S. as a result of the transaction, including the use of E.ON US Services in compliance with PUHCA 2005. E.ON US Services has no plans at this time to engage in any specific affiliate transactions with PPL's subsidiaries. E.ON US Services may enter into affiliate service agreements with subsidiaries of PPL after the completion of the proposed acquisition, if such agreements would enhance operational flexibility.

The existing Power Supply System Agreement ("PSSA") and Transmission Coordination Agreement ("TCA") between LG&E and KU, each dated October 9, 1997, will remain in place and will not be affected by the proposed acquisition.[12]

Thus, after the completion of the proposed acquisition, LG&E will continue in existence as a corporation organized under Kentucky law; KU will continue in existence as a corporation organized under Kentucky and Virginia law; both LG&E and KU will continue to use E.ON US Services in compliance with PUHCA

Public Utility Holding Company Act of 1935 and Enactment of the Public Utility Holding Company Act of 2005, 113 F.E.R.C. STATS. & REGS. ¶ 61,248, 70 Fed. Reg. 75592-01 (to be codified at 18 C.F.R. pts. 365,366); *order on reh'g*, Order No. 667-A, F.E.R.C. STATS & REGS. ¶ 31,213 (2006), *order on reh'g*, Order No. 667-B, F.E.R.C. STATS & REGS. ¶ 31,224 (2006), *order on reh'g,* Order No. 667-C, 118 F.E.R.C. ¶ 61,133 (2007).

[12] In the Order issued on September 12, 1997 in Case No. 97-300 approving the merger of the LG&E and KU holding companies, the Commission noted that the PSSA and the TCA "establish the post-merger relationships between KU and LG&E with respect to the operation and planning of their generation and transmission system [and] will be filed with and subject to the exclusive jurisdiction of the FERC." *Id.* at p. 18. PPL, E.ON U.S., LG&E and KU have committed that any proposed amendments to the PSSA or the TCA will be submitted to the Commission for its review 30 days in advance of filing the amendment with FERC. [Regulatory Commitment No. 7]

2005; and the Commission will have the same ratemaking and regulatory authority to regulate the rates and services of LG&E and KU under federal and Kentucky law as it does today.

Because the proposed acquisition has received all necessary corporate approvals, because all federal and state regulatory filings incident to the proposed acquisition will be made on a timely basis and all required government approvals will be received before closing the transactions contemplated by the PSA, and because the proposed acquisition will not change the regulatory status of LG&E and KU under Kentucky law, the proposed acquisition will be made in accordance with law. [13]

D. The Proposed Acquisition is for a Proper Purpose.

The proposed acquisition, like the previous acquisitions, will cause LG&E and KU to be part of a larger utility system with the size and resources to permit LG&E and KU to continue to provide superior service, and the experience and expertise to succeed in the rapidly evolving energy industry. Thus, the proposed acquisition, like the previous acquisitions, will permit LG&E and KU to continue to meet their commitments to their customers, their communities and the

[13] The application of KRS 278.218 to the proposed acquisition is not entirely clear, but the Applicants believe that it does not apply. KRS 278.218 was enacted in 2002 in response to the crisis that resulted when California utilities divested generation assets. The Commission and the General Assembly wanted to ensure that the Commission would have oversight over any transfer of generation assets by a Kentucky utility to ensure that the crisis that occurred in California could not happen here. Accordingly, KRS 278.218 applies to a transfer of control of "assets" while KRS 278.020(5) and (6) apply to a transfer of ownership and control of a "utility." The proposed acquisition does not involve a direct transfer of assets, although it does result in the change in the ownership and control of LG&E and KU. Therefore, KRS 278.218 should not apply to the proposed acquisition, because the control of the assets of LG&E and KU will remain entirely with LG&E and KU. If, however, the Commission determines that KRS 278.218 does apply, the Commission should approve the proposed acquisition under that section as well as KRS 278.020(5) and (6), because the proposed acquisition is for a proper purpose and is consistent with the public interest.

Commonwealth as a whole. In its orders in Case Nos. 2000-095 and 2001-104, the Commission found these were proper purposes for the previous acquisitions of control of LG&E and KU.

PPL did not assume the existence of any synergies when it made the economic decision to purchase E.ON U.S. Nevertheless, PPL has committed that within 60 days after the completion of the proposed acquisition it will file with the Commission a petition setting forth a formal analysis of any potential synergies and benefits from the acquisition and a proposed methodology for allotting an appropriate share of the potential synergies and benefits to LG&E's and KU's ratepayers. [Regulatory Commitment No. 39]

The proposed acquisition, in contrast to the previous acquisitions, will be made by a domestic company that is headquartered in the United States and that is aware from its domestic operations of the importance and viability of coal as a fuel supply for the generation of electric power. PPL understands that the proposed acquisition would be the third change of control of LG&E and KU in 12 years. PPL intends to acquire and operate LG&E and KU as important core assets. After the completion of the proposed acquisition, LG&E and KU will continue to be regulated utilities subject to the Commission's jurisdiction, and they will continue to emphasize – as PPL's regulated utility subsidiaries currently do – customer satisfaction and commitment to their communities.

PPL is firmly committed to maintaining and supporting the historic relationships among E.ON U.S., LG&E and KU and the communities that they serve. After the completion of the proposed acquisition, PPL Kentucky and

LG&E will continue to maintain their headquarters and presence in Louisville, and KU will continue to maintain its headquarters and presence in Lexington. PPL has committed to maintain these headquarters locations for 15 years. The proposed acquisition will serve the interest of LG&E's and KU's customers, their communities and the Commonwealth as a whole and is, therefore, for a proper purpose.

E. The Proposed Acquisition is Consistent with the Public Interest.

The proposed acquisition will result in the transfer of control of LG&E and KU to a substantial, financially strong and well-managed utility holding company that has a core strength in operating rate-regulated utilities with an extraordinary degree of customer satisfaction. The proposed acquisition will not be a financial investment by a global energy company; it will be a strategic combination of two companies that have similar business profiles and operating philosophies. For that reason, PPL will have every incentive to operate LG&E and KU with the goal of sustainable long-term growth for the benefit of those companies and their customers, employees, managers and community stakeholders. PPL's long-term commitment to this goal is underlined by its understanding of, and agreement to, the Regulatory Commitments.

In an order issued on October 6, 1988 in Case No. 10296, the Commission approved the application of KU to reorganize as a subsidiary of a non-regulated holding company. The Commission noted in the order that the proposed reorganization presented regulatory concerns relating to the protection of utility resources, the monitoring of the holding company and its subsidiaries,

and the adequacy of reporting to the Commission. The Commission addressed those concerns by imposing certain regulatory requirements on KU and the holding company. In later cases, the Commission imposed similar, and additional, regulatory requirements in connection with the approval of the application of LG&E to reorganize as a subsidiary of a non-regulated holding company;[14] the approval of the merger of the LG&E and KU holding companies;[15] the approval of the acquisition of control of LG&E and KU by Powergen;[16] and the approval of the acquisition of control of LG&E and KU by E.ON.[17]

As noted above, PPL is aware of the regulatory requirements that the Commission imposed in the previous cases, and the importance of those requirements to the Commission. For that reason, PPL and E.ON US Investments agreed in the PSA that PPL would offer to make to the Commission in this proceeding the Regulatory Commitments that are listed in Exhibit B to the PSA. A copy of Exhibit B to the PSA is attached as Exhibit D to this Application. PPL's action in this regard is further evidence of PPL's commitment to the communities, customers and employees of E.ON U.S., LG&E and KU, and to the Commission, and PPL's business philosophy of taking a broad view in the conduct of its businesses.

The Regulatory Commitments begin with an overarching commitment that PPL, PPL Kentucky, LG&E and KU (referred to for convenience in the following

[14] Order issued on May 25, 1990 in Case No. 89-374.
[15] Order issued on September 12, 1997 in Case No. 97-300.
[16] Order issued on May 15, 2000 in Case No. 2000-095, Appendices A and B.
[17] Order issued on August 6, 2001 in Case No. 2001-104, Appendix A.

part of this Application as "PPL and its Kentucky subsidiaries") will adhere to the conditions described in the Commission's orders in Case Nos. 10296, 89-374, 97-300, 2000-095 and 2001-104, except to the extent expressly superseded by KRS 278.2201 through 278.2219, the jurisdiction of FERC or the findings and conditions of the Commission in response to this Application. [Regulatory Commitment No. 1] This general commitment is supported by additional specific commitments.[18]

The Commission's concerns with regard to the protection of utility resources are addressed by commitments that PPL and its Kentucky subsidiaries will not assert that FERC's jurisdiction under PUHCA 2005 legally preempts the Commission from disallowing recovery in retail rates for costs arising from affiliate transactions; that PPL and its Kentucky subsidiaries will not cross-subsidize between regulated and non-regulated businesses; that PPL and its Kentucky subsidiaries will obtain Commission approval before transferring any LG&E or KU property, plant or equipment with an original book value exceeding $10 million; that PPL Kentucky, LG&E and KU, and their ratepayers, directly or indirectly, will not incur any additional costs, liabilities, or obligations in connection with the proposed acquisition (other than in connection with the repayment and refinancing of closing indebtedness in accordance with its terms); that PPL Kentucky will hold 100% of the stock of LG&E and KU and will not

[18] The description of the Regulatory Commitments in this Application, including any statements regarding the intent of the Regulatory Commitments in the written testimony that is filed as collective Exhibit M to this Application, is intended as a summary for the convenience of the Commission. The full language of each Regulatory Commitment, as contained in Exhibit B to the PSA (Exhibit D to this Application), sets forth the actual commitments that are being offered to the Commission. Some of the Regulatory Commitments are made by PPL Kentucky, LG&E and KU collectively, and some are made by PPL individually. None of the Regulatory Commitments is made by E.ON or E.ON Investments.

transfer any of the stock without prior Commission approval; that any diversified holdings and investments of PPL such as non-utility businesses or foreign utilities will not be held by LG&E or KU or their subsidiaries; that for as long as PPL owns, controls, or manages LG&E or KU, PPL will endeavor to have an individual resident of Kentucky on PPL's Board of Directors; that when budgets, investments, dividend policies, projects, and business plans are being considered by PPL's Board of Directors for the Kentucky business, at a minimum, the CEOs of LG&E and KU or their designees will be present to offer a Kentucky perspective to the decision and be permitted to participate in any debates on the issues; and that PPL will use its reasonable best efforts to address market power concerns of FERC, DOJ and the FTC through mitigation measures that do not require participation by LG&E or KU in a Regional Transmission Organization, divestiture of operating assets of LG&E or KU, or LG&E or KU to decline to use their generating facilities to serve native load customers. [Regulatory Commitments No. 3(a), 3(e), 6, 8, 41, 44, 46, 50 and 53]

The Commission's concerns with regard to the monitoring of the holding company and its subsidiaries are addressed by commitments that the books and records of PPL Kentucky, LG&E and KU will be kept in Kentucky; that the Commission may audit the accounting records of PPL and its subsidiaries that are the bases for charges to LG&E or KU, to determine the reasonableness of allocation factors; that PPL and its Kentucky subsidiaries will provide the Commission access to all books and records which pertain to transactions between LG&E or KU and affiliated companies; and that PPL and its Kentucky

subsidiaries will provide the Commission with 30 days prior notice of any FERC filing that proposes new allocation factors [Regulatory Commitments No. 2, 3(b) and 4]

The Commission's concerns with regard to the adequacy of reporting are addressed by commitments that PPL and its Kentucky subsidiaries will file on a timely basis all applications and reports regarding affiliated transactions required by applicable statutes and regulations; that LG&E and KU will file annually a report regarding affiliated interests; that PPL Kentucky will notify the Commission as soon as practicable before issuing new debt or equity in excess of $100 million; that PPL will notify the Commission as soon as practicable after any public announcement of any acquisition of a business representing 5% or more of PPL's capitalization, or any change in effective control or acquisition of a material part of PPL Kentucky, LG&E or KU; that PPL will report annually to the Commission detailing PPL Kentucky's proportionate share of PPL's assets, revenues, expenses and employees; that PPL will notify the Commission 30 days before LG&E or KU pays any dividend or transfers more than 5% of its retained earnings; that any proposed amendment to the PSSA or the TCA will be submitted to the Commission for its review 30 days in advance of filing the amendment with FERC; that PPL will file with the Commission a copy of its annual and quarterly reports on Securities and Exchange Commission Forms 10-K and 10-Q; that PPL will file with the Commission such additional financial reports as the Commission reasonably determines to be necessary to effectively regulate LG&E and KU; that LG&E and KU will file with the Commission

informational copies of applications that are filed with any other state utility commission with jurisdiction over PPL and its affiliates and relate to a money pool arrangement or capital contributions to LG&E or KU; that PPL and its Kentucky subsidiaries will notify the Commission 30 days before making any capital contributions to LG&E or KU, and will provide the related accounting entries within 60 days after the end of the month in which the contribution was made; and that PPL and its Kentucky subsidiaries will notify the Commission in writing 30 days before any material changes in their participation in funding for research and development, including an explanation and the reasons for any change in policy. [Regulatory Commitments No. 3(c), 3(d), 6, 7, 18, 19, 20, 21, 22, 23, 24 and 30]

The Regulatory Commitments also address the continuity of the Kentucky presence of LG&E and KU, and their current management. These concerns are addressed by commitments that the headquarters of PPL Kentucky and LG&E will remain in Louisville, and the headquarters of KU will remain in Lexington, for a period of 15 years; that all persons who are corporate officers of LG&E and KU during the 15-year period will reside in Kentucky; that the corporate headquarters of PPL Kentucky will include the corporate management personnel of PPL Kentucky; that the corporate officers of PPL Kentucky, LG&E and KU will maintain their current titles and responsibilities; that PPL will develop a retention and incentive program for managers of PPL Kentucky, LG&E and KU; and that PPL Kentucky's Board of Managers will consist of at least three members, one of

whom will be the CEO of PPL Kentucky. [Regulatory Commitments No. 9, 15, 34, 42, 47 and 48]

The Regulatory Commitments also address the continuity of quality service by LG&E and KU. These concerns are addressed by commitments that the transaction will have no impact on the base rates or the operation of the fuel adjustment clauses, environmental surcharges, gas supply clause and demand side management clause of LG&E or KU; that customers will experience no adverse change in utility service due to changes, if any, related to E.ON US Services; that PPL will maintain PPL Kentucky's level of commitment to high quality service and will fully maintain the LG&E and KU track record for superior service quality; that PPL and its Kentucky subsidiaries will adequately fund and maintain LG&E's and KU's transmission and distribution systems to supply their customers' service needs; that LG&E and KU will continue to operate through regional offices with local service personnel and field crews; that local customer service offices will not be closed as a result of the proposed acquisition; that any future closures of customer service offices will take into account the impact on customer service; that LG&E's and KU's existing and future generation facilities will be dedicated to the requirements of LG&E's and KU's existing and future native load customers; that if any subsidiary or business unit of PPL considers a potential renewable energy project in Kentucky, the subsidiary or business unit will inform KU and LG&E of the potential project and will allow KU and LG&E to make a reasonable business judgment whether to pursue the project as a generation resource for their customers; that the proposed acquisition will have

no effect or impact on KU's contractual relationships with its municipal customers or Berea College; that KU will maintain a contact person in Lexington to respond to special needs in the Lexington area; that the current policies of LG&E and KU for low-income customers will not change as a result of the proposed acquisition, and that PPL will review with LG&E and KU whether policies more sympathetic to the needs of those customers would be appropriate; that PPL and its Kentucky subsidiaries will minimize any negative impacts on customer service and satisfaction resulting from workforce reductions; and that LG&E and KU will periodically file with the Commission the various reliability and service quality measurements they currently maintain. [Regulatory Commitments No. 5, 25, 26, 28, 29, 31, 32, 33, 35, 37, 43, 45 and 49]

Finally, the Regulatory Commitments address the relationships of PPL and its Kentucky subsidiaries with government, the community, employees and other stakeholders. These concerns are addressed by commitments that PPL will take an active and ongoing role in managing and operating LG&E and KU in the interests of customers, employees, and the Commonwealth, and will enhance LG&E's and KU's relationship with the Commission, with state and local government, and with other community interests, including, but not limited to, meetings between PPL's CEO and the Commission at least twice a year; that LG&E and KU will maintain a substantial level of involvement in community activities, through annual charitable and other contributions, on a level comparable to or greater than the participation levels before the proposed acquisition; that PPL will maintain and support the relationship between LG&E

and KU and the communities that each serves for a period of 10 years from the closing of the proposed acquisition; that PPL will maintain LG&E's and KU's pro-active stance on developing economic opportunities in Kentucky and supporting economic development, and social and charitable activities, throughout their service territories; that PPL and its Kentucky subsidiaries will work with the Governor and state agencies designated by the Governor to promote economic development in Kentucky; that PPL and its Kentucky subsidiaries will consult with the Governor and state agencies designated by the Governor regarding clean coal technologies and the development of programs by Kentucky that qualify for federal funding for research and development and projects utilizing clean coal technologies; that no planned reductions in the employee workforces of PPL Kentucky, LG&E or KU will be made as a result of the transaction; that PPL will maintain a sound and constructive relationship with labor organizations that represent employees of PPL Kentucky, LG&E, and KU, and will remain neutral respecting an individual's right to choose whether or not to be a member of a trade union; that PPL will continue to recognize the unions that currently have collective bargaining agreements and will honor those agreements; that in any Commission proceeding involving safety violations by employees of independent contractors, LG&E and KU will be responsible for the acts of the employees of the independent contractors to the same extent that LG&E and KU are responsible for the acts of their own employees; that the proposed acquisition will have no effect or impact on various agreements associated with the unwind and termination of the lease agreement with Big Rivers Electric Corporation; and that

wholesale customers should be held harmless. [Regulatory Commitments No. 10, 11, 14, 16, 36, 38, 40, 51, 52 and 54]

The Regulatory Commitments fully address the regulatory concerns that the Commission has historically expressed in previous cases involving a change of control of LG&E and KU, to the extent that those concerns have not been addressed by intervening legislation and regulation.[19] In addition, the Regulatory Commitments address other matters that are of substantial public importance to the Commonwealth and its citizens. For all of the reasons set forth above, the proposed acquisition is consistent with the public interest.

IV. Testimony in Support of Application.

The Applicants have filed with this Application the written testimony of eight witnesses, attached collectively as Exhibit M to this Application, that discusses in greater detail the manner in which the proposed acquisition satisfies the requirements of KRS 278.020(5) and (6).

James H. Miller, the Chairman, President and Chief Executive Officer of PPL, has prepared written testimony regarding PPL and its business operations, the strategic purposes for the proposed acquisition, and PPL's expectations for the future of LG&E and KU.

Paul A. Farr, the Executive Vice President and Chief Financial Officer of PPL, has prepared written testimony regarding PPL's financial ability to

[19] In the orders in Case Nos. 2000-095 and 2001-104, the Commission noted that some of its original concerns may have been superseded by the enactment of KRS 278.2201 through 278.2219 and the regulations of FERC and the Securities and Exchange Commission. Order issued on May 15, 2000, pp. 33 to 36; Order issued on August 6, 2001, Appendix A, p. 1. As noted above, with the enactment of PUHCA 2005, the proposed acquisition will not create conflict between state and federal regulation of public utility holding company systems.

consummate the proposed acquisition and the financial strength of the PPL companies after the closing of the proposed acquisition.

William H. Spence, the Executive Vice President and Chief Operating Officer of PPL, has prepared written testimony regarding PPL's technical and managerial abilities in the generation, transmission and distribution of electric power systems, and PPL's experiences with, and policies regarding, retail customers.

Karl-Heinz Feldmann, the General Counsel and Executive Vice President of E.ON, has prepared written testimony regarding the proposed acquisition from E.ON's perspective.[20]

Victor A. Staffieri, the Chairman, President and Chief Executive Officer of E.ON U.S., LG&E and KU, has prepared written testimony regarding the compliance of the proposed acquisition with the U.S. law and the expected operations of LG&E and KU after the closing of the proposed acquisition.

S. Bradford Rives, the Chief Financial Officer of E.ON U.S., LG&E and KU, has prepared written testimony regarding affiliate transactions and the accounting issues raised by the proposed acquisition and the Commission's authority regarding those matters after the closing of the proposed acquisition.

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[20] E.ON and E.ON US Investments have joined in this Application because the Applicants believe that KRS 278.020(5) and (6) require that the proposed transferor, in addition to the proposed transferee, obtain the approval of the Commission to any transfer of ownership and control of a utility. The involvement of E.ON and E.ON Investments in the preparation of this Application has been limited to confirmation of their respective corporate information in the Introduction and preparation of the testimony of Mr. Feldmann.

Paul A. Coomes, a Professor of Economics at the University of Louisville, has prepared written testimony regarding whether the proposed acquisition is consistent with the public interest.

Lonnie E. Bellar, the Vice President of State Regulation and Rates of LG&E and KU, has prepared written testimony regarding regulatory issues affecting LG&E and KU after the closing of the proposed acquisition.

WHEREFORE, the Applicants respectfully request that the Commission, after hearing, enter a final order as follows:

Finding that, after the purchase of E.ON U.S. from E.ON US Investments by PPL, PPL will have the financial, technical and managerial abilities to cause LG&E and KU to continue to provide reasonable service to their respective customers, and that the purchase of E.ON U.S. will be in accordance with law, for a proper purpose and consistent with the public interest;

Approving, under KRS 278.020(5) and (6), the acquisition by PPL of control of LG&E and KU through the purchase of E.ON U.S. subject to the Regulatory Commitments proposed by PPL, E.ON U.S., LG&E and KU;

Finding that PPL, PPL Kentucky and any intermediate company between PPL and PPL Kentucky will not, by reason of its direct or indirect ownership of stock of LG&E and KU, be a utility as defined in KRS 278.010(3); and

Finding that KRS 278.218 does not apply to the proposed acquisition as set forth in the PSA because the control of the assets of LG&E and KU will remain entirely with LG&E and KU, or in the alternative, if the Commission determines that KRS 278.218 does apply, approving the proposed acquisition

under KRS 278.218 because the proposed acquisition is for a proper purpose and is consistent with the public interest.

Dated: May 28, 2010

Respectfully submitted

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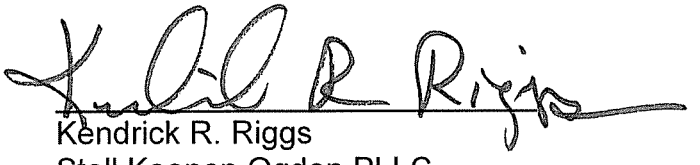

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Counsel for E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

15214643.9

EXHIBITS

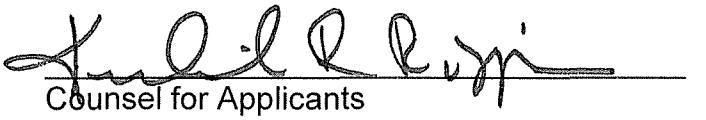
EXHIBIT A	Purchase and Sale Agreement
EXHIBIT B	Current corporate structure (E.ON)
EXHIBIT C	Corporate structure of E.ON following the consummation of the acquisition
EXHIBIT D	Regulatory Commitments
EXHIBIT E	Articles of Incorporation and Bylaws (PPL)
EXHIBIT F	Current corporate structure (PPL)
EXHIBIT G	Articles of Association (E.ON)
EXHIBIT H	Certificate of Incorporation and Bylaws (E.ON US Investments)
EXHIBIT I	Articles of Organization and Operating Agreement (E.ON. U.S.)
EXHIBIT J	Articles of Incorporation and Bylaws (LG&E)
EXHIBIT K	Articles of Incorporation and Bylaws (KU)
EXHIBIT L	Maps of service territories and systems (LG&E and KU)
EXHIBIT M	Written Testimony

CERTIFICATE OF SERVICE

This is to certify that the foregoing Joint Application was served on the following by U.S. Mail, postage prepaid, this 28th day of May, 2010.

Office of the Attorney General
700 Capitol Avenue, Suite 118
Frankfort, Kentucky 40601

Kentucky Industrial Utilities Customers
c/o Boehm, Kurtz & Lowry
36 E. Seventh St., Suite 1510
Cincinnati, Ohio 45202



Counsel for Applicants

Sale of E.ON U.S.

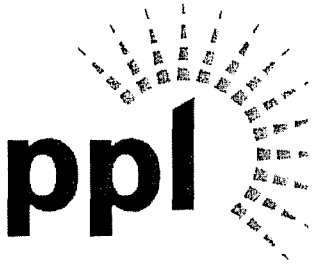
to

PPL Corporation

PURSUANT TO THE PURCHASE AND SALE AGREEMENT BY AND BETWEEN E.ON US INVESTMENTS CORP., PPL CORPORATION AND, SOLELY FOR PURPOSES OF ARTICLE VI, ARTICLE IX AND ARTICLE X THEREOF, E.ON AG

SIGNING DOCUMENTS

SIGNING DATE: APRIL 28, 2010



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EXECUTION COPY

PURCHASE AND SALE AGREEMENT

by and between

E.ON US Investments Corp.,

PPL Corporation

and,

solely for purposes of Article VI, Article IX and Article X hereof,

E.ON AG

Dated as of April 28, 2010

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EXHIBITS

PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT, dated as of April 28, 2010 (this "Agreement"), is by and between E.ON US Investments Corp., a Delaware corporation ("Seller"), and PPL Corporation, a Pennsylvania corporation ("Purchaser") and, solely for purposes of Article VI, Article IX and Article X hereof, E.ON AG ("Parent"), a German corporation.

WHEREAS, Seller owns all of the issued and outstanding limited liability company interests (the "Interests") of E.ON U.S. LLC, a Kentucky limited liability company (the "Company");

WHEREAS, Parent is the ultimate parent company of Seller; and

WHEREAS, Seller desires to sell to Purchaser, and Purchaser desires to purchase from Seller, all of the Interests.

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE I
DEFINITIONS AND TERMS

Section 1.1 Definitions. The following terms, as used in this Agreement, shall have the following meanings:

"2009 Company Financial Statements" means the audited consolidated financial statements of the Company as of and for the year ended December 31, 2009.

"Action" means any civil, criminal or administrative claim, notice of claim, action, suit, order, proceeding or arbitration, at law or in equity, by or before any Governmental Authority.

"Affiliate" means, with respect to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person as of the date on which, or at any time during the period for which, the determination of affiliation is being made. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by Contract or otherwise.

"Alternative Permanent Financing" means any (i) public offering of shares of common or preferred stock by Purchaser (or securities convertible or exchangeable into shares of common or preferred stock of Purchaser), (ii) issuance of First Mortgage Bonds by the Subsidiaries of the Company, (iii) issuance of senior unsecured debt securities by the Company or any of its Subsidiaries pursuant to a private or public offering and/or (iv) issuance of senior or

subordinated unsecured debt securities by the Purchaser or any of its Subsidiaries pursuant to a private or public offering.

"Business Day" means a day ending at 11:59 p.m. (Eastern Time), other than a Saturday, a Sunday or other day on which commercial banks in The City of New York or Düsseldorf, Germany are authorized or required by Law or Governmental Order to close.

"Closing Indebtedness" means the outstanding indebtedness of the Company and its Subsidiaries plus the amount of (i) any accrued and unpaid interest and (ii) any prepayment penalties or "make-whole" premiums that are due and payable in accordance with the terms of such borrowings upon prepayment thereof and that are unpaid, as of the close of business on the day immediately preceding the Closing Date, determined with reference to the line items set forth on Section 1.1(c) of the Company Disclosure Schedule in accordance with GAAP, such GAAP applied in a manner consistent with the Company Financial Statements.

"Code" means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

"Company Books and Records" means all books, records, ledgers, reports, plans, files and accounts, manuals, material correspondence and other similar materials related to the conduct of the businesses of the Company and its Subsidiaries in paper, electronic or other forms that are maintained by the Company or any of its Subsidiaries.

"Company Disclosure Schedule" means the disclosure schedule delivered by Seller to Purchaser prior to the execution and delivery of this Agreement.

"Company Employee" means a current or former employee of the Company or any of its Subsidiaries, whether full-time or part-time, including an employee who, as of the Closing Date, is absent from employment due to illness, vacation, injury, military service or other authorized absence (including an employee who is "disabled" within the meaning of the short-term disability plan currently in place for the Company, or who is on approved leave under the Family and Medical Leave Act), provided that the term "Company Employee" shall not include any person listed in Section 1.1(a) of the Company Disclosure Schedule.

"Company Governmental Authorizations" means the Governmental Authorizations that are required for the Company and its Subsidiaries to conduct their respective businesses as presently conducted.

"Company Joint Venture" means any Person that is not a Subsidiary of the Company but in which the Company or one of the Company's Subsidiaries owns, directly or indirectly, an equity, voting or other membership interest, representing five percent (5%) or more of any class of the outstanding equity, voting or other membership interests of such Person.

"Company Material Adverse Effect" means any change, effect, event, circumstance, occurrence, fact, condition, or development that, taken together with all other changes, effects, events, circumstances, occurrences, facts, conditions, and developments, (i) is materially adverse to the condition (financial or otherwise), businesses, assets, liabilities or results of operations of the Company and its Subsidiaries, taken as a whole or (ii) would impede,

impair or prevent consummation of the transactions contemplated hereby; provided, however, that none of the following shall constitute or be taken into account in determining whether there has been or is a Company Material Adverse Effect: (a) any changes, events or developments in the international, national, regional, state or local economy or financial, securities or credit markets (including changes in prevailing interest rates); (b) any changes, events or developments in the international, national, regional, state or local (x) electric generating, transmission or distribution industries or natural gas transmission or distribution industries (including any changes in the operations thereof), (y) engineering or construction industries, or (z) wholesale or retail markets for commodities, materials or supplies (including equipment supplies, steel, concrete, electric power, fuel, coal, natural gas, water or coal transportation) or the hedging markets therefor; (c) any changes, events or developments in any political conditions (including acts of war (whether or not declared), armed hostilities or terrorism or changes imposed by a Governmental Authority associated with national security) or the regulatory environment generally to the extent that any such changes, events or developments do not cause physical damage or destruction, or render unusable, any facility or property of the Company or any of its Subsidiaries; (d) any changes that result from natural disasters or "acts of God" or other "force majeure" events to the extent that any such changes do not cause physical damage or destruction, or render unusable, any facility or property of the Company or any of its Subsidiaries; (e) any changes in weather conditions to the extent that any such changes do not cause physical damage or destruction, or render unusable, any facility or property of the Company or any of its Subsidiaries; (f) any changes in customer usage patterns; (g) any performance by Purchaser, Seller or any of their respective Affiliates of their respective obligations, covenants or agreements contained in this Agreement (including any actions taken by Purchaser, Seller or any of their respective Affiliates, to the extent expressly required by this Agreement, to facilitate the Debt Financing or any Alternative Permanent Financing, to settle the Rate Cases as permitted by Section 5.18 or to obtain any Purchaser Required Regulatory Approval or Company Required Regulatory Approval and any action by any Governmental Authority that requires Purchaser or the Company or any of their respective Subsidiaries to accept the Regulatory Commitments and agreements to implement the Regulatory Commitments as a condition of any approval of the Purchase); provided that, actions taken to comply with the obligation in the first sentence of Section 5.1(a) to act in the Company Ordinary Course of Business shall not be included in the scope of this clause (g); (h) any action taken by Seller at the express written request of Purchaser; (i) any effects or conditions (including any loss of, or adverse change in, the relationship of the Company or any of its Subsidiaries with their respective customers, employees (including any employee departures or labor union or labor organization activity), regulators, financing sources or suppliers) demonstrated by Seller as proximately caused by, or resulting from, the announcement of this Agreement, and the transactions contemplated by this Agreement, or the identity of Purchaser or any of its Affiliates; (j) any changes in (x) any Law (including Environmental Laws and any final, binding interpretation or enforcement of Laws by any Governmental Authority), regulatory policies or industry standards or (y) GAAP (including any final, binding interpretation thereof by any applicable Governmental Authority) or regulatory accounting requirements applicable to U.S. utilities organizations generally; or (k) any reduction in the credit rating of the Company or any of its Subsidiaries to the extent attributable to any action of Purchaser or its Affiliates or the acquisition of the Company by Purchaser pursuant hereto; provided, further, that, with respect to the matters included in clauses (a), (b), (c), (f) and (j), such matters may constitute or be taken into account in determining whether there has been a

Company Material Adverse Effect to the extent such matters affect the Company and/or its Subsidiaries in a manner that is materially disproportionate to other similarly situated companies operating in the utility industry.

"Company Ordinary Course of Business" means actions or omissions, as applicable, that are (a) taken in the ordinary course of operations of the Company and its Subsidiaries, as applicable, and (b) consistent with the past practice of the Company and its Subsidiaries, as applicable.

"Confidentiality Agreement" means the confidentiality agreement, dated February 11, 2010, between Parent and Purchaser.

"Contract" means any contract, agreement, license, note, mortgage, indenture note or other binding agreement (written or oral).

"Cut-Off Date" means December 31, 2009.

"Debt Financing Sources" means the entities that have committed to provide or otherwise entered into agreements in connection with the Debt Financing Commitments or other debt financings in connection with the transactions contemplated hereby, including the parties named in Section 4.5(b) and any joinder agreements, indentures or credit agreements entered into pursuant thereto or relating thereto together with their Affiliates, officers, directors, employees and representatives involved in the Debt Financing and their successors and assigns.

"Environmental Claim" means any Action by any Person, alleging potential Environmental Liabilities.

"Environmental Law" means all Laws that address or are concerned with environmental, health or safety issues (including occupational safety and health), including without limitation any federal, state, local or foreign law, regulation, code, license, permit, order, decree or injunction from any Governmental Authority relating to (a) the protection of the environment (including air, water, soil and natural resources) or (b) the use, storage, handling, release or disposal of Hazardous Substances, in each case as presently in effect.

"Environmental Permit" means any Permit that is authorized pursuant to an Environmental Law.

"Environmental Liabilities" means any liabilities (including any notices, claims or complaints, whether verbal or written) that (a) concern any environmental, or health and safety (as it relates to Hazardous Substance handling or exposure) violations or liabilities, and (b) are based upon or concerning any provision of Environmental Law. The term "Environmental Liabilities" includes (without limitation): (A) fines, penalties, judgments, awards, settlements, losses, damages (including without limitation tort), costs, fees (including attorneys' and consultants' fees), expenses and disbursements; (B) defense and other response to an administrative or judicial action (including notices, claims, complaints, Governmental Orders, suits and other assertions of liability); and (C) cleanup costs and injunctive relief, including removal, remedial or response actions and activities covered by the Resource Conservation and Recovery Act, (42 U.S.C. § 6901, et seq.), as amended, Comprehensive Environmental

Response, Compensation and Liability Act (42 U.S.C. § 9601, et seq., as amended, and comparable state and local Laws.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Expected Closing Indebtedness" means $5,563 million.

"Federal Power Act" means the Federal Power Act, as amended, and the rules and regulations promulgated thereunder.

"FERC" means the Federal Energy Regulatory Commission.

"GAAP" means the United States generally accepted accounting principles.

"Governmental Authority" means any federal, state, local or foreign governmental or regulatory authority, agency body, arbitrator, commission, court or other legislative, executive, regulatory or judicial entity or instrumentality.

"Governmental Authorization" means any license, permit, franchise, certificate, approval, consent, registration, variance, exemption or other authorization issued by or obtained from a Governmental Authority.

"Governmental Order" means any order, writ, judgment, injunction, subpoena, indictment, decree, stipulation, determination or award entered by or with any Governmental Authority.

"Hazardous Substance" means any substance presently listed, defined, designated or classified as a hazardous or toxic substance, material or waste, or as a pollutant or a contaminant or as radioactive under any applicable Environmental Law, and including without limitation any coal combustion waste, coal combustion product or byproduct, petroleum and any derivative or by-product of petroleum, solvent, flammable or explosive material, radioactive material, asbestos, polychlorinated biphenyls (PCBs), dioxins, dibenzofurans, heavy metals, radon gas, mold, mold spores, mycotoxins, or air pollutant.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"Indebtedness" means, without duplication, (a) the principal of and accrued interest or premium (if any) and premiums, due and payable and unpaid "make-wholes" or penalties arising as a result of prepayment of liabilities for borrowed money, whether secured or unsecured, and obligations evidenced by bonds, debentures, notes or similar debt instruments and liabilities, contingent or otherwise, for reimbursement in respect of any letter of credit, banker's acceptance or similar credit transaction, (b) liabilities for the deferred purchase price of any property outside the Company Ordinary Course of Business, (c) liabilities in respect of any

lease of (or other arrangements conveying the right to use) real or personal property, or a combination thereof, which liabilities are required to be classified and accounted for under GAAP as capital leases, and (d) any guarantee, pledge or grant of a security interest in respect of or securing obligations of a type described in the foregoing clause (a), (b) and (c) to the extent of the obligation secured.

"Indemnified Party" means a Purchaser Indemnified Party or a Seller Indemnified Party, as the case may be.

"Indemnifying Party" means Seller and Parent for the purpose of Section 6.2 and Section 9.2 and Purchaser for the purpose of Section 6.3 and Section 9.3, as the case may be.

"Intellectual Property" means all (i) United States federal, state and foreign trademarks, service marks, brand names, Internet domain names, logos, designs, insignias, symbols, trade dress and trade names, and other indicia of origin, all applications and registrations for the foregoing, including all renewals of the same and all goodwill associated and symbolized therewith, (ii) United States and foreign patents, patent applications, renewals, re-examinations, extensions, registrations, continuations, continuations-in-part, divisions or reissues, (iii) trade secrets, know-how and similar proprietary confidential information protected by the Uniform Trade Secrets Act or similar legislation, and (iv) works of authorship in any media and the copyrights therein and thereto recognized by the United States and foreign copyright laws.

"IRS" means the United States Internal Revenue Service.

"Knowledge" means the actual knowledge, without inquiry, of (a) with respect to Seller, any person listed in Section 1.1(b) of the Company Disclosure Schedule, and (b) with respect to Purchaser, any Person listed in Section 1.1(b) of the Parent Disclosure Schedule.

"KPSC" means the Kentucky Public Service Commission.

"KU" means Kentucky Utilities Company, a Kentucky corporation and Virginia corporation and a Subsidiary of the Company.

"Law" means any federal, state, local or foreign statute, code, ordinance, rule or regulation enacted, issued, promulgated, enforced or entered by any Governmental Authority and common law, including any judicial or administrative interpretation thereof.

"LEM" means LG&E Energy Marketing Inc., a Oklahoma corporation and a Subsidiary of the Company.

"LG&E" means Louisville Gas and Electric Company, a Kentucky corporation and a Subsidiary of the Company.

"Liability" means any and all Indebtedness, liabilities, commitments, damages, fines, fees, penalties, settlements and obligations, whether fixed, contingent or absolute, matured or unmatured, accrued or not accrued, liquidated or unliquidated, determined or determinable,

secured or unsecured, disputed or undisputed, asserted or not asserted, known or unknown, whenever or however arising.

"LIBOR" means, with respect to a given date, the rate per annum equal to the rate for deposits in United States dollars for a period equal to three months appearing on the Reuters Screen LIBOR01 Page as of 11:00 a.m., London time, two Business Days prior to such date. In the event that such rate does not appear on such page (or otherwise on such screen), LIBOR shall be determined by reference to such other comparable publicly available service for displaying eurodollar rates as may be mutually agreed between Purchaser and Seller.

"Lien" means any lien, pledge, charge, claim, encumbrance, security interest, option, mortgage, easement, conditional sales agreement or other title retention agreement, lease, hypothecation, deed of trust, right of first refusal or first offer or other restriction on transfer.

"Losses" means losses, damages, claims, fees, fines, costs and expenses, interest, awards, settlements, Liabilities, recourses, judgments and penalties (including reasonable attorneys' fees and expenses) whether or not involving a third party claim.

"New Source Review" means requirements under the Clean Air Act, 42 U.S.C. § 7401 et seq., as amended, regarding New Source Performance Standards (42 U.S.C. § 7411), Prevention of Significant Deterioration (42 U.S.C. §§ 7470-7492), Nonattainment New Source Review (42 U.S.C. § 7503), and related or comparable state and local Laws, and including any applicable judicial or administrative interpretation, order, or decree thereunder.

"Organizational Documents" means a Person's charter, articles of organization, certificate of incorporation, certificate of formation, limited liability company agreement, partnership agreement, by-laws or other similar organizational documents, as applicable.

"Permit" means any permit, license, certification, approval, registration, consent or other authorization issued pursuant to any Law or Governmental Order.

"Permitted Liens" means (a) Liens reflected or reserved against or otherwise expressly disclosed in the Company Financial Statements (including the notes thereto); (b) Liens incurred in the Company Ordinary Course of Business since the Cut-Off Date; (c) pledges or deposits to secure obligations under worker's compensation Laws or similar legislation or to secure statutory obligations arising or incurred in the Company Ordinary Course of Business which would not materially impair the operation of the business of the Company or its Subsidiaries; (d) mechanics', materialmen's, warehousemen's, carriers', workers' or repairmen's Liens or other similar common law or statutory Liens arising out of or incurred in the Company Ordinary Course of Business which would not materially impair the operation of the business of the Company or its Subsidiaries; (e) Liens that relate to Taxes, assessments and other governmental charges (x) that are not yet due and payable or (y) that are due but not delinquent or (z) that are being contested in good faith by appropriate proceedings; (f) (i) easements, quasi-easements, leases, subleases, licenses, covenants, rights-of-way, rights of re-entry or other restrictions affecting the real property owned or leased by the Company none of which, individually or in the aggregate, materially impair the conduct of the business of the Company and/or its Subsidiaries or materially impair the existing use or operation of the relevant real

property, (ii) zoning, building, entitlement, subdivision or other similar requirements or restrictions, (iii) any utility company or Governmental Authority rights, easements or franchises for electricity, water, sanitary sewer, steam, surface water drainage, gas, telephone or other service or the right to use and maintain poles, lines, wires, cables, pipes, boxes and other fixtures and facilities in, over, under and upon any of the real property owned or leased by the Company or other general easements granted to Governmental Authorities in the ordinary course of developing or operating any real property, and (iv) leases or other occupancy agreements, pursuant to which third parties (other than Seller or any of its Affiliates) occupy a portion of the real property owned by the Company, provided that copies of such leases and agreements (to the extent material) have been made available to Purchaser prior to the date hereof; (g) Liens created by Purchaser; (h) Contracts or arrangements relating to Intellectual Property entered into in the Company Ordinary Course of Business; (i) Liens incurred in connection with any Alternative Permanent Financing at Purchaser's request; and (j) without regard to any limitation imposed through any of the clauses (a) through (i), Liens that, individually or in the aggregate, do not have and are not reasonably likely to have a Company Material Adverse Effect.

"Person" means an individual, corporation (including not for profit), general or limited partnership, limited liability company, joint venture, estate, association, trust, unincorporated organization, Governmental Authority or other entity of any kind or nature.

"Projected Investment" means capital expenditures from the Cut-Off Date through December 31, 2010 in an aggregate amount not less than the aggregate of the amounts set forth in Section 5.1(d) of the Company Disclosure Schedule.

"Purchaser Disclosure Schedule" means the disclosure schedule delivered by Purchaser to Seller prior to the execution and delivery of this Agreement.

"Rate Cases" means, collectively, the Company's rate case filed on September 28, 2008 and currently pending with FERC (Docket No. ER08-1588-000 and associated dockets), the Company's rate case filed on June 3, 2009 and currently pending with the Virginia State Corporation Commission (Case No. PUE 2009 00029), the Company's wind power approval filing, filed on August 28, 2009 and currently pending with the KPSC (Case No. 2009-00353) and the rate cases filed by LG&E and KU with the KPSC (Case Nos. 2009-00549 and 2009-00548).

"Regulatory Commitments" means the substantive terms, conditions, liabilities, obligations, commitments, or sanctions set forth on Exhibit B which are to be offered by Purchaser and its Affiliates and/or the Company and its Subsidiaries in the required notices, reports or other filings that are required to be made to obtain the Company Required Regulatory Approvals and the Purchaser Required Regulatory Approvals.

"Release" means any spilling, emitting, leaking, pumping, pouring, emptying, injecting, escaping, dumping, disposing, discharging or leaching into the environment (including the placing, discarding or abandonment of any barrel, container or other receptacle containing any Hazardous Substance or other material), or into or out of any property owned, used, leased or operated by the applicable party.

"Sarbanes-Oxley Act" means the Sarbanes-Oxley Act of 2002, as amended, and the rules and regulations promulgated thereunder.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Securities Laws" means, collectively, the Securities Act, the Exchange Act, the Sarbanes-Oxley Act and any state securities and "blue sky" laws.

"Subsidiary" means, with respect to any Person, any other Person of which at least a majority of (x) the economic interests in or (y) the securities or ownership interests, having by their terms ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions, is directly or indirectly owned or controlled by such Person and/or by one or more of its Subsidiaries.

"Tax" means all federal, state, local and foreign taxes, including all income, profits, franchise, license, gross receipts, environmental, customs duty, capital stock, severances, estimated, escheat, alternative minimum, stamp, payroll, sales, employment, unemployment, disability, use, property, withholding, excise, production, value added, conveyance, transfer, occupancy and similar taxes, together with all interest, penalties and additions imposed with respect to such amounts and any interest in respect of such penalties and additions.

"Tax Returns" means all returns and reports (including elections, declarations, disclosures, schedules, estimates and information returns) required to be supplied to a Governmental Authority relating to Taxes, including any amendments thereof or attachments thereto.

"Tax Sharing Agreement" means the Amended and Restated Tax Allocation Agreement, dated March 31, 2009, among Seller and its Subsidiaries signatories thereto.

"Unplanned Capital Expenditures" means capital expenditures (a) as required by any Law enacted or Governmental Order issued after the date hereof or to meet service requirements following an extraordinary weather related or other emergency, (b) for annual capital expenditures and annual operation and maintenance expenditures in respect of expenditures required to discharge regulatory responsibilities for service reliability, or (c) as incurred in connection with the repair or replacement of facilities destroyed or damaged due to casualty or accident (whether or not covered by insurance).

"UST" means an underground storage tank, including as that term is defined, construed and otherwise used in the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.), as amended, and all rules, regulations and standards issued thereunder and under comparable state and local Laws.

"WKE" means Western Kentucky Energy Corp., a Kentucky corporation and a Subsidiary of the Company.

"WKE Counterparties" means, collectively, Big Rivers Electric Corporation, Century Aluminum of Kentucky General Partnership, Alcan Primary Products Corporation, the City of Henderson Utility Commission and the City of Henderson.

Other Defined Terms. The following terms shall have the meanings ascribed to them in the corresponding Sections set forth below:

Defined Terms	Section
"401(k) Plan"	5.6(e)
"Adjusted AMT Cut-Off Date Amount"	6.9(a)
"Adjusted Non-AMT Cut-Off Date Amount"	6.9(a)
"Affiliate Indebtedness"	5.7
"Affiliate Transaction"	3.17
"Agreement"	Preamble
"Assistance Costs"	5.19(b)
"Bankruptcy and Equity Exceptions"	3.2
"Base Purchase Price"	2.2
"Benefit Plans"	3.12(a)
"Cap"	9.4(b)(iii)
"Claim Notice"	9.5(b)
"Closing"	2.5(a)
"Closing Date"	2.5(a)
"Closing Day Payment"	2.3(c)
"Company"	Recitals
"Company AMT Tax Attributes"	6.9(a)
"Company Benefit Plan"	3.12(a)
"Company Financial Statements"	3.7(a)
"Company Non-AMT Tax Attributes"	6.9(a)
"Company Material Contract"	3.15(a)
"Company Policies"	3.18
"Company Required Regulatory Approvals"	3.4
"Company Trading Guidelines"	3.19
"D&O Insurance"	5.5(b)
"Debt Financing"	4.5(b)
"Debt Financing Commitment"	4.5(b)
"Debt Instruments"	3.6(a)
"Deductible"	9.4(b)(i)
"De Minimis"	9.4(b)(ii)
"Disclosure Schedules"	10.9
"Equity Investments"	2.2
"ERISA Affiliate"	3.12(c)
"ERISA Plan"	3.12(b)
"Extension Notice"	2.5
"Extension Period"	2.5
"Estimated Closing Indebtedness"	2.3(a)
"Estimated Purchase Price"	2.3(a)

Defined Terms	Section
"Estimated Statement"	2.3(a)
"FCC"	3.4
"Final Order"	7.1(b)
"Government Antitrust Authority"	5.2(c)(i)
"Intercompany Items Balance Sheet"	5.7(b)
"Interests"	Recitals
"License"	5.8(b)
"Materials"	5.8(b)
"Multiemployer Plan"	3.12(c)
"Net Company Position"	3.19
"Notice of Purchase Price Adjustment Disagreement"	2.4
"Parent	Preamble
"PBGC"	3.12(d)
"Pension Plan"	3.12(b)
"Pre-Closing Claims"	5.19(b)
"Pre-Cut-Off Date Tax Period"	6.2
"Prohibitive Order"	7.1(c)
"Purchase"	2.1
"Purchase Price"	2.2
"Purchaser"	Preamble
"Purchaser Benefit Plan"	5.6(d)
"Purchaser Indemnified Party"	9.2
"Purchaser Required Regulatory Approvals"	4.4(a)
"Purchaser Termination Fee"	8.2(a)
"Reduced AMT Post-Closing Tax Attribute"	6.9(a)
"Reduced Non-AMT Post-Closing Tax Attribute"	6.9(a)
"Representatives"	5.3(a)
"Required Information"	5.13(c)
"Seller"	Preamble
"Seller Benefit Plans"	3.12(a)
"Seller Consolidated Group"	3.9(m)
"Seller Indemnified Party"	9.3
"Seller Insurance"	5.19(b)
"Seller Marks"	5.8
"State Commissions"	3.4
"Straddle Period"	6.4
"Subject Employees"	5.6(a)
"Tax Package"	6.5(a)
"Termination Date"	8.1(b)
"Third Party Claim"	9.5(b)
"Transition Committee"	5.1(c)
"WKE Documents"	3.25

Section 1.2 Interpretation and Rules of Construction. (a) The words "herein," "hereof," "hereto" and "hereunder" and words of similar import shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(b) Whenever the words "include," "includes" or "including" appear, they shall be read to be followed immediately by the words "without limitation" or words having similar import.

(c) Both the word "Dollars" and the symbol "$" mean United States Dollars.

(d) The use of the word "or" is not intended to be exclusive unless otherwise expressly indicated.

(e) The terms defined in the singular shall have a comparable meaning when used in the plural, and vice versa.

(f) References to the Preamble or a specific Recital, Article, Section or Exhibit shall refer, respectively, to the Preamble and the specific Recital, Article and Section of and Exhibit to this Agreement.

(g) References to a Person shall also be references to its successors and permitted assigns.

(h) References to any agreement (including this Agreement), contract, statute, regulation or rule are to the agreement, contract, statute, regulation or rule as amended, modified, supplemented, restated or replaced from time to time (in the case of any agreement or contract, to the extent permitted by the terms thereof), and references to any section of any statute, regulation or rule include any successor to such section.

(i) The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

(j) All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant to this Agreement, unless otherwise defined therein.

(k) The parties hereto have participated jointly in drafting and negotiating this Agreement. In the event that an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party hereto by virtue of the authorship of any provision hereof.

ARTICLE II
SALE AND PURCHASE

Section 2.1 Sale and Purchase. Upon the terms and subject to the satisfaction or waiver of the conditions set forth in this Agreement, at the Closing, Seller shall sell, transfer

and deliver all the issued and outstanding Interests to Purchaser, free and clear of any Liens and Purchaser shall purchase, acquire and accept all the issued and outstanding Interests from Seller (the "Purchase").

Section 2.2 Purchase Price. At the Closing, subject to satisfaction or waiver of the Conditions set forth in Article VII hereof, in consideration for the sale and transfer of all the issued and outstanding Interests by Seller to Purchaser, Purchaser shall pay to Seller an aggregate amount in cash equal to $2,062 million (the "Base Purchase Price") (w) minus an amount equal to the aggregate amount of payments made by the Company and its Subsidiaries pursuant to Section 5.10, (x) plus the dollar amount of all equity investments made by Seller or any of its Affiliates (other than the Company and its Subsidiaries) in the Company after the date hereof ("Equity Investments") and the aggregate amount of Indebtedness borrowed by the Company or its Subsidiaries from Seller and its Affiliates (other than the Company and its Subsidiaries), which Indebtedness is not issued to refinance existing Indebtedness, after the date hereof not in violation of Section 5.1(a)(v), solely to the extent that (i) capital expenditures have been funded in an aggregate amount equal to or greater than the aggregate of the amounts set forth in Section 5.1(d) of the Company Disclosure Schedule since the Cut-Off Date for the time periods expired at such time (pro-rated for the quarterly period in which the Closing occurs), (ii) the proceeds of such Equity Investments and/or such Indebtedness are used to fund capital expenditures that are Unplanned Capital Expenditures and (iii) the aggregate amount of such Equity Investments and Indebtedness does not exceed (A) $200 million, if the Closing has occurred no later than December 31, 2010 or (B) $250 million if the Closing occurs thereafter, (y) plus, without duplication of amounts for which the Base Purchase Price is adjusted pursuant to clause (x) of this Section 2.2, the dollar amount of all Equity Investments and the aggregate amount of Indebtedness borrowed by the Company or its Subsidiaries from Seller and its Affiliates (other than the Company and its Subsidiaries), which Indebtedness is not issued to refinance existing Indebtedness, after December 31, 2010 not in violation of Section 5.1(a)(v), solely to the extent that Seller or its Affiliates have caused the Projected Investment to occur prior to funding such additional Equity Investments and/or such Indebtedness after December 31, 2010, and further to the extent that (i) the aggregate amount of such Equity Investments and/or such Indebtedness does not exceed $100 million, and such amounts are used to fund capital expenditures not in excess of the amounts set forth on Section 5.1(d) of the Company Disclosure Schedule for the time periods beginning after December 31, 2010 and expired at that time (including pro rata amounts for any incomplete periods) and (ii) the internal cashflows of the Company and its Subsidiaries (before such capital expenditures and after any dividends or other distributions after the date hereof in respect of the Interests not exceeding $25 million in any calendar quarter), maintaining a level of working capital consistent with past practice, are insufficient to fund such capital expenditures without such additional Indebtedness or Equity Investment, and (z) minus the dollar amount equal to any dividends or other distributions made in respect of the Interests in excess of $25 million in any calendar quarter between the date hereof and the Closing Date (other than any distributions made in respect of any repayment of Indebtedness outstanding to Subsidiaries of Parent (other than the Company and its Subsidiaries) and the payment of any "make-whole" premium payable in accordance with the terms of such borrowings upon prepayment thereof). The Base Purchase Price shall further be (x) decreased, if the Estimated Closing Indebtedness (as defined in Section 2.3(a)) minus the Expected Closing Indebtedness is a positive number, on a dollar-for-dollar basis by the amount equal to the Estimated Closing Indebtedness minus the Expected Closing Indebtedness or (y) increased, if the

Estimated Closing Indebtedness minus the Expected Closing Indebtedness is a negative number, on a dollar-for-dollar basis by the amount equal to the Expected Closing Indebtedness minus the Estimated Closing Indebtedness. The Base Purchase Price as increased or decreased in accordance with the foregoing provisions of this Section 2.2 shall be referred to herein as the "Purchase Price".

Section 2.3 Closing Day Payments. (a) No fewer than five Business Days prior to the anticipated Closing Date (or as far in advance of Closing as is reasonably practicable to the extent that the parties cannot reasonably anticipate the projected Closing Date at least five Business Days in advance of such Closing Date), Seller shall prepare and deliver to Purchaser a statement (the "Estimated Statement"), prepared in good faith, calculating and setting forth its estimate of the Purchase Price (the "Estimated Purchase Price") and including an estimate of Closing Indebtedness as of the close of business on the day immediately preceding the anticipated Closing Date (the "Estimated Closing Indebtedness"), together with reasonably detailed supporting documentation. In the event that, no fewer than two Business Days prior to the anticipated Closing Date Purchaser notifies Seller of any errors that Purchaser believes are contained in the Estimated Statement, Seller shall in good faith consider Purchaser's comments relating to such errors.

(b) At the Closing, Purchaser shall pay to Seller the amount in cash specified as the Estimated Purchase Price in the Estimated Statement by wire transfer of immediately available funds to an account or accounts designated by Seller to Purchaser in writing (such designation to be delivered no later than two (2) Business Days prior to the Closing Date), without any deduction, set-off or withholding, except as provided in Section 2.7.

(c) The payment made pursuant to Section 2.3(b) (the "Closing Day Payment"), shall be subject to a post-Closing adjustment in accordance with the provisions of Section 2.4.

Section 2.4 Adjustment to Payment at Closing. Within 60 days following the Closing Date, Purchaser shall notify Seller in writing (the "Notice of Purchase Price Adjustment Disagreement") if Purchaser disagrees with the amounts that were set forth on the Estimated Statement. The Notice of Purchase Price Adjustment Disagreement shall set forth in reasonable detail the basis for such disagreement, the amounts involved and Purchaser's determination of the amount of the Estimated Purchase Price with reasonably detailed supporting documentation. Seller and Purchaser shall seek in good faith to resolve any disagreement that they may have with respect to the matters specified in the Notice of Purchase Price Adjustment Disagreement. If Seller and Purchaser are unable to resolve such disagreements, Seller and Purchaser shall submit all matters that remain in dispute to Deloitte & Touche L.L.P. (or, if Deloitte and Touche L.L.P. refuses or is unable to act, another independent certified public accounting firm in the United States of national recognition selected by the parties or, if the parties cannot agree, by the American Arbitration Association) for a binding resolution of the matters in dispute. In the event that upon final determination, pursuant to this Section 2.4, of the actual amount of the Purchase Price, the parties determine that the Estimated Purchase Price exceeds such actual Purchase Price, then Seller shall pay to Purchaser an amount equal to such excess. In the event that upon final determination, pursuant to this Section 2.4, of the actual amount of the Purchase Price, the parties determine that the Estimated Purchase Price is less than such actual Purchase Price, then

Purchaser shall pay to Seller an amount equal to the difference between such actual Purchase Price minus the Estimated Purchase Price. Any such payments shall be made by wire transfer of immediately available funds to an account designated by Seller or Purchaser (as applicable) within two (2) Business Days after the date on which a final determination of the actual Purchase Price is made pursuant to this Section 2.4.

Section 2.5 Closing. (a) The closing of the Purchase (the "Closing") shall take place at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017 at 10:00 a.m. (Eastern time) on the third Business Day following the date on which all of the conditions set forth in Article VII (other than those conditions that by their nature can only be satisfied at the Closing but subject to the satisfaction or waiver of such conditions) have been satisfied or waived in accordance with this Agreement or at such other location, time or date as may be mutually agreed upon in writing by the parties hereto (the date on which the Closing occurs, the "Closing Date"); provided, however, that upon satisfaction or waiver of all the conditions set forth in Article VII (excluding conditions that, by their terms, cannot be satisfied until the Closing Date, but subject to the satisfaction or waiver of such conditions) Purchaser may on one occasion, by giving written notice (an "Extension Notice") to Parent no later than two Business Days prior to the date the Closing is scheduled to occur, elect to postpone the Closing Date for such period of time, not to exceed the period of time necessary to provide Purchaser with a 15 consecutive Business Day period during which period Purchaser has all of the Required Information (including financial statements that are Required Information that would be current for purposes of an offering registered with the Securities and Exchange Commission) (the "Extension Period"), as Purchaser advises Parent is necessary to permit Purchaser to complete an Alternative Permanent Financing to reduce the cost of financing the Closing Day Payment and the other payments to be made or provided by Purchaser pursuant to Section 5.7(a), provided, that if such Extension Period has not ended (A) on or prior to August 20, 2010, the Extension Period shall commence no earlier than September 6, 2010, (B) on or prior to December 17, 2010, the Extension Period shall commence no earlier than January 3, 2011 and (C) on or prior to August 19, 2011, the Extension Period shall commence no earlier than September 5, 2011 and provided further, that any such postponement shall be for no more time than is reasonably necessary for Purchaser to complete an Alternative Permanent Financing and shall continue only for so long as Purchaser reasonably believes such offering of securities is likely to occur. In the event Purchaser postpones the Closing Date in accordance with the foregoing provisions of this Section 2.5(a), the conditions set forth in Sections 7.2(a) and 7.2(c) shall each be deemed to be fully satisfied as of the date of the Extension Notice, except that prior to Closing Seller shall nevertheless deliver to Purchaser a certificate of a duly authorized officer of Seller to the effect that the condition specified in Section 7.2(a) was satisfied as of the date of the Extension Notice.

(b) At the Closing, Purchaser shall, in addition to the payment of the Closing Day Payment and the provision of funds to the Company and its Subsidiaries as set forth in Section 5.7(a), deliver, or cause to be delivered, to Seller the following:

(i) the certificate to be delivered by Purchaser pursuant to Sections 7.3(a) and 7.3(b); and

(ii) such other documents and instruments as may be reasonably required to consummate the transactions contemplated by this Agreement.

(c) At the Closing, Seller shall deliver, or cause to be delivered, to Purchaser the following:

(i) the certificate or certificates representing the Interests, duly endorsed in blank in proper form for transfer;

(ii) the certificate to be delivered by Seller pursuant to Sections 7.2(a) and 7.2(b);

(iii) a mutual release in substantially the form of Exhibit A, duly executed by the Company, on behalf of itself and each of its Subsidiaries, and Parent, on behalf of itself and each of its Affiliates (other than the Company and its Subsidiaries);

(iv) a duly executed certificate of Seller, dated as of the Closing Date, certifying that Seller is not a foreign person in the form provided for in Treasury Regulations Section 1.1445-2(b)(2)(iv);

(v) with respect to each of the Company and its Subsidiaries, and to the extent not held by such entities, the Company Books and Records;

(vi) resignation letters from each of the directors and managers of each of the Company and its Subsidiaries (other than individuals who will continue to act as full-time employees of the Company or its Subsidiaries after Closing); and

(vii) such other documents and instruments as may be reasonably required to consummate the transactions contemplated by this Agreement.

Section 2.6 Interest. All computations of interest with respect to any payment due to a Person under this Agreement shall be based on a year of 365 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable. Whenever any payment under this Agreement will be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall be included in the computation of payment of interest.

Section 2.7 Withholding. All payments to be made by Purchaser to Seller hereunder shall be made without deduction of any Tax, provided that in the event of a change in Law affecting Taxes after the date hereof requiring the deduction or withholding of Tax with respect to such payments, Purchaser may deduct or withhold such Tax subject to providing Seller with any reasonable cooperation in order to eliminate or mitigate such deduction or withholding of Taxes. Any amounts so deducted and withheld will be treated for all purposes of this Agreement as having been paid to the Seller.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Purchaser as of the date hereof and (except to the extent that any representation or warranty expressly speaks as of the date hereof or another specified date, in which case such representation and warranty shall be given only as of such date) as of the Closing Date, except as set forth in the Company Disclosure Schedule, as follows:

Section 3.1 Organization. Seller is a corporation duly incorporated, validly existing and in good standing under the Laws of the State of Delaware. The Company and each of its Subsidiaries is a legal entity duly organized, validly existing and in good standing (with respect to jurisdictions that recognize the concept of good standing or a similar local concept) under the Laws of its respective jurisdiction of organization, has all requisite corporate or limited liability company or similar power and authority, as applicable, to own, lease and operate its properties and assets and to carry on its business as presently conducted, and is qualified to do business and is in good standing as a foreign corporation or other legal entity in each jurisdiction (with respect to jurisdictions that recognize the concept of such qualifications) where the ownership, leasing or operation of its properties or assets or the conduct of its business requires such qualification, except for those jurisdictions where the failure to be so organized, existing, in good standing or qualified, or to have such power or authority, is not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect. A correct and complete copy of the Organizational Documents of the Company and each of its Subsidiaries, as amended to the date of this Agreement, has been made available to Purchaser, and each such Organizational Document so delivered is in full force and effect and neither the Company nor any of its Subsidiaries is in violation of its Organizational Documents in any material respect.

Section 3.2 Authorization of Transaction; Binding Obligation. Seller has the requisite corporate or similar power and authority and has taken all corporate or similar action necessary to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Seller, and, assuming the due authorization, execution and delivery of this Agreement by Purchaser, constitutes a legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws of general applicability relating to or affecting creditor's rights and to general equitable principles, whether considered in a proceeding in equity or at law (collectively, the "Bankruptcy and Equity Exceptions").

Section 3.3 Non-Contravention. The execution, delivery and performance of this Agreement by Seller do not, and the consummation of the transactions contemplated hereby by Seller will not, (a) conflict with or result in any breach or violation of the Organizational Documents of any of Seller, the Company or any of its Subsidiaries, (b) constitute, result in or give rise to a breach or violation of, a termination (or a right of termination), default (or an event that with notice or lapse of time would become a default), creation or acceleration of any obligation or loss of any benefit under, any Company Material Contract, (c) result in the creation of any Lien (other than Permitted Liens) upon the properties or assets of the Company or any of its Subsidiaries or (d) result in a violation of any Law or Governmental Order to which the

Company or any of its Subsidiaries is subject or a violation or revocation of any Company Governmental Authorization (in each case, assuming the receipt and effectiveness of, and the compliance with, all Company Required Regulatory Approvals), except, in the case of the foregoing clauses (b), (c) and (d), for any such breach, violation, termination, default, creation or acceleration that is not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect.

Section 3.4 Governmental Approvals and Filings. Except for (i) the filing of a premerger notification and report form and the expiration or early termination of the related waiting periods under the HSR Act, (ii) the filings with, notices to, and orders, consents and approvals of, the FERC under the Federal Power Act, (iii) the filings with, notices to, and orders, consents and approvals of, the Federal Communications Commission ("FCC"), (iv) filings with, notices to, and orders, consents and approvals of, the KPSC, the Virginia State Corporation Commission and the Tennessee Regulatory Authority (collectively, the "State Commissions"), (v) notices, reports, filings, approvals and/or consents identified in Section 3.4 of the Company Disclosure Schedule and (vi) the Purchaser Required Regulatory Approvals ((i) through (v), collectively, the "Company Required Regulatory Approvals"), no notices, reports or other filings are required to be made by Seller, the Company, any of its Subsidiaries or any of the Company Joint Ventures with, nor are any Governmental Authorizations required to be obtained by Seller, the Company, any of its Subsidiaries or the Company Joint Ventures from, any Governmental Authority in connection with the execution, delivery and performance of, and the consummation of the transactions contemplated by, this Agreement, except for such notices, reports, other filings or Governmental Authorizations where the failure to make or obtain the same is not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect (it being understood that references in this Agreement to "making" or "obtaining" such Company Required Regulatory Approvals shall mean giving such notices; making such reports or other filings; obtaining such Governmental Authorizations; and having such waiting periods expire as are necessary to avoid a violation of Law or any applicable Governmental Order).

Section 3.5 Title to the Interests. Seller is the sole legal and beneficial owner of all issued and outstanding Interests, free and clear of any Liens (other than Liens that will be removed prior to the Closing without cost to the Company, any of its Subsidiaries or the Company Joint Ventures or any Liabilities being created in respect of such entities in connection with such removal). Seller is not party to any option, warrant, purchase right, commitment, undertaking, Contract or understanding of any kind (other than this Agreement) that could, directly or indirectly, restrict the transfer of, or otherwise restrict the voting, dividend rights, sale or other disposition of the Interests or any other capital stock or equity interest in the Company. Upon delivery to Purchaser at the Closing of the certificate or certificates representing the Interests, duly endorsed by Seller in proper form for transfer, Seller's record, legal and beneficial ownership interest in and to the Interests will pass to Purchaser, free and clear of any Liens.

Section 3.6 Capitalization. (a) The authorized limited liability company interests of the Company consist of 10,000,000 units of limited liability company interests, of which 1,001 units are issued and outstanding as of the date hereof. Except for the Interests, there are no issued or outstanding equity interests in the Company. There are no issued or outstanding bonds, debentures, notes, obligations or other Indebtedness (together, "Debt Instruments") of the Company entitling the holders thereof to vote on any matters that the Company's members may

vote on. There are no Debt Instruments of the Company that are convertible or exchangeable into or exercisable for any securities or other Debt Instruments, entitling the holders thereof to vote on any matters that the Company's members may vote on. The Interests have been duly authorized, are validly issued, fully paid and nonassessable free and clear of any Lien and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such ownership interests). The Interests have not been issued in violation of (i) any right of first refusal, preemptive or similar right or subscription right (and are not subject to any such right) or (ii) the Organizational Documents of the Company.

(b) Section 3.6(b) of the Company Disclosure Schedule sets forth, with respect to each Subsidiary of the Company, (i) its name and jurisdiction of organization, (ii) the number of shares of capital stock or other equity interest of such Subsidiary that are authorized, and (iii) the number of shares of capital stock or other equity interest of such Subsidiary that are issued and outstanding and the names of the record holders thereof. All issued and outstanding shares of capital stock or other equity interests in each of the Company's Subsidiaries have been duly authorized, are validly issued and are fully paid and nonassessable. None of the issued and outstanding shares of capital stock or other equity interests of any Subsidiary of the Company has been issued in violation of (i) any right of first refusal, preemptive or similar right or subscription right (and are not subject to any such right) or (ii) the Organizational Documents of such Subsidiary. There are no issued or outstanding Debt Instruments of any of the Company's Subsidiaries having the right to vote, or which are convertible or exchangeable into or exercisable for any securities or other Debt Instruments having the right to vote, on any matters that the shareholders or owners of the Company's Subsidiaries, as applicable, may vote on. All of the outstanding shares of capital stock or other equity interest in each Subsidiary of the Company are owned, directly or indirectly, by the Company, free and clear of any Liens other than Permitted Liens and free of any limitation or restriction on the right to vote such ownership interests.

(c) Section 3.6(c) of the Company Disclosure Schedule sets forth a list of each of the Company Joint Ventures, including, with respect to each Company Joint Venture, its name and the Company's interest therein and also including, as to each Company Joint Venture, a brief description of its principal line or lines of business. Except as set forth in Section 3.6(c) of the Company Disclosure Schedule or in the Organizational Documents of the Company Joint Ventures (a copy of which has been provided to Purchaser prior to the date hereof) the Company and its Subsidiaries have no obligation to contribute additional capital to the Company Joint Ventures.

(d) There are no options, warrants or other securities authorized, issued or outstanding, calls, purchase rights, right of first offer, right of first refusal, subscription rights, exchange rights, convertible or exchangeable securities, stock appreciation rights, Contracts or undertakings of any kind, to which the Company or any of its Subsidiaries is a party or by which it is bound, (i) obligating the Company or any of its Subsidiaries to (A) issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other equity interests in the Company or any of its Subsidiaries, or (B) pay cash in respect of the value of the shares of capital stock or other equity interests in the Company or any of its Subsidiaries, or (ii) obligating the Company or any of its Subsidiaries to issue, grant, extend or enter into any such option, warrant, call, right, security, Contract or undertaking. There are no outstanding contractual

obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock or other equity interest in the Company or any of its Subsidiaries. There is no voting trust, proxy or other agreement or understanding in favor of any Person other than the Company or a Subsidiary wholly owned, directly or indirectly, by the Company with respect to the voting of any capital stock or other equity interest in any Subsidiary of the Company.

(e) Other than with respect to the Company's Subsidiaries and the Company Joint Ventures, as set forth in Section 3.6(b) and Section 3.6(c) of the Company Disclosure Schedule none of the Company or any of its Subsidiaries owns, directly or indirectly, any capital stock, limited liability company or partnership interest, joint venture interest, profit, voting or other equity interest in, or any interest convertible or exchangeable into or exercisable for, any capital stock or limited liability company, partnership, joint venture, profit, voting or other equity interest in, any other Person.

Section 3.7 Financial Information. (a) Section 3.7 of the Company Disclosure Schedule contains a true and complete copy of the 2009 Company Financial Statements and the audited consolidated financial statements of the Company as of and for the years ended December 31, 2007 and December 31, 2008 (collectively, together with the 2009 Company Financial Statements, the "Company Financial Statements").

(b) The Company Financial Statements (i) were prepared, in all material respects, in accordance with GAAP, consistently applied, as at the dates and for the periods presented (except as may be expressly indicated therein or in the notes thereto), and (ii) together with the notes thereto, present fairly, in all material respects, the consolidated financial position, results of operations and cash flows of the Company and its Subsidiaries on a consolidated basis as of the dates or for the periods presented.

(c) The Company and its Subsidiaries have no Liabilities of a type required to be reflected on a balance sheet in accordance with GAAP, other than (i) Liabilities reflected, reserved against or otherwise disclosed in the Company Financial Statements (including the notes thereto), (ii) Liabilities incurred after the Cut-Off Date in the Company Ordinary Course of Business or pursuant to the transactions contemplated by this Agreement, (iii) Liabilities set forth in Section 3.7(c) of the Company Disclosure Schedule and (iv) Liabilities that are not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect.

Section 3.8 Conduct in the Company Ordinary Course of Business. Except as may be reflected in the Company Financial Statements (including the notes thereto but excluding any statements therein that are cautionary, risk factor, predictive or forward-looking in nature), since the Cut-Off Date:

(a) until the date hereof, the Company and its Subsidiaries have conducted their respective businesses, in all material respects, only in the Company Ordinary Course of Business;

(b) there has been no Company Material Adverse Effect; and

(c) until the date hereof, without limitation to the foregoing clauses (a) and (b), the Company and its Subsidiaries have not taken or omitted to take any action that, if such action had been taken or omitted to be taken after the date hereof, would have constituted a violation of Section 5.1(a) hereof.

Section 3.9 Taxes. (a) All material Tax Returns that are required to be filed on or before the Closing Date in respect of the Company and each of its Subsidiaries have been or will be timely filed (taking into account any valid extension of time to file);

(b) the Tax Returns referred to in clause (a) of this Section 3.9 that have been filed are complete and accurate in all material respects;

(c) all material Taxes of the Company and each of its Subsidiaries (whether or not shown as due and payable on the Tax Returns referred to in clause (a) of this Section 3.9) have been or will be timely paid in full, and, where payment of such Taxes is not yet due, adequate reserves have been established in accordance with GAAP;

(d) neither the Company nor any of its Subsidiaries has agreed to any extension or waiver of the statute of limitations applicable to any material Tax Return referred to in clause (a) of this Section 3.9 or agreed to any extension of time with respect to any material amount of Tax assessment or deficiency, which period of time (after giving effect to such extension or waiver) has not yet expired;

(e) except for obligations contemplated in Section 6.7 in respect of the Tax Sharing Agreement, neither the Company nor any of its Subsidiaries is a party to any Tax sharing agreement (other than agreements exclusively between or among the Company and its Subsidiaries), pursuant to which it will have any obligation to make any payments with respect to Taxes to any Person after the Closing; provided, however, that leases and other Contracts that provide tangentially for an allocation or apportionment of Liabilities with respect to Tax generated or related to such leases or Contracts shall not constitute Tax sharing agreements;

(f) there is no pending, ongoing or, to the Knowledge of the Seller, threatened audit, examination, investigation or other proceeding against the Company or any of its Subsidiaries in respect of any material Taxes of the Company or any of its Subsidiaries;

(g) neither the Company nor any of its Subsidiaries (i) has been a member of an affiliated group of corporations within the meaning of Section 1504 of the Code (other than a group the common parent of which is Seller) within the last five (5) years or (ii) has any Liability for Taxes of any other Person (other than any other legal entity that is a member of the affiliated group filing a U.S. federal consolidated income tax return, of which the Company or such Subsidiary is currently a member) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign Law) or as a transferee or successor under applicable Law;

(h) there are no material Liens upon any of the assets or properties of the Company or any of its Subsidiaries in respect of Taxes, other than Permitted Liens;

(i) each of the Company and its Subsidiaries have duly and timely withheld and paid over to the appropriate taxing authorities all material amounts of Taxes required to be withheld and paid over for all periods under all applicable Laws and regulations;

(j) the Company and each of its Subsidiaries have collected all material sales and use Taxes required to be collected, and has remitted, or will remit on a timely basis, such amounts to the appropriate taxing authorities, or has been furnished properly completed exemption certificates and has maintained all such records and supporting documents in the manner required by all applicable sales and use Tax Laws;

(k) Section 3.9(k) of the Company Disclosure Schedule sets forth (i) all material "closing agreements" as described in Section 7121 of the Code (or any corresponding or similar provision of state or local income Tax Law) in respect of the Company or any of its Subsidiaries executed within the two-year period ending on the date hereof, (ii) all material "deferred intercompany gains" described in Treasury Regulations under Section 1502 of the Code in respect of the Company or any of its Subsidiaries as of the date hereof and (iii) all material changes in method of accounting of the Company or any of its Subsidiaries made within the two year period ending on the date hereof;

(l) neither the Company nor any of its Subsidiaries has been either a "distributing corporation" or a "controlled corporation" within the last two years in a distribution in which the parties to such distribution treated the distribution as one to which Section 355 of the Code is applicable;

(m) (i) the portion of the loss carryforwards and credits of the U.S. federal income Tax consolidated group, the common parent of which is the Seller, (the "Seller Consolidated Group") set forth in Section 3.9(m) of the Company Disclosure Schedule that is attributable to the Company and its Subsidiaries pursuant to Treasury Regulations Section 1.1502-21(b) as of the Cut-Off Date will be at least equal to the amount set forth opposite such carryforward or credit in Section 3.9(m) of the Company Disclosure Schedule and (ii) the Company and its Subsidiaries have, in the aggregate, a "net unrealized built-in gain" within the meaning of Section 382 (h)(3)(A) of the Code as of the date of this Agreement;

(n) the Seller shall make a timely election pursuant to Treas. Reg. § 1.1502-36(d)(6) in connection with the sale of the Interests to avoid any tax attribute reduction of the Company or its Subsidiaries that would arise absent such election; and

(o) KU is eligible for an 80% deduction in respect of dividends received from Electric Energy Inc. and each of KU and LG&E are eligible for a 70% deduction in respect of dividends received from Ohio Valley Electric Corp.

Section 3.10 Litigation; Investigations. Except as expressly set forth in the Company Financial Statements (including the notes thereto) or as set forth in Section 3.10 of the Company Disclosure Schedule, (a) there are no Actions pending or, to Seller's Knowledge, threatened in writing (i) against the Company or any of its Subsidiaries, except for those that are not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect, or (ii) as of the date hereof, against Seller or any of its Affiliates that challenge or seek to

prevent, enjoin or otherwise delay the transactions contemplated by this Agreement and (b) there are no (i) Governmental Orders or pending investigations by a Governmental Authority as to which the Company has received written notification or (ii) to Seller's Knowledge, any other pending investigations by a Governmental Authority, in each of clauses (i) and (ii) to which the Company or any of its Subsidiaries or any of their respective properties or assets are subject that would, individually or in the aggregate, be reasonably likely to have a Company Material Adverse Effect.

Section 3.11 Compliance with Law and Governmental Authorizations; Regulation as a Utility. (a) Except as set forth in the Company Financial Statements (including the notes thereto), except as are not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect:

(i) each of the Company and its Subsidiaries is, and since December 31, 2007 has been, conducting its business in substantial compliance with applicable Laws and Governmental Orders including with respect to the ownership, operation, control and sale of energy, capacity and ancillary services and environmental attributes;

(ii) each of the Company and its Subsidiaries has all Governmental Authorizations necessary to conduct its business as presently conducted; and

(iii) no suspension, cancellation, revocation, non-renewal or adverse modification of any Governmental Authorizations that are necessary to the conduct of the Company's and its Subsidiaries' respective businesses as presently conducted is pending, or to Seller's Knowledge, threatened in writing against the Company or its Subsidiaries, and to Seller's Knowledge there exists no material likelihood for any such suspension, cancellation, revocation, non renewal or adverse modification.

(b) The Company is a "holding company" under the Public Utility Holding Company Act of 2005 ("PUHCA 2005") and it and its Subsidiaries and "affiliates" under and as defined in PUHCA 2005 are subject to regulation thereunder. The Company is not subject to regulation as an "electric utility" or a "gas utility", a "public utility" or "utility" under applicable state law. Each of LG&E, KU, LEM and WKE, each of which is a wholly-owned Subsidiary of the Company, is a "public utility" under and as defined in the Federal Power Act and as such are each subject to regulation thereunder. LG&E and KU are each also regulated as a "utility" under Kentucky state law, KU is also regulated as a "public utility" under Virginia state law and as a "public utility" under Tennessee state law. Except for regulation of the Company and its Subsidiaries under PUHCA 2005, the regulation of LG&E, KU, LEM and WKE by FERC under the Federal Power Act, the regulation of LG&E and KU by the KPSC, the regulation of KU by the Virginia State Corporation Commission and the regulation of KU by the Tennessee Regulatory Authority, neither the Company nor any of its Subsidiaries is subject to regulation as a public utility or public service company (or similar designation) by FERC, any state in the United States or in any foreign nation. LG&E, KU, LEM and WKE have each been authorized by FERC to make certain wholesale sales of energy and capacity at market-based rates pursuant to the Federal Power Act.

Section 3.12 Employee Benefits. (a) All benefit and compensation plans, contracts, policies, agreements, or arrangements covering Company Employees or current or former directors or consultants under which (i) any Company Employee, director, or consultant has any present or future right to benefits which are contributed to, sponsored by, or maintained by Seller, the Company, or any of their respective Subsidiaries or (ii) the Company or any of its respective Subsidiaries has had or could have any liability, including, without limitation, "employee benefit plans" within the meaning of Section 3(3) of ERISA; employment agreements; severance, change of control, deferred compensation, stock option, stock purchase, phantom stock, stock appreciation rights, stock-based, incentive, employee loan, fringe benefit, or bonus plans; and all other employee benefit plans, agreements, programs, policies, or other arrangements, whether or not subject to ERISA (including any trust instrument, insurance contract or similar arrangement intended to fund any of the foregoing) (the "Benefit Plans"), that are material are listed in Section 3.12(a) of the Company Disclosure Schedule, and Section 3.12(a) of the Company Disclosure Schedule separately identifies which Benefit Plans are maintained or sponsored by the Company or any of its Subsidiaries (the "Company Benefit Plans") and which Benefit Plans are maintained or sponsored by Seller or any of its Affiliates (but excluding the Company and its Subsidiaries) (the "Seller Benefit Plans"). Each Benefit Plan which is intended to be qualified within the meaning of Section 401(a) of the Code has received a favorable opinion or determination letter as to its qualification from the IRS National Office, and nothing has occurred, whether by action or failure to act, that could reasonably be expected to cause the loss of such qualification, and each such Benefit Plan has been separately identified. Seller has made available to Purchaser true, current, and complete copies (or to the extent no such copy exists, an accurate description) of each Benefit Plan including, to the extent applicable: any trust instruments, insurance contracts or similar arrangements intended to fund such Benefit Plans; all amendments thereto; the most recent opinion or determination letter; any summary plan description and other material written communications in the last three years by Parent, the Company, or any of their respective Subsidiaries to Company Employees or current or former directors or consultants concerning the extent of the benefits provided under a Benefit Plan; and for the three most recent years, with respect to each Benefit Plan, (i) the Form 5500 and attached schedules and (ii) actuarial valuation reports.

(b) Except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect, each Benefit Plan is in substantial compliance with ERISA, the Code, and other applicable Law, and has been established and administered in accordance with it terms. Each Benefit Plan which is subject to ERISA (an "ERISA Plan") that is an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA (a "Pension Plan") and that is intended to be qualified under Section 401(a) of the Code, has received a favorable opinion or determination letter from the IRS. Neither the Company nor any of its Subsidiaries has engaged in a transaction with respect to any ERISA Plan that could subject the Company or any of its Subsidiaries to a tax or penalty imposed by either Section 4975 of the Code or Section 502(i) of ERISA except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect. Since the Cut-Off Date (but excluding actions permitted pursuant to Section 5.1(a)(xiv)), there has been no amendment to or change (other than changes in the value of assets or liabilities or the number of participating employees) in any Company Benefit Plan which would increase the expense of maintaining such a plan above the level of the expense incurred therefor for the most recent fiscal year, except as would not, individually or in the aggregate, reasonably be likely to have a Company Material

Adverse Effect). Since the Cut-Off Date (but excluding actions permitted pursuant to Section 5.1(a)(xiv)), there have been no announcements by the Company or its Subsidiaries of any amendments to any Company Benefit Plan that would increase the expense of maintaining any Company Benefit Plan above the level of the expense incurred therefor for the most recent fiscal year, except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect.

(c) Except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect, no liability under Subtitle C or D of Title IV of ERISA has been or is expected to be incurred by the Company or any of its Subsidiaries with respect to any ongoing, frozen or terminated "single-employer plan", within the meaning of Section 4001(a)(15) of ERISA, currently or formerly maintained by any of them, or the single-employer plan of any entity which is considered one employer with the Company under Section 4001 of ERISA or Section 414 of the Code (an "ERISA Affiliate"). No Benefit Plan is a "multiemployer plan" (as defined in Section 4001(a)(3) of ERISA) (a "Multiemployer Plan") and none of the Company, its Subsidiaries, nor any of their respective ERISA Affiliates has at any time sponsored or contributed to, or has had any liability or obligation to contribute to, any Multiemployer Plan. Neither any Pension Plan nor any single-employer plan of an ERISA Affiliate is in "at-risk" status within the meaning of Section 303 of ERISA and no ERISA Affiliate has an outstanding funding waiver. As of the date of this Agreement, neither any Pension Plan nor any single-employer plan of an ERISA Affiliate has been required to file information pursuant to Section 4010 of ERISA for the current or most recently completed plan year.

(d) There is no material pending or, to Seller's Knowledge threatened in writing, litigation relating to the Company Benefit Plans, except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect. As of the date hereof, except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect, no written or material oral communication has been received from the Pension Benefit Guaranty Corporation (the "PBGC") in respect of any Benefit Plan subject to Title IV of ERISA concerning the funding status of any such plan in connection with the transactions contemplated herein. No material administrative investigation, audit or other administrative proceeding by the Department of Labor, the PBGC, the Internal Revenue Service, or other governmental agencies is, to Seller's Knowledge, pending, threatened, or in progress. Neither the Company nor any of its Subsidiaries has any current or projected material obligations for retiree health, medical, or life benefits (other than as an incidental benefit under a Benefit Plan qualified under Section 401(a) of the Code, as a benefit continuation right under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, or as required to avoid an excise tax under Section 4980B of the Code or otherwise except as may be required pursuant to any other applicable law) under any ERISA Plan or collective bargaining agreement for Company Employees or current or former directors or consultants.

(e) Except as provided in Section 5.6(g) of this Agreement, neither the execution of this Agreement, nor the consummation of the transactions contemplated hereby, nor any action taken to consummate the transactions contemplated hereby (whether alone or in connection with any subsequent event(s)) could (i) entitle any Company Employees to severance pay or any increase in severance pay upon any termination of employment after the date of this

Agreement, (ii) accelerate the time of payment or vesting or result in any payment or funding (through a grantor trust or otherwise) of compensation or benefits under, or increase the amount payable pursuant to, any of the Benefit Plans or (iii) limit or restrict the rights of the Company to merge, amend or terminate any of the Company Benefit Plans. The total gross fair market value of the Interests is not equal to or more than one-third of the total gross fair market value of all of the assets of Parent.

(f) No notice of a "reportable event", within the meaning of Section 4043 of ERISA for which the reporting requirement has not been waived or extended, other than pursuant to Pension Benefit Guaranty Corporation Reg. Section 4043.33 or 4043.66, has been required to be filed for any ERISA Plan that is an "employee pension benefit plan" within the meaning of Section (3)(2) of ERISA or by any ERISA Affiliate within the 12-month period ending on the date hereof or will be required to be filed in connection with the transaction contemplated by this Agreement.

(g) Each Benefit Plan that is a "nonqualified deferred compensation plan" (as defined in Section 409A(d)(1) of the Code) that is subject to Section 409A of the Code has been operated in good faith compliance with the requirements of Section 409A of the Code.

Section 3.13 Labor. (a) (i) Neither the Company nor any of its Subsidiaries is a party to any collective bargaining agreement or other labor Contract with a labor union or labor organization and (ii) in the three years immediately preceding the execution of this Agreement, to Seller's Knowledge, (A) no labor organization or group of Company Employees has made a demand for recognition to the Company or any of its Subsidiaries, (B) there has been no pending or threatened in writing representation or certification proceedings or petitions seeking a representation proceeding to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority by or on behalf of any Company Employees, (C) there have been no organizational activities by or on behalf of any labor organization with respect to any Company Employees, (D) there has been no strike or work stoppage by the Company Employees nor is any such strike or work stoppage pending or, to Seller's Knowledge, threatened, and (E) there have been no Actions pending against the Company or any of its Subsidiaries arising out of any employment relationships with any of the Company Employees. There are no consent decrees or government or judicial orders against the Company or any of its Subsidiaries, affecting their relationships with any of the current or former Company Employees, and the Company and its Subsidiaries have paid in full all wages and compensation due and payable to all Company Employees as of the date hereof.

(b) The Company and its Subsidiaries are in compliance in all material respects with all Laws and applicable Governmental Orders regarding the employment of labor, including those affecting wage/hour, immigration, plant closing/mass layoffs and health and safety matters in any country (or political subdivision thereof) in which they transact business except for such violations as have not had, and are not reasonably likely to have, individually or in the aggregate, a Company Material Adverse Effect.

Section 3.14 Intellectual Property. Except as set forth in Section 3.14 of the Company Disclosure Schedule, each of the Company and its Subsidiaries has sufficient rights to use the Intellectual Property used by it and that is material in its respective business as presently

conducted. Except as set forth in Section 3.14 of the Company Disclosure Schedule, none of the Company or its Subsidiaries is in default (or with the giving of notice or lapse of time or both, would be in default) under any license to use such Intellectual Property, except for such defaults that would not be reasonably likely to have, individually or in the aggregate, a Company Material Adverse Effect. Except as set forth in Section 3.14 of the Company Disclosure Schedule, there are no pending claims or, to Seller's Knowledge, no claims threatened against any of the Company or its Subsidiaries alleging that the business of the Company or of its Subsidiaries as presently conducted violates or infringes upon the material Intellectual Property of any Person, in each case, except as would not be reasonably expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Section 3.15 Material Contracts. (a) Section 3.15(a) of the Company Disclosure Schedule identifies the Contracts (excluding Benefit Plans) in effect as of the date of this Agreement to which the Company or any of its Subsidiaries is a party or by which their respective assets are bound and which (x) would be required to be filed as an exhibit to the Company's annual report on Form 10-K if the Company were a registrant under the Exchange Act or (y) are one of the following types of Contract (each of the Contracts referenced in clauses (x) and (y) of this Section 3.15, a "Company Material Contract"):

(i) any Contract for the purchase or sale by the Company and/or its Subsidiaries of supplies, equipment, products, other assets or services which the Company reasonably anticipates will involve the annual consideration in excess of $15 million or aggregate consideration during the term of the Contract (without taking into account any extensions or re-openings thereof, the occurrence of which is at the option or requires consent of the Company or its Subsidiaries, as applicable) in excess of $50 million;

(ii) any partnership, joint venture or other similar agreement or arrangement and any Contract relating to the joint ownership or operation of assets;

(iii) any Contract containing any covenant or provision prohibiting the Company and/or its Subsidiaries from engaging in any line or type of business or competing with any Person;

(iv) any Contract that (A) limits or contains restrictions on the ability of the Company and/or its Subsidiaries to declare or pay dividends on, to make any other distribution in respect of or to issue or purchase, redeem or otherwise acquire its capital stock, to incur Indebtedness, to incur or suffer to exist any Liens, or (B) requires the Company or its Subsidiaries to maintain financial ratios or levels of net worth; and

(v) any Contract, entered into since December 31, 2007, for the purchase of any Person or business or any division thereof (by merger, consolidation, or sale or acquisition of stock or assets or any other business combination).

Seller has made available to Purchaser accurate and complete copies of each Company Material Contract together with all material amendments, waivers or other changes thereto.

(b) Except as, in each case, is not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect, (i) each Company Material Contract is in full force and effect and constitutes the legal, valid, binding and enforceable obligation (except for any Company Material Contracts terminated in the Company Ordinary Course of Business after the date hereof) of the Company or such of its Subsidiaries that is a party thereto, as the case may be, and, to Seller's Knowledge, each other party thereto, in accordance with its terms, subject to the Bankruptcy and Equity Exceptions, and (ii) neither the Company nor any of its Subsidiaries, nor, to Seller's Knowledge as of the date hereof, any other party thereto, is in breach or violation of, or default under, any Company Material Contract, and none of Seller, the Company or its Subsidiaries has given or received written notice to or from any Person relating to any such breach or default (or any event or condition that with notice or lapse of time or both would constitute a breach, violation or default) under any Company Material Contract that has not been cured.

Section 3.16 Environment. Except as, in each case, is not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect:

(a) To Seller's Knowledge, other than those closed in place in compliance with applicable Environmental Laws, there are no USTs located in, at, on, or under any real property owned, operated or leased by the Company or any of its Subsidiaries other than the USTs identified in Section 3.16 of the Company Disclosure Schedule as USTs; and each of those USTs is in compliance with all Environmental Laws.

(b) There is and has in the past been no Environmental Claim pending or, to Seller's Knowledge, threatened against the Company or any of its Subsidiaries that would require reporting, investigation, remediation, or other corrective or response action that has not otherwise been addressed through such reporting, investigation, remediation or other corrective or responsive action by the Company or its Subsidiaries.

(c) To Seller's Knowledge, (i) there has been no Release of any Hazardous Substance at or emanating from any real property currently or formerly owned, leased, used or operated by, or any real property used for off-site disposal of any Hazardous Substance originating from, the Company or any of its Subsidiaries in concentrations or under circumstances that would require reporting, investigation, remediation, or other corrective or response action by, or give rise to any Environmental Liability of the Company or any Subsidiary and (ii) no coal ash pond used by the Company or any of its Subsidiaries is in a condition that would reasonably be expected to result in a sudden and material release (for the avoidance of doubt, the disclosure of any seepage in the Company Disclosure Schedule shall not constitute disclosure of a sudden and material release) of a Hazardous Substance prior to the date that is one year following the Closing.

(d) To Seller's Knowledge there are no PCBs, lead paint, asbestos (of any type or form), or materials, articles or productions containing PCBs, lead paint or asbestos, located in, at, on, under or a part of any real property (including, without limitation, any building,

structure, or other improvement that is a part of the real property) currently owned, operated or leased by the Company or any of its Subsidiaries except as in compliance with all Environmental Laws.

(e) The Company and its Subsidiaries are in compliance with all applicable Environmental Laws.

(f) The Company and its Subsidiaries have obtained or maintain and are in compliance with all Environmental Permits and other environmental Governmental Authorizations that are necessary to conduct their respective businesses as presently operated.

(g) To Seller's Knowledge, the Company and its Subsidiaries and their predecessors have not operated any real property (including any of the properties, materials, articles, products, or other things included in or otherwise a part of any real property and facilities located on such real property), in a manner that would give rise to Environmental Liabilities.

(h) Neither the Company nor any of its Subsidiaries has made or received any offer to settle any threatened or actual Environmental Claim.

Notwithstanding any other representation or warranty contained in this Agreement, the representations and warranties contained in this Section 3.16 and Section 3.11(a)(i) and Section 3.25 constitute the sole representations and warranties of Seller in this Agreement relating to any Environmental Law or Hazardous Substance.

Section 3.17 Affiliate Transactions. Except as set forth in Section 3.17 of the Company Disclosure Schedule and other than employment Contracts, relocation agreements, reimbursement agreements and other similar compensation agreements with any Company Employee or other Benefit Plans entered into in the Company Ordinary Course of Business, there are no Contracts, transactions, agreements or arrangements between the Company or any of its Subsidiaries, on the one hand, and Seller or any of its Affiliates (including any director or officer of such entity but excluding the Company and any of the Company's Subsidiaries) or any officer or director of the Company or any of its Subsidiaries or, to Seller's Knowledge, any Affiliate of any of them, on the other hand (each, an "Affiliate Transaction").

Section 3.18 Insurance. Section 3.18 of the Company Disclosure Schedule sets forth a true and complete list of the material current insurance policies naming the Company or any of its Subsidiaries or any director or officer thereof as an insured or beneficiary or covering any assets or property currently or formerly owned or leased by the Company or any of its Subsidiaries or covering any conduct or action of the Company or any of its Subsidiaries (including without limitation off-site disposal of Hazardous Substances), or for which the Company or any of its Subsidiaries is obligated to pay all or part of the premiums, and with respect to each of the foregoing as of the date hereof (the "Company Policies"). Except as is not reasonably likely to have a Company Material Adverse Effect, (i) as of the date hereof, neither the Company nor any of its Subsidiaries has received written notice of any pending or threatened cancellation or material premium increase (retroactive or otherwise) with respect to any of the Company Policies or of any material changes that are required in the conduct of the business of

the Company or any of its Subsidiaries as a condition to the continuation of coverage under, or renewal of, any such Company Policy, (ii) each of the Company and its Subsidiaries are in compliance in all material respects with all conditions contained in the Company Policies and (iii) Seller believes that the insurance covering the Company and its Subsidiaries is customary for companies of similar size in the industries in which the Company and its Subsidiaries operate and that all Company Policies are with reputable insurance carriers and provide adequate coverage for all normal risks incidental to the businesses of the Company and its Subsidiaries and their respective properties and assets.

Section 3.19 Trading and Derivative Products. The Company has established risk parameters, limits and guidelines in compliance with the risk management policy reviewed by the Company's Board of Directors (the "Company Trading Guidelines") to restrict the level of risk that the Company and its Subsidiaries are authorized to take with respect to, among other things, the net position resulting from all physical electricity transactions, exchange-traded futures and options transactions, over-the-counter transactions and derivatives thereof, in each case in respect of electricity (the "Net Company Position") and monitors compliance by the Company and its Subsidiaries with such Company Trading Guidelines. The Seller has provided a copy of the Company Trading Guidelines to Purchaser prior to the date of this Agreement as in effect as of such date. The Net Company Position is within the risk parameters that are set forth in the Company Trading Guidelines, except for waivers or exceptions granted or utilized consistent with the terms of the Company Trading Guidelines. From the Cut-Off Date to the date of this Agreement, neither the Company nor any of its Subsidiaries has, in accordance with its mark-to-market accounting policies, experienced an aggregate net loss in its electricity trading operations that would be material to the Company and its Subsidiaries taken as a whole. The Company and its Subsidiaries do not engage in trading activities with respect to commodities other than electricity.

Section 3.20 Brokers. Except for Goldman, Sachs & Co. and The Blackstone Group, whose fees and expenses will be paid by Parent, no broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement for which the Company or any of its Subsidiaries will be liable after the Closing.

Section 3.21 No Ownership of Nuclear Power Plants. Neither the Company nor any of its Subsidiaries owns, directly or indirectly, any interest in any nuclear generation station or manages or operates any nuclear generation station.

Section 3.22 Credit Support Arrangements. All guaranties, letters of credit, bonds, sureties or other credit support or assurances provided by Seller or its Affiliates or any third party (other than the Company and its Subsidiaries) as of the date hereof in support of any obligations of the Company or its Subsidiaries are set forth in Section 3.22 of the Company Disclosure Schedule.

Section 3.23 Takeover Statutes. No "fair price," moratorium," "control share acquisition" or other similar anti-takeover statute or regulation enacted under state or federal laws of the United States applicable to the Company is applicable to the transactions contemplated hereby.

Section 3.24 Real Property. Except as is not reasonably likely to have a Company Material Adverse Effect, the Company and its Subsidiaries have either good title, in fee or valid leasehold, easement or other rights, to the land (including subsurface strata), buildings, wires, pipes, structures and other improvements thereon (including without limitation electric transmission and distribution facilities) and fixtures thereto, necessary to permit the Company and its Subsidiaries to conduct their business as currently conducted free and clear of any Liens other than Permitted Liens.

Section 3.25 WKE Matters. The Contracts and other documents set forth on Section 3.25 of the Company Disclosure Schedule (the "WKE Documents") constitute, as of the date hereof, all of the Contracts and material other documents which have created or are reasonably likely to create material financial obligations for the Company and its Subsidiaries to the WKE Counterparties or any other counterparties to such Contracts or other material documents relating to relationships, Contracts and arrangements between the Company and its Affiliates, including without limitation, WKE and LEM, on the one hand, and the WKE Counterparties, on the other hand, and, prior to the date hereof, true and complete copies of the WKE Documents have been provided to Purchaser. With respect to indemnification or other ongoing obligations set forth in the WKE Documents, the 2009 Company Financial Statements include reserves attributable to such matters that reflect a good faith assessment, in accordance with GAAP and as of the date of such 2009 Company Financial Statements, by the management of the Company of the scope of Liabilities of the Company and its Subsidiaries in respect of such indemnification or other ongoing obligations. Such assessment has been prepared on the basis of reasonable assumptions. Except as set forth on Section 3.25 of the Company Disclosure Schedule, as of the date hereof (i) Seller and its Affiliates have not made, or received from any Person, any written claim, notice or assertion indicating that matters have arisen, or events have occurred, that could give rise to a right of indemnification pursuant to the WKE Documents, and (ii)(A) to Seller's Knowledge, no such claim, notice or assertion is pending or threatened and (B) to the actual knowledge, without inquiry, of the persons listed on Section 3.25 of the Company Disclosure Schedule, no circumstances exist which would form the basis of such claim, notice or assertion.

Section 3.26 No Breach. Purchaser shall not be entitled to claim a breach under any of the representations and warranties set forth in Sections 3.6(b), (c), (d) or (e) to the extent that any inaccuracy thereof was caused by an action taken by Seller or its Affiliates between the date hereof and the Closing Date and such action has been set forth on Section 5.1(a) of the Company Disclosure Schedule, expressly consented to by Purchaser in writing or is expressly required by any of the provisions of this Agreement.

Section 3.27 No Other Representations or Warranties. Except for the representations and warranties expressly set forth in this Article III, neither Parent, Seller, the Company or the Company's Subsidiaries nor any other Person makes any other express or implied representation or warranty on behalf of any of Parent, Seller, the Company or the Company's Subsidiaries with respect to any of Parent, Seller, the Company or the Company's Subsidiaries or the transactions contemplated by this Agreement. The representations and warranties made in this Article III with respect to Parent, Seller, the Company, the Company's Subsidiaries, the Interests and the transactions contemplated by this Agreement are in lieu of all other representations and warranties Parent, Seller, the Company or the Company's Subsidiaries

might have made or given to Purchaser or any of its Affiliates, including implied warranties of merchantability and implied warranties of fitness for a particular purpose. Purchaser hereby acknowledges that all other representations and warranties that Parent, Seller, the Company, the Company's Subsidiaries or any other Person purporting to represent any of Parent, Seller, the Company or the Company's Subsidiaries gave or might have given, or which might be provided or implied by applicable Law or commercial practice, with respect to Parent, Seller, the Company, the Company's Subsidiaries, the Interests or the transactions contemplated by this Agreement, are hereby expressly excluded.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents and warrants to Seller as of the date hereof and (except to the extent that any representation or warranty expressly speaks as of the date hereof or another specified date, in which case such representation and warranty shall be given only as of such date) as of the Closing Date, as follows:

Section 4.1 Organization. Purchaser is a corporation duly incorporated, validly existing and in good standing (with respect to jurisdictions that recognize the concept of good standing) under the Laws of the Commonwealth of Pennsylvania, has all requisite corporate or similar power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted, and is qualified to do business and is in good standing as a foreign corporation or other legal entity in each jurisdiction (with respect to jurisdictions that recognize the concept of such qualification) where the ownership, leasing or operation of its properties or assets or the conduct of its business requires such qualification, except for those jurisdictions where the failure to be so organized, existing, in good standing or qualified, or to have such power or authority, is not, individually or in the aggregate, reasonably likely to prevent, materially delay or materially impair the ability of Purchaser to consummate the transactions contemplated by this Agreement.

Section 4.2 Authorization of Transaction; Binding Obligation. Purchaser has the requisite corporate or similar power and authority and has taken all corporate or similar action necessary to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Purchaser, and, assuming the due authorization, execution and delivery of this Agreement by Seller, constitutes a legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, subject to the Bankruptcy and Equity Exceptions.

Section 4.3 Non-Contravention. The execution, delivery and performance of this Agreement by Purchaser do not, and the consummation of the transactions contemplated hereby by Purchaser will not, (a) conflict with or result in any breach or violation of the Organizational Documents of Purchaser, (b) constitute, result in or give rise to a breach or violation of, a termination (or a right of termination), default (or an event that with notice or lapse of time would become a default), creation or acceleration of any obligation or loss of benefit under, any material Contract to which Purchaser is a party or by which Purchaser or any of Purchaser's properties or assets are bound, (c) result in the creation of any Lien upon the properties or assets of Purchaser or (d) result in a violation of any Law or Governmental Order to

which Purchaser is subject (assuming the receipt and effectiveness of, and the compliance with, all Purchaser Required Regulatory Approvals), except, in the case of the foregoing clauses (b), (c) and (d), for any such breach, violation, termination, default, creation or acceleration that is not, individually or in the aggregate, reasonably likely to prevent, materially delay or materially impair the ability of Purchaser to consummate the transactions contemplated by this Agreement.

Section 4.4 Governmental Approvals. (a) Except for (i) the filing of a premerger notification and report form and the expiration or early termination of the related waiting periods under the HSR Act, (ii) the filings with, notices to, and orders, consents and approvals of, the FERC under the Federal Power Act, (iii) the filings with, notices to, and orders, consents and approvals of, the FCC, (iv) the filings with, notices to, and orders, consents and approvals of, the State Commissions (which consents to be obtained pursuant to clauses (ii) and (iv) shall include the consent of the FERC and the State Commissions to the issuance of securities by the Company and its Subsidiaries as contemplated by an Alternative Permanent Financing for the purposes of the repayment of Affiliate Indebtedness in accordance with Section 5.7 hereof), (v) filings and/or notices required as a result of facts and circumstances solely attributable to Seller or its Affiliates, and (vi) notices, reports, filings, approvals and/or consents identified in Section 4.4(a) of the Purchaser Disclosure Schedule ((i) through (v), collectively, the "Purchaser Required Regulatory Approvals"), no notices, reports or other filings are required to be made by Purchaser with, nor are any Governmental Authorizations required to be obtained by Purchaser from, any Governmental Authority in connection with the execution, delivery and performance of, and the consummation of the transactions contemplated by, this Agreement, except for such notices, reports other filings or Governmental Authorizations where the failure to make or obtain the same is not, individually or in the aggregate, reasonably likely to prevent, materially delay or materially impair the ability of Purchaser to consummate the transactions contemplated by this Agreement (it being understood that references in this Agreement to "making" or "obtaining" such Purchaser Required Regulatory Approvals shall mean giving such notices; making such reports or other filings; obtaining such Governmental Authorizations; and having such waiting periods expire as are necessary to avoid a violation of Law or any applicable Governmental Order).

(b) Neither Purchaser nor any of its Affiliates is a party to any Contract or subject to any Governmental Order which is reasonably likely to delay or prevent Purchaser from obtaining the Purchaser Required Regulatory Approvals in order to permit the consummation of the transactions contemplated by this Agreement on a timely basis.

Section 4.5 Availability of Funds; Financing;. (a) The Debt Financing Commitments provide Purchaser with financial commitments that, when funded at Closing, together with cash held by the Purchaser, provide it with sufficient funds to pay the Closing Day Payment, to provide the funds required to be provided by Purchaser pursuant to Section 5.7(a) and to pay any other amounts required to be paid by it in connection with the consummation of the transactions contemplated by this Agreement, including all related fees and expenses.

(b) Prior to the date hereof, Purchaser has delivered to Seller a true and complete copy of the commitment letter, dated as of the date of this Agreement, among Purchaser, Bank of America N.A. and Credit Suisse N.A. (the "Debt Financing Commitment"), pursuant to which the lenders party thereto have committed to lend the amounts set forth therein

for the purposes of financing the transactions contemplated by this Agreement and related fees and expenses (the "Debt Financing"). Prior to the date hereof, none of the Debt Financing Commitments has been amended or modified, no such amendment or modification is contemplated, and the respective commitments contained in the Debt Financing Commitments have not been withdrawn or rescinded in any respect. Purchaser has fully paid any and all commitment fees or other fees in connection with the Debt Financing Commitments that are payable on or prior to the execution of this Agreement. As of the date hereof, the Debt Financing Commitments are in full force and effect and are the legal, valid and binding obligations of Purchaser and, to Purchaser's Knowledge, each of the other parties thereto, subject to the Bankruptcy and Equity Exceptions. Except for the payment of customary fees, there are no conditions precedent or other contingencies related to the funding of the full amount of the Debt Financing, other than as set forth in the Debt Financing Commitments. As of the date hereof, no event has occurred that, with or without notice, lapse of time or both, would constitute a default on the part of Purchaser under any of the Debt Financing Commitments. As of the date hereof, Purchaser has no reason to believe that any of the conditions to the Debt Financing contemplated by the Debt Financing Commitments will not be satisfied or that the Debt Financing will not be made available to Purchaser on the Closing Date. The Debt Financing Commitments (including engagement and fee letters entered into in connection therewith, copies of which, redacted as to fee amounts, have been provided to Parent prior to the date hereof) constitute the entire and complete agreements between the parties thereto with respect to the Debt Financing.

Section 4.6 Investment Intent. Purchaser is acquiring the Interests solely for its own account, solely for the purpose of investment and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of applicable Securities Laws.

Section 4.7 Litigation. Except as expressly set forth in Section 4.7 of the Purchaser Disclosure Schedule, as of the date hereof there are no Actions pending or, to Purchaser's Knowledge, threatened in writing against Purchaser, except for those that are not, individually or in the aggregate, reasonably likely to prevent, materially delay or materially impair the ability of Purchaser to consummate the transactions contemplated by this Agreement. Purchaser is not subject to any Governmental Order that is, individually or in the aggregate, reasonably likely to prevent, materially delay or materially impair the ability of Purchaser to consummate the transactions contemplated by this Agreement.

Section 4.8 Access. Purchaser is an informed and sophisticated purchaser that is, and has engaged expert advisers that are, experienced in the valuation and purchase of stock, property and assets such as the Interests as contemplated hereby. Purchaser acknowledges that Seller and the Company have given Purchaser access to employees and documents related to the businesses of the Company and its Subsidiaries and that Purchaser has reviewed books, records and Contracts of the businesses of the Company and its Subsidiaries and has met with officers and other representatives of Seller and the Company for the purpose of investigating and obtaining information regarding the Company's and its Subsidiaries' operation of their respective businesses and their financial and legal affairs in order to enable Purchaser to make a decision with respect to the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby.

Section 4.9 No Material Impediment. Since the Cut-Off Date through the date hereof, no event has occurred or circumstance has arisen that, individually or in the aggregate, has or is reasonably likely to prevent, materially delay or materially impair the ability of Purchaser to consummate the transactions contemplated by this Agreement.

Section 4.10 Brokers. No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Purchaser or its Affiliates which will be a Liability of Seller or its Affiliates (other than the Company and its Subsidiaries), or, in the event that the Closing does not occur, Seller or its Affiliates, (including the Company and its Subsidiaries).

Section 4.11 No Seller Breach of Representations and Warranties. As of the date hereof, to the actual knowledge, without inquiry, of the persons set forth in Section 4.11 of the Purchaser Disclosure Schedule, the representations and warranties of Seller set forth in Article III are true and correct in all material respects. For the purposes of the immediately preceding sentence, (a) any qualification of representations and warranties by reference to materiality or "Company Material Adverse Effect" or words of similar effect shall be disregarded for purposes of determining any breach thereof; provided that (x) with respect to Section 3.8(b) the reference to "Company Material Adverse Effect" shall not be disregarded, (y) (i) with respect to Section 3.11(a)(iii), the word "material" shall be deemed to be included before the reference to "likelihood", (ii) with respect to Section 3.15(a), the word "material" shall be deemed to be included before the reference to "amendments, waivers or other charges", (iii) with respect to Section 3.18 the word "material" shall be deemed to be included before the first reference to "current insurance policies", before the first reference to "premium increase" and before the first reference to "changes", (iv) with respect to Section 3.19 the word "material" shall be deemed to be included before the reference to "to the Company and its Subsidiaries taken as a whole" in the penultimate sentence thereof and (v) with respect to Section 3.25, the word "material" shall be deemed to be included before the references to "other documents" and the reference to "financial obligations" and (b) the representations and warranties of Seller shall be deemed to be true and correct in all material respects so long as any inaccuracy thereof would be excluded from indemnification liability by the De Minimis.

Section 4.12 No Other Representations or Warranties. Except for the representations and warranties expressly set forth in this Article IV, neither Purchaser nor any other Person makes any other express or implied representation or warranty on behalf of Purchaser with respect to Purchaser or the transactions contemplated by this Agreement. The representations and warranties made in this Article IV with respect to Purchaser and the transactions contemplated by this Agreement are in lieu of all other representations and warranties Purchaser might have made or given Seller or any of its Affiliates. Seller hereby acknowledges that all other representations and warranties that Purchaser or any other Person purporting to represent Purchaser gave or might have given, or which might be provided or implied by applicable Law or commercial practice, with respect to Purchaser or the transactions contemplated by this Agreement, are hereby expressly excluded.

ARTICLE V
COVENANTS

Section 5.1 Interim Operations. (a) Seller covenants and agrees that, except as (w) set forth in Section 5.1 of the Company Disclosure Schedule, (x) as Purchaser may otherwise consent in writing (which consent shall not be unreasonably withheld, conditioned or delayed), (y) required by this Agreement, or (z) required by applicable Law or Governmental Order, from the date of this Agreement until the Closing, it will cause the Company and each of the Company's Subsidiaries to conduct their respective businesses in the Company Ordinary Course of Business and, to the extent consistent therewith and subject to prudent management of workforce needs and on-going programs in force as of the date hereof (to the extent such programs are set forth in Section 5.1 of the Company Disclosure Schedule), use their respective commercially reasonable efforts to preserve their respective business organizations intact, maintain in effect their respective Governmental Authorizations that are required for the continued operation of the Company's and its Subsidiaries' respective businesses as they are presently conducted, to preserve intact and maintain existing relations with their respective customers, suppliers and employees, each in all material respects, to make the regulatory filings as the Company and its Subsidiaries would have otherwise made in the Company Ordinary Course of Business and to maintain with financially responsible insurance companies (or through self insurance, consistent with past practice) insurance in such amounts and against such risks and losses as are customary for companies engaged in their respective businesses and consistent with the past practice of the Company and its Subsidiaries. Without limiting the generality of the foregoing, from the date of this Agreement until the Closing, except as (A) set forth in Section 5.1 of the Company Disclosure Schedule, (B) as Purchaser may otherwise consent in writing (which consent shall not be unreasonably withheld, conditioned or delayed), (C) required by this Agreement (provided that, actions taken to comply with the obligation in the first sentence of this Section 5.1(a) to act in the Company Ordinary Course of Business shall not be included within the scope of this clause (C)), or (D) required by applicable Law or Governmental Order, Seller will cause each of the Company and each of the Company's Subsidiaries not to:

(i) adopt any change to its Organizational Documents other than amendments which are ministerial in nature or otherwise immaterial;

(ii) (A) split, combine or reclassify any of its limited liability interests or shares of capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for limited liability interests or shares of its capital stock, directly or indirectly redeem, repurchase or otherwise acquire any limited liability interests or shares of its capital stock, except for any such transaction in the Company Ordinary Course of Business by a wholly owned Subsidiary of the Company which remains a wholly owned Subsidiary after consummation of such transaction and that does not adversely affect the Company and its Subsidiaries taken as a whole, (B) merge or consolidate itself with any other Person, except for any merger or consolidation among wholly owned Subsidiaries of the Company that does not adversely affect the Company and its Subsidiaries taken as a whole, or (C) restructure, reorganize or completely or partially liquidate or dissolve itself (except as permitted by

clause (B) in the Company Ordinary Course of Business that does not adversely affect the Company and its Subsidiaries taken as a whole);

(iii) issue or sell, or authorize the issuance or sale of (x) any shares of its limited liability company interest or capital stock, as applicable (other than the issuance of shares of limited liability company interest or capital stock, as applicable, by the Company to Seller or by a wholly owned Subsidiary of the Company to the Company or to another wholly owned Subsidiary of the Company), (y) any securities convertible into or exercisable for any shares of its limited liability company interest or capital stock, as applicable, or (z) any options, calls, warrants or other rights to acquire any shares of its limited liability company interest or capital stock, as applicable, or such convertible or exercisable securities;

(iv) declare, set aside or pay any dividend or other distribution, payable in cash, stock or property, with respect to its limited liability company interest or capital stock, as applicable (except for dividends or other distributions declared, set aside or paid by any direct or indirect wholly owned Subsidiary of the Company to the Company or to any other direct or indirect wholly owned Subsidiary of the Company) in excess of $25 million in each calendar quarter between the date hereof and the Closing Date (other than any distributions made in respect of any repayment of Indebtedness outstanding to Subsidiaries of Parent (other than the Company and its Subsidiaries) and the payment of any "make-whole" premium payable in accordance with the terms of such borrowings upon prepayment thereof);

(v) create or incur any Indebtedness or guarantee Indebtedness of another Person, or issue or sell any debt securities or warrants or other rights to acquire its debt securities or enter into any "keep well" or other agreement to maintain the financial condition of another Person, or enter into any arrangement having the same economic effect as the foregoing (including any capital leases, "synthetic leases" or conditional sale or other title retention agreements), except for (i) Indebtedness or issuances or sales of debt securities or warrants or other rights to acquire its debt securities incurred under existing credit facilities, commercial paper facilities, lines of credit or the extension or refinancing thereof or the extension or refinancing of any other Indebtedness (provided that (x) with respect to the entry into, extension or renewal of any Indebtedness, such Indebtedness shall only be entered into, extended or renewed as it matures, on commercially reasonable terms and shall be prepayable at the Closing and (y) to the extent that after the date hereof, the Company and its Subsidiaries incur any additional Indebtedness owed to Seller and its Affiliates, such additional Indebtedness shall be on terms substantially similar to the Affiliate Indebtedness in existence on the date hereof, except that it may omit provisions for "make-whole" payments), (ii) guarantees in connection with the extension or refinancing of Indebtedness permitted by this Section 5.1(a)(v), (iii) Indebtedness used solely to fund Unplanned Capital Expenditures or related non-capital expenditures; and (iv) Indebtedness not exceeding $600 million in the aggregate;

(vi) make any loans or advances or capital contributions to, or investments in, any other Person (other than loans or advances or capital contributions to the Company or any direct or indirect wholly owned Subsidiary of the Company) in excess of $5 million in the aggregate;

(vii) create or incur any Lien (other than Permitted Liens) on its material properties or assets;

(viii) other than in the Company Ordinary Course of Business, acquire any business or any division thereof (by merger, consolidation, or acquisition of stock or assets or any other business combination) from any other Person (other than the Company or its Subsidiaries) in excess of $5 million in any one transaction (or related series of transactions) and $20 million in the aggregate, other than acquisitions pursuant to Contracts, to which it is a party or by which it is bound, in effect as of the date of this Agreement, solely to the extent such Contracts have been provided to Purchaser prior to the date hereof and are set forth in Section 5.1(a) of the Company Disclosure Schedule;

(ix) permit any capital expenditure to be made which is not in accordance with "good utility practice";

(x) other than (x) in the Company Ordinary Course of Business, (y) to the Company or any of its Subsidiaries or (z) pursuant to Contracts, to which it is a party or by which it is bound, in effect as of the date of this Agreement, solely to the extent such Contracts have been provided to Purchaser prior to the date hereof and are set forth in Section 5.1(a)(x) of the Company Disclosure Schedule, sell, lease or otherwise dispose of any of its assets or properties having an aggregate value in excess of $20 million, except for sales of obsolete assets in the Company Ordinary Course of Business;

(xi) other than in the Company Ordinary Course of Business or as otherwise expressly permitted by this Section 5.1, enter into, amend, modify or terminate (other than at the end of a term) any Company Material Contract in any material respect (or any Contract that would be a Company Material Contract if in existence on the date hereof);

(xii) make any material changes with respect to its financial or regulatory accounting principles or procedures (other than as required by changes in GAAP or applicable regulatory accounting requirements);

(xiii) settle or compromise any material Action (other than the Rate Cases or any other federal or state regulatory proceeding), if such settlement or compromise, individually or in the aggregate, is reasonably likely to adversely affect in any material respect the post-Closing operation of its business or will require a material payment by the Company or its Subsidiaries; provided that, before entering into any settlement or compromise of any material Action, which

Purchaser may settle or compromise under this Section 5.1(a)(xiii), Seller consults with Purchaser with respect to such settlement or compromise;

(xiv) except as required by Contracts or Benefit Plans, in each case in effect as of the date of this Agreement and set forth on Section 3.12(a) or Section 5.1(a) of the Company Disclosure Schedule, (A) grant any new (or increase the) rights to severance or termination payments or benefits to any of its current or former directors, officers or employees (other than to officers or employees newly hired or promoted to fill any vacancies in the Company Ordinary Course of Business consistent with past practice), (B) except as in the Company Ordinary Course of Business consistent with past practice, pay any severance or termination payments or benefits to any of its current or former directors, officers or employees, (C) increase the salary, annual bonus opportunity, long-term incentive opportunity or other compensation opportunities of any of its current or former directors, officers or employees, except for (1) increases in salary, annual bonus opportunity and long-term incentive opportunity in connection with promotions and (2) any annual increases in salary (and, to the extent based on salary, any corresponding increases in annual bonus or long-term incentive opportunities) for 2011 that are in the Company Ordinary Course of Business consistent with past practices, (D) pay any bonus or long-term incentive amounts in excess of the amounts earned based on actual performance, (E) establish, adopt, enter into, amend or terminate, or materially increase the benefits under, any Company Benefit Plan or any plan, agreement, program, policy, trust, fund, or other arrangement that would be a Company Benefit Plan if it were in existence as of the date of this Agreement, other than (1) agreements with newly hired or promoted officers or employees, (2) routine or administrative amendments to Company Benefit Plans that do not materially increase the costs under the Company Benefit Plans, or (3) as expressly permitted by other provisions of this Section 5.1(a)(xiv), (F) enter into or materially amend any collective bargaining agreement, (G) loan or advance any money or other property to any present or former director, consultant, officer, or employee of the Company or its Subsidiaries, other than routine (1) travel or expense advances or (2) tax equalization advances to expatriate employees, (H) grant any equity or equity-based compensation awards, with respect to equity interests of the Company or any of its Subsidiaries or that are payable by the Company or its Subsidiaries, or (I) change the actuarial or other assumptions used to calculate the funding obligations or contribution rates of any Company Benefit Plan subject to Title IV of ERISA, except as may be required by GAAP or applicable Law;

(xv) except for Tax items for which Seller is responsible pursuant to this Agreement, make or change any material Tax election, change any annual accounting period in respect of material Taxes, adopt or change any accounting method with respect to material Taxes, file any amended material Tax Return, enter into any material closing agreement, settle or compromise any proceeding with respect to any material Tax claim or assessment relating to the Company or any of its Subsidiaries, surrender any right to claim a refund of material Taxes, or consent to any extension or waiver of the limitation period applicable to any

material Tax claim or assessment relating to the Company or any of its Subsidiaries;

(xvi) modify in any material respect the Company Trading Guidelines, other than modifications that are not less restrictive to the Company and its Subsidiaries or permit the Net Company Position to be outside of the risk parameters that are set forth in the Company Trading Guidelines, except for waivers or exceptions granted or utilized consistent with the terms of the Company Trading Guidelines after consultation with Purchaser;

(xvii) except for transactions between (x) the Company and its Subsidiaries or (y) among the Company's Subsidiaries, in each case in the Company Ordinary Course of Business and that do not adversely affect the Company or its Subsidiaries, redeem, repurchase, defease, cancel, prepay, forgive or otherwise acquire any Indebtedness or any debt securities or rights to acquire debt securities of the Company or any of its Subsidiaries, other than (A) at stated maturity, (B) any required amortization payments and mandatory prepayments and (C) Indebtedness arising under the agreements disclosed in Section 5.1(a) of the Company Disclosure Schedule, in each case in accordance with the terms of the instrument governing such Indebtedness as in effect on the date of this Agreement (for the avoidance of doubt, to the extent that, after the date hereof and prior to the Closing, Seller does not cause the Company to distribute all amounts that it is permitted to distribute to Seller pursuant to Section 5.1(a)(iv) hereof, Seller may cause the Company to pay to Seller or its Affiliates an amount equal to such undistributed amount pursuant to the repayment of existing Indebtedness owed by the Company to Seller and its Affiliates (other than the Company and its Subsidiaries));

(xviii) other than with respect to the Rate Cases, which are addressed in Section 5.18 hereof, agree or consent to any material agreement or material modifications of existing agreements or course of dealings with any Governmental Authority in respect of the operations of their businesses, except (w) as required by Law or applicable Governmental Orders, (x) to obtain or renew the Governmental Authorizations, (y) agreements in the Company Ordinary Course of Business consistent with past practice or (z) to effect the consummation of the transactions contemplated hereby to the extent such agreements or modifications are not reasonably likely, individually or in the aggregate, to have a Company Material Adverse Effect;

(xix) other than with respect to new Indebtedness permitted pursuant to this Section 5.1(a), enter into, amend, modify, terminate (except as such termination is required pursuant to Section 5.7 hereof) or waive any rights under any Contract with (A) Seller or any of its Affiliates (other than the Company and its Subsidiaries) or (B) with any executive officer or director, or (other than on arm's-length terms in the Company Ordinary Course of Business) any Person in which such executive officer or director or any immediate family member of such executive officer or director, has over a 10% interest;

(xx) fail to maintain a reasonable level of working capital consistent with past practice and "good utility practice"; or

(xxi) enter into a binding Contract to do any of the foregoing.

(b) Purchaser shall not knowingly or willfully take, or permit any of its Affiliates to take, or omit to take, or permit any of its Affiliates to omit to take, any action (i) that would, or is reasonably likely to, prevent or materially delay the consummation of, or materially impair Purchaser's ability to consummate, the transactions contemplated by this Agreement, or (ii) that is intended or is reasonably likely to result in (x) any of the conditions set forth in Article VII not being satisfied, or (y) a breach or violation of any provision of this Agreement by Purchaser; provided that, to the extent Purchaser omits to grant any consent hereunder, or delays or conditions such consent, which consent Purchaser may either grant in its sole discretion or, to the extent such consent shall not be unreasonably withheld, conditioned or delayed, Purchaser is reasonably withholding, conditioning or delaying such consent, then such omission shall not constitute a breach of this Section 5.1(b).

(c) As soon as practicable after the date hereof, Purchaser and Seller shall establish a joint transition committee (the "Transition Committee") which shall be comprised of three nominees of Purchaser and three nominees of Seller. Each of the members of the Transition Committee may be removed, with or without cause, by the person appointing the same. Vacancies shall be filled by the person appointing the member whose departure gives rise to such vacancy. The Transition Committee shall be jointly chaired by a nominee of Purchaser and a nominee of Seller and shall have the objective of facilitating and coordinating (including, without limitation, obtaining the consents and approvals in respect of the Company and its Subsidiaries contemplated by Section 5.2) the transactions contemplated in this Agreement, integration planning, strategic development, developing recommendations concerning the structure and the general operation of the Company subsequent to the Closing, in each case subject to applicable Law and Governmental Orders. The Transition Committee shall meet monthly or upon such other date or dates, and in such places, as Purchaser and Seller may agree from time to time and may be convened by telephone, video conference or similar means. Any decisions of the Transition Committee shall require the vote, by person or proxy, of a majority of the members thereof, whether or not in attendance at the meeting in which such decision is made, or the written consent of a majority of the members of such committee. The provisions of this Section 5.1(c) are subject to the provisions of Section 5.1(e) and the compliance by the parties with applicable Law and Governmental Orders and their other covenants set forth in this Agreement.

(d) From the date hereof through the Closing, Seller shall cause the Company and its Subsidiaries to deploy capital expenditures such that after taking into account the capital expenditures made by the Company and its Subsidiaries from the Cut-Off Date through the date hereof, the Company shall have made capital expenditures from the Cut-Off Date through Closing in an aggregate amount equal to the aggregate of the amounts set forth in Section 5.1(d) of the Company Disclosure Schedule (pro-rated for any quarterly period in which the Closing occurs); provided that, such obligation shall be subject to (i) variation in an aggregate amount not in excess of 7.5% of the aggregate of such amounts set forth in Section 5.1(d) of the Company

Disclosure Schedule for the period from the Cut-Off Date through Closing and (ii) the Company and its Subsidiaries continuing to operate in accordance with "good utility practice".

(e) Nothing contained in this Agreement shall give Purchaser, directly or indirectly, any right to control or direct the Company's or any of its Subsidiaries' operations of their respective businesses prior to the Closing. Prior to the Closing, each of Seller, the Company and its Subsidiaries shall exercise, consistent with the other terms and conditions of this Agreement, complete control and supervision over their respective businesses.

Section 5.2 Cooperation; Approvals and Consents; Notification. (a) Subject to the terms and conditions set forth in this Agreement, each of Seller and Purchaser shall cooperate with the other and use (and shall cause its respective Affiliates to use) their respective reasonable best efforts to take or cause to be taken all actions, and to do or cause to be done all things, reasonably necessary, proper or advisable on its part under this Agreement and applicable Laws and Governmental Orders to consummate as promptly as practicable the transactions contemplated by this Agreement, including (i) preparation and filing as promptly as practicable of all documentation to effect all necessary notices, reports and other filings and to obtain as promptly as practicable all consents, registrations, approvals, permits and authorizations necessary or advisable to be obtained from or renewed with any third party and any Governmental Authority (including the Company Required Regulatory Approvals and the Purchaser Required Regulatory Approvals), in each case in order to consummate as promptly as practicable the transactions contemplated by this Agreement, (ii) furnishing as promptly as practicable all information to any Governmental Authority as may be required by such Governmental Authority in connection with the foregoing, including obtaining the Company Required Regulatory Approvals and the Purchaser Required Regulatory Approvals and (iii) obtaining any third party consents necessary to waive any change of control or similar provisions in Contracts to which the Company or any of its Subsidiaries are party.

(b) Subject to applicable Laws and Governmental Orders relating to the exchange of information, Seller and Purchaser shall have the right to review in advance and, to the extent practicable, consult with the other on, and consider in good faith the views of the other in connection with, all of the information relating to Purchaser, Seller or the Company, as the case may be, and any of their respective Affiliates, that appears in any filing made with, or written materials submitted to, any third party and any Governmental Authority in connection with the transactions contemplated by this Agreement, except that nothing contained herein shall require either party hereto to provide to or share with the other party hereto (i) any copy of any pre-merger notification and report form to be filed with any Government Antitrust Authority in connection with this Agreement or the transactions contemplated hereby; and (ii) proprietary and competitively sensitive information that is not normally disclosed to third parties, except as is essential to obtain the Company Required Regulatory Approvals and the Purchaser Required Regulatory Approvals. In exercising the foregoing rights, each of Seller and Purchaser shall act reasonably and as promptly as practicable. Seller and Purchaser each shall, upon request by the other, subject to applicable Laws and Governmental Orders relating to the exchange of information, furnish the other with all information concerning itself, its Affiliates, directors, officers and shareholders and such other matters as may be reasonably necessary or advisable in connection with the statement, filing, notice or application made by or on behalf of Purchaser, Seller or the Company or any of their respective Affiliates to any third party or any

Governmental Authority in connection with the transactions contemplated by this Agreement. Subject to Section 5.18, but notwithstanding anything to the contrary contained in this Agreement, Seller and its Affiliates shall not be required to make available or disclose to Purchaser any information relating to regulatory or compliance matters involving Seller and its Affiliates (other than the Company and its Subsidiaries) that does not arise from or relate to this Agreement or the transactions contemplated hereby.

(c) Subject to the terms and conditions set forth in this Agreement, without limiting the generality of the undertakings under this Section 5.2, each of Seller (in the case of clause (i) of this Section 5.2(c) set forth below) and Purchaser (in all cases set forth in this Section 5.2(c) below) shall:

(i) to the extent consistent with applicable Law and Governmental Orders, promptly provide to each and every Governmental Authority with jurisdiction over enforcement of any applicable antitrust or competition Laws (each, a "Government Antitrust Authority") such non-privileged information and documents as may be requested by such Government Antitrust Authority or that are necessary, proper or advisable to permit consummation of the transactions contemplated by this Agreement;

(ii) to the extent consistent with applicable Law and Governmental Orders, promptly use its reasonable best efforts to avoid the entry of any permanent, preliminary or temporary injunction or other order, decree, decision, determination or judgment that would delay, restrain, prevent, enjoin or otherwise prohibit consummation of the transactions contemplated by this Agreement, including (A) taking all reasonable steps to conduct the defense through litigation on the merits of any claim asserted in any court, agency or other proceeding by any Person or entity, including any Government Antitrust Authority, seeking to delay, restrain, prevent, enjoin or otherwise prohibit consummation of such transactions and (B) the proffer and agreement by Purchaser of its willingness to sell, lease, license or otherwise dispose of, or hold separate pending such disposition, and promptly effect the sale, lease, license, disposal and holding separate of, such assets, rights, product lines, licenses, categories of assets or businesses or other operations or interests therein, of the Purchaser or its Subsidiaries (but excluding any assets, rights, product lines, licenses, categories of assets or businesses or other operations or interests therein of the Company and its Subsidiaries) and the entry into agreements with, and submission to orders of, the relevant Government Antitrust Authority giving effect thereto if such action should be reasonably necessary or advisable to avoid, prevent, eliminate or remove the actual, anticipated or threatened (x) commencement of any proceeding in any forum or (y) issuance of any order, decree, decision, determination or judgment that would delay, restrain, prevent, enjoin or otherwise prohibit consummation of the transactions contemplated by this Agreement by any Government Antitrust Authority; and

(iii) to the extent consistent with applicable Law and Governmental Orders, promptly use its reasonable best efforts to take, in the event that any

permanent, preliminary or temporary injunction, decision, order, judgment, determination or decree is entered or issued, or becomes reasonably foreseeable to be entered or issued, in any proceeding or inquiry of any kind that would make consummation of the transactions contemplated by this Agreement in accordance with the terms hereof unlawful or that would delay, restrain, prevent, enjoin or otherwise prohibit consummation of the transactions contemplated hereby, any and all steps (including the appeal thereof, the posting of a bond or the taking of the steps contemplated by clause (ii) of this Section 5.2(c) above) necessary to resist, vacate, modify, reverse, suspend, prevent, eliminate or remove such actual, anticipated or threatened injunction, decision, order, judgment, determination or decree so as to permit the consummation of the transactions contemplated by this Agreement on a schedule as close as possible to that contemplated by this Agreement; provided that, nothing contained in this Section 5.2 shall require Purchaser or its Affiliates to take, and the Company and its Subsidiaries shall not take, any action in connection with obtaining the Company Required Regulatory Approvals or Purchaser Required Regulatory Approvals to the extent that the closing condition set forth in Section 7.2(c) hereof will not be satisfied after the taking of such action.

(d) Subject to applicable Laws and Governmental Orders, Seller and Purchaser each shall keep the other apprised of the status of matters relating to completion of the transactions contemplated by this Agreement, including promptly furnishing the other with (i) copies of notices or other communications received by it or any of its Affiliates, from any third party or any Governmental Authority with respect to the transactions contemplated by this Agreement, and (ii) any understanding, undertaking or agreement (whether oral or written) that it or any of its Affiliates proposes to make or enter into with any Governmental Authority with respect to the transactions contemplated by this Agreement. Subject to applicable Laws and Governmental Orders, and to the extent reasonably practicable, neither Seller nor Purchaser shall permit any of its officers or any other representatives or agents to participate in any meeting with any Governmental Authority in respect of any filings, investigation or other inquiry relating to the transactions contemplated this Agreement, unless it consults with the other in advance and, to the extent permitted by such Governmental Authority, gives the other the opportunity to attend and participate thereat.

(e) From the date hereof until the Closing Date, each of Seller and Purchaser shall promptly notify the other of any change or fact of which it is aware that will or is reasonably expected to result in any of the conditions set forth in Article VII becoming incapable of being satisfied.

Section 5.3 Access; Confidentiality. (a) Subject to applicable Law and Governmental Orders, Seller shall, and shall cause the Company and each of its Subsidiaries to, during the period from and after the date hereof until the Closing, upon reasonable advance notice, (i) afford Purchaser and its authorized directors, officers, employees, accountants, counsel, investment bankers and consultants (collectively, "Representatives") reasonable access, during normal business hours, in the presence of at least one (1) Representative of Parent, to the employees, properties, books and records (with respect to income Tax records, only to the extent directly related to the Company or any of its Subsidiaries), Contracts and other documents of the

Company or any of its Subsidiaries, (ii) furnish to Purchaser such financial and operating data and other information relating to the Company and its Subsidiaries and, to the extent the Company has such data or other information, the Company Joint Ventures, as Purchaser may reasonably request, and (iii) instruct the appropriate Company Employees to cooperate reasonably with Purchaser and its Representatives in connection with the foregoing; provided, however, that, in each case, such access, furnishing of information and cooperation shall not (w) unreasonably disrupt the Company's and its Subsidiaries' operations, (x) require the Company or any of its Subsidiaries to permit any inspection or to disclose any information that in the reasonable judgment of the Company or any of its Subsidiaries, as applicable, would result in the disclosure of any trade secrets or violate any of its obligations or policies with respect to confidentiality, (y) require the Company or any of its Subsidiaries to disclose any privileged information of the Company or any of its Subsidiaries or (z) require Seller or any of its Affiliates (including the Company and its Subsidiaries) to disclose any proprietary information of or regarding Parent or its Affiliates (excluding the Company or any of its Subsidiaries). All requests for information made pursuant to this Section 5.3(a) shall be directed to the General Counsel of Parent or such other Persons designated by Seller in writing. All such information shall be governed by the terms of the Confidentiality Agreement. Purchaser shall not, and shall cause its Representatives not to, use any information obtained pursuant to this Section 5.3(a) (as well as any other information provided to Purchaser or any of its Representatives by or on behalf of Parent, Seller, the Company or the Company's Subsidiaries prior to the date hereof) for any purpose unrelated to this Agreement and the transactions contemplated hereby. To the extent that Seller or any of its Affiliates incurs any incremental out-of-pocket costs in processing, retrieving or transmitting any such information pursuant to this Section 5.3(a), Purchaser shall reimburse Seller and such Affiliate for the reasonable out-of-pocket costs thereof (including attorneys' fees, but excluding reimbursement for general overhead, salaries and employee benefits) promptly upon submission to Purchaser of an invoice therefor accompanied by reasonable supporting documentation.

(b) From and after the Closing, Purchaser shall and shall cause its Representatives to, upon reasonable notice, (i) furnish to Seller and its Representatives such financial, tax and operating data and other information relating to the Company and its Subsidiaries (including the Company Books and Records and information in connection with the filing of Tax Returns in respect of the Tax Package or other required regulatory or other filings, responses or reports and information relating to any Action or as required by any Law or Governmental Order) and (ii) make available to Seller and its Representatives the directors, officers and employees of the Company and its Subsidiaries as Seller may reasonably request to cooperate with Seller in connection with the foregoing. After the Closing, Purchaser shall cause the Company and its Subsidiaries to preserve such information and the Company Books and Records for at least the later of ten (10) years after the Closing Date and the expiration of the applicable statute of limitations with respect to Taxes for items included in the Company Books and Records.

Section 5.4 Public Announcements. Seller and Purchaser shall consult and coordinate with each other with respect to their and any of their respective Affiliates' respective initial press release regarding the transactions contemplated by this Agreement, and thereafter until the Closing, no press release or other public announcement in respect of this Agreement or the transactions contemplated hereby shall be issued or made by any party hereto or any of such

party's Affiliates or Representatives without the prior written consent of the other party hereto (which consent shall not be unreasonably withheld, conditioned or delayed), except, in each case, for any such press release or other public announcement as Seller or Purchaser, as applicable, may determine in good faith is required to be issued or made by it or any of its Affiliates by applicable Law or Governmental Order, in which case Seller or Purchaser, as applicable, shall use its commercially reasonable efforts to allow the other reasonable time to comment on such press release or other public announcement in advance of such issuance or making; provided, however, that Seller and its Affiliates and Purchaser and its Affiliates may make internal announcements regarding this Agreement and the transactions contemplated hereby to their respective directors, officers and employees.

Section 5.5 Directors' and Officers' Indemnification and Insurance. (a) For a period of six (6) years from and after the Closing Date, Purchaser shall cause the Company and its Subsidiaries to continue all rights to indemnification, advancement of expenses and exculpation from liabilities for acts or omissions that have occurred or will occur at or prior to the Closing now existing in favor of the current or former directors and officers of the Company and any of its Subsidiaries as provided in the Organizational Documents of the Company and its Subsidiaries or any Contract between any of such directors or officers and the Company or any of its Subsidiaries (solely to the extent such Contracts have been provided to Purchaser prior to the date hereof), as applicable, in each case, as in effect on the date hereof.

(b) Prior to the Closing, the Company and its Subsidiaries shall, and, if the Company or any of its Subsidiaries is unable to, Purchaser shall cause the Company and any of its Subsidiaries, as applicable, as of the Closing to, obtain and fully pay for "tail" insurance policies with a claims reporting or discovery period of at least six (6) years from and after the Closing Date from an insurance carrier with the same or better credit rating as the Company's and its Subsidiaries' current insurance carriers (including coverage provided through Seller's Affiliates) with respect to directors' and officers' liability insurance and fiduciary liability insurance (collectively, "D&O Insurance") with benefits and levels of coverage at least as favorable as the Company's and its Subsidiaries' existing policies (including coverage provided through Seller's Affiliates) with respect to matters existing or occurring at or prior to the Closing (including in connection with this Agreement and the transactions and actions contemplated hereby). If the Company or any of its Subsidiaries for any reason fails to obtain such "tail" insurance policies as of the Closing, the Company and its Subsidiaries shall, and Purchaser shall cause the Company and its Subsidiaries to use reasonable best efforts to purchase comparable D&O Insurance for a period of at least six (6) years from and after the Closing Date with benefits and levels of coverage at least as favorable as provided in the Company's and its Subsidiaries existing policies (including coverage provided through Seller's Affiliates) as of the date of this Agreement; provided, however, that in no event shall Purchaser, the Company or any of the Company's Subsidiaries be required to expend for such policies, or any "tail" insurance policy obtained pursuant to this Section 5.5(b), an annual premium amount in excess of $6 million.

(c) In the event that the Company or any of its Subsidiaries or any of their respective successors or assigns (i) consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties or other assets to any Person, then, and in each such case, Purchaser shall cause proper provision to be made so that the successors and assigns

of the Company or any of its Subsidiaries, as the case may be, shall expressly assume the obligations set forth in this Section 5.5.

(d) The provisions of this Section 5.5 are intended to be for the benefit of, and will be enforceable by, each indemnified party, his or her heirs and representatives and are in addition to, and not in substitution for, any other rights to indemnification or contribution that any such Person may have by Contract or otherwise.

Section 5.6 Employee Benefits. (a) Purchaser agrees that during the period beginning on the Closing Date and ending on the second anniversary of the Closing Date, Purchaser shall, or shall cause the Company and its Subsidiaries to, provide (i) each of the then current Company Employees (other than such employees covered by collective bargaining agreements) who continue to be employed by the Company or any of its Subsidiaries (the "Subject Employees") with (A) annual cash compensation (which includes base salary or wage rate, annual cash bonus opportunities and cash-based long-term incentive compensation opportunities) that is materially no less favorable, in the aggregate, than the annual cash compensation provided to each such Subject Employee immediately prior to the Closing Date and (B) severance benefits that are no less favorable than those provided to each such Subject Employee immediately prior to the Closing Date under the arrangements listed on Section 5.6(a) of the Company Disclosure Schedule, and (ii) pension and welfare benefits that are materially no less favorable in the aggregate than the benefits generally provided to Subject Employees immediately prior to the Closing Date.

(b) Purchaser shall: (i) waive any preexisting condition limitations otherwise applicable to Company Employees and their eligible dependents under any plan of Purchaser or any of its Affiliates that provides health benefits in which such employees may be eligible to participate following the Closing, other than any limitations that were in effect with respect to such employees as of the Closing under any analogous Benefit Plan, (ii) honor any deductible, co-payment and out-of-pocket maximums incurred by any Company Employee and his or her eligible dependents under the health plans in which they participated immediately prior to the Closing during the portion of the calendar year prior to the Closing in satisfying any deductibles, co-payments or out-of-pocket maximums under health plans of Purchaser or its Affiliates in which they are eligible to participate after the Closing in the same plan year in which such deductibles, co-payments or out-of-pocket maximums were incurred and (iii) waive any waiting period limitation or evidence of insurability requirement that would otherwise be applicable to any Company Employee and his or her eligible dependents on or after the Closing, in each case to the extent such employee of the Company and any of its Subsidiaries or eligible dependent had satisfied any similar limitation or requirement under any analogous Benefit Plan prior to the Closing.

(c) Purchaser shall, and shall cause the Company and its Subsidiaries to honor the terms of all Company Benefit Plans existing as of immediately prior to the Closing and disclosed to Purchaser, provided, however, that nothing in this Section 5.6 shall prohibit Purchaser from amending or terminating any particular Benefit Plan, arrangement, or agreement in accordance with its terms as in effect from time to time. Except as otherwise required by applicable Law, the participation of all Company Employees and their respective eligible dependents under any Seller Benefit Plan shall terminate effective immediately prior to the

Closing, provided that, except as set forth in Section 5.6(c) of the Company Disclosure Schedule, Seller shall remain responsible for any amounts under the Seller Benefit Plans that are vested and accrued as of the Closing Date.

(d) Purchaser shall (and shall cause the Company and its Subsidiaries to), after the Closing, give credit for all service of each Company Employee with the Company or any of its Subsidiaries or any of their respective predecessors under all Company Benefit Plans and all employee benefit plans, agreements, programs, policies and arrangements of Purchaser and its Affiliates (each, a "Purchaser Benefit Plan") (including under newly established plans of the Company and its Subsidiaries) to the same extent as such service was credited for such purpose by Seller or its Affiliates, the Company or any of its Subsidiaries under each Benefit Plan in which such Company Employees are eligible to participate for purposes of eligibility, vesting and benefit accrual, except that, with respect to benefit accrual, such service shall not be given credit to the extent that it would result in a duplication of benefits and shall not be required to be given credit for purposes of benefit accrual under any Purchaser Benefit Plan that is a defined benefit pension plan.

(e) After the date hereof and through the Closing, Purchaser and the Company and each of its Subsidiaries shall cooperate in good faith to determine whether to, effective as of the Closing, maintain, or terminate and replace the benefits provided by, any and all Benefit Plans intended to include a Code Section 401(k) arrangement (each a "401(k) Plan"), provided that neither the Company nor any of its Subsidiaries shall be required, without its consent, to terminate any of its 401(k) Plans.

(f) Subject to Section 409A of the Code, for each Benefit Plan set forth in Section 5.6(f) of the Company Disclosure Schedule, the Purchaser hereby agrees that a "change of control" or "change in control" within the meaning of each such Benefit Plan (or an event of similar effect under the terms of such Benefit Plan) will occur upon the Closing Date.

(g) Notwithstanding the foregoing, nothing contained herein shall (1) be treated as an amendment of any particular Benefit Plan, (2) give any third party any right to enforce the provisions of this Section 5.6 or (3) obligate Purchaser or any of its Affiliates to (A) maintain any particular benefit plan or (B) retain the employment of any particular employee. The provisions of this Section 5.6 are solely for the benefit of the respective parties to this Agreement and nothing in this Section 5.6, express or implied, shall confer upon any Company Employee, or legal representative, or beneficiary thereof, any rights or remedies, including any right to employment or continued employment for any specified period, or compensation or benefits of any nature or kind whatsoever under this Agreement.

(h) Notwithstanding anything herein to the contrary, the terms and conditions of employment for any Company Employee who is represented for purposes of collective bargaining by any labor organization pursuant to a certification by the National Labor Relations Board or a lawful recognition of such labor organization by the Company or any of its Subsidiaries shall be in accordance with the applicable terms and conditions of such collective bargaining agreements and applicable law. Furthermore, the foregoing provisions of this Section 5.6 shall be subject to Seller's statutory obligation to give notice to and engage in effects bargaining, upon request, with labor organizations that represent certain Company Employees.

Section 5.7 Intercompany Items.

(a) At the Closing, in addition to the Closing Day Payment to be paid pursuant to Section 2.3(b), (i) Purchaser shall make available to the Company and its Subsidiaries an amount of immediately available funds sufficient to permit the Company and its Subsidiaries to repay the aggregate principal amount of the Indebtedness owed to Affiliates of the Seller (other than the Company and its Subsidiaries) outstanding as of the Closing Date and accrued and unpaid interest incurred thereon, which Indebtedness shall include the amount of any "make-whole" premium due and payable in accordance with the terms of such borrowings upon prepayment thereof and that are unpaid (the "Affiliate Indebtedness") and (ii) Seller shall cause the Company and its Subsidiaries to pay in immediately available funds such amounts to, or as directed by, the Subsidiaries of Parent to which such amounts are owed upon repayment of the applicable borrowings; provided that an amount equal to the aggregate amount required to be paid pursuant to this Section 5.7(a) is fully reflected in the calculation of Closing Indebtedness pursuant to Section 2.3. After such payments are made, the Company and its Subsidiaries shall have no further Liabilities with respect to the Affiliate Indebtedness. Except as set forth in Section 5.7(a) of the Company Disclosure Schedule, Seller shall not, and shall cause its Affiliates not to, cause or agree to any amendment to the terms of instruments governing the Affiliate Indebtedness and, other than accrued interest accruing pursuant to normally recurring regularly scheduled interest payments payable pursuant to the terms thereof, shall not increase the interest rates, make-whole premiums, prepayments penalties or other similar provisions relating thereto.

(b) Except with respect to the Affiliate Indebtedness, which is addressed in Section 5.7(a) hereof, all agreements between Seller and its Affiliates (other than the Company and its Subsidiaries) on the one hand and the Company and its Subsidiaries on the other hand, shall be terminated as of Closing. Within twenty (20) calendar days after the last day of the calendar month in which the Closing occurs, (i) Seller shall pay and cause its Affiliates (other than the Company or its Subsidiaries) to pay to the Company and its Subsidiaries an amount in cash equal to all Liabilities that Parent or such Subsidiaries have to the Company or its Subsidiaries to the extent such Liability would be reflected as an asset (for the avoidance of doubt, excluding any deferred tax asset) on a consolidated balance sheet of the Company as of the Closing Date prepared in accordance with GAAP consistently applied (an "Intercompany Items Balance Sheet") and (ii) Purchaser shall cause the Company and its Subsidiaries to pay to Seller and its Affiliates (other than the Company and its Subsidiaries) an amount in cash equal to all Liabilities (other than the Liabilities set forth in Section 5.7(a) and, for the avoidance of doubt, excluding any deferred tax liability) that the Company and its Subsidiaries have to Seller or such Affiliates to the extent such Liability would be reflected as a liability on an Intercompany Items Balance Sheet. Upon receipt of the payments set forth in the immediately preceding sentence, all such obligations and Liabilities shall be discharged and released, except that the agreements listed in Section 5.7(b) of the Company Disclosure Schedule, if any, shall remain in full force and effect. Seller hereby agrees that the amounts payable by the Company and its Subsidiaries pursuant to this Section 5.7(b) shall not exceed $4 million.

Section 5.8 Intellectual Property. (a) Following the Closing Date, Purchaser will not, and Purchaser will cause the Company and its Subsidiaries and their respective Affiliates not to, register, attempt to register, or use, except to the extent permitted pursuant to

Section 5.8(b) of this Agreement, in any fashion, including in signage, corporate letterhead, business cards, Internet web sites, advertising materials, marketing brochures or other content in connection with any products or services anywhere in the world in any medium, any trademark, service mark, domain name, corporate name, trade name or other indicia of origin that is registered with any Governmental Authority to Seller or its Affiliates (other than LG&E and KU) as of the date hereof, or that is confusingly similar thereto (collectively, the "Seller Marks").

(b) Subject to the terms and conditions of this Agreement, Seller hereby grants to Purchaser and the Company, effective as of the Closing Date, a non-exclusive, limited, non-transferable right and license ("License") to use and display the Seller Marks used in the businesses of the Company as of the date hereof and as of the Closing Date on any materials that prior to Closing included any Seller Marks, including signage, advertising, promotional materials, electronic materials, collateral goods, stationery, business cards, web sites, email addresses, invoices, receipts, forms, product, training and service literature and materials and other materials ("Materials"). The term of the License shall commence on the Closing Date and shall continue for four (4) months following the Closing Date. Except as set forth above in this Section 5.8(b), Purchaser shall not, and Purchaser will cause each of the Company and its Subsidiaries and their respective Affiliates not to, hold itself out as having any affiliation with Seller or any Affiliates of Seller; provided, however, that Purchaser may make reference to the historical ownership of the Company. Purchaser agrees that any use of the Seller Marks by Purchaser will be, and Purchaser will cause any use of the Seller Marks by the Company and its Subsidiaries and their respective Affiliates to be, in a manner and form: (a) designed to maintain the high quality of the Seller Marks that is consistent with the prior use of the Seller Marks and (b) that complies with all applicable Laws. Upon Seller's request, Purchaser will explain and provide samples of its use of the Seller Marks for Seller to verify compliance with the foregoing.

(c) For the avoidance of doubt, nothing herein shall restrict the Company and its Subsidiaries and their respective Affiliates from using the names set forth in Section 5.8(c) of the Company Disclosure Schedule in any name of the Company or any of its Subsidiaries. Except as otherwise expressly permitted in writing by Seller, Purchaser will cause, as soon as practicable (but in no event more than three (3) months following the Closing Date), the corporate names of the Company and its Subsidiaries to be changed to a name that does not contain any of the Seller Marks. Furthermore, the parties will cause, as soon as practicable (but in no event more than thirty (30) days following the Closing Date), any hypertext links to Internet web sites operated by or at the direction of Seller or any of its Affiliates and any other use of Seller Marks to be removed from any Internet web sites operated by or at the direction of the Company and its Subsidiaries. For the avoidance of doubt, nothing in this Section 5.8 will preclude any references to the Seller Marks that are required by Law or that constitute "fair use" under applicable Law.

Section 5.9 Seller Cure. If the condition to closing in Section 7.2(a) (as a result of the breach or inaccuracy of the representation and warranty in Section 3.8(b)) or 7.2(c) is not fulfilled at Closing, Seller (at its sole cost and expense) may, but shall not be required to, make such payments to the Company to promptly cure such inaccuracy or breach; provided that such payment, in Purchaser's reasonable judgment, cures the matter that gave rise to such breach or inaccuracy.

Section 5.10 Payment of Certain Amounts by Seller. Whenever Seller has the right or obligation to make a payment to the Company in connection with curing any violations or breaches of this Agreement, in lieu of such payment to the Company, with Purchaser's prior written consent, Seller shall have the option of causing the Company or any of its Subsidiaries to cure such violations or breaches at their expense by paying such amount, in which case an amount equal to the payment that Seller would have otherwise had the obligation or right to make, shall be deducted from the Base Purchase Price pursuant to Section 2.2.

Section 5.11 Additional Matters. Following the Closing, the Company's headquarters shall continue to be located in Louisville, Kentucky for a period of at least 15 years.

Section 5.12 Non-Solicitation. (a) For the period commencing on the Closing Date and expiring on the first anniversary of the Closing Date, neither Seller nor any of its Affiliates shall directly or indirectly, without obtaining the prior written consent of Purchaser, (i) induce, encourage or solicit any Company Employee who is at the senior management level to leave such employment or to accept any other position or employment with Seller, any of its Affiliates or any other Person or (ii) hire or assist any other Person in hiring any Company Employee who is at the senior management level; provided, however, that the foregoing clauses (i) and (ii) of this Section 5.12(a) shall not apply to any Company Employee who has left the employment of Purchaser and its Affiliates and shall not prohibit general solicitations by Seller or any of its Affiliates for employment through advertisements or other means.

(b) Other than with respect to the Company Employees, for the period commencing on the date hereof and expiring on the first anniversary of the Closing Date, neither Purchaser nor any of its Affiliates shall directly or indirectly, without obtaining the prior written consent of Seller, (i) induce, encourage or solicit any employee of Seller or any of its Affiliates who is at the senior management level and has been involved in the negotiation of the transactions contemplated hereby to leave such employment or to accept any other position or employment with Purchaser, any of its Affiliates or any other Person, so long as such employee is employed by Seller or any of its Affiliates, or (ii) hire or assist any other Person in hiring any such employee; provided, however, that the foregoing clauses (i) and (ii) of this Section 5.12(b) shall not apply to employees who have left the employment of Seller and its Affiliates and shall not prohibit general solicitations by Purchaser or any of its Affiliates for employment through advertisements or other means.

Section 5.13 Financing. (a) Purchaser shall use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to arrange the Debt Financing on the terms and conditions, including the flex provisions, described in the Debt Financing Commitments (provided that Purchaser may amend the Debt Financing Commitment to add lenders, lead arrangers, bookrunners, syndication agents or similar entities which had not executed the Debt Financing Commitment as of the date hereof, or otherwise so long as such amendment does not (x) reduce the aggregate amount of the committed financing (including by changing the amount of fees to be paid or original issue discount) from that contemplated in the Debt Financing Commitment, or (y) impose new or additional conditions or otherwise expand, amend or modify any of the conditions to the receipt of the Debt Financing or (z) amend other terms in the case of this clause (z) in a manner that would otherwise adversely impact the ability of Purchaser to timely consummate the

transactions contemplated hereby or the likelihood of consummation of the transactions contemplated hereby and Purchaser provides Parent promptly after any such amendment with a copy thereof), including using its reasonable best efforts to (i) maintain in effect the Debt Financing Commitments, (ii) satisfy on a timely basis all conditions applicable to Purchaser to obtaining the Debt Financing set forth in the Debt Financing Commitments that are within its control, (iii) enter into definitive agreements with respect thereto on the terms and conditions (including the flex provisions) contemplated by the Debt Financing Commitments or on other terms reasonably acceptable to Purchaser that would not (x) reduce the aggregate amount of the committed financing (including by changing the amount of fees to be paid or original issue discount) from that contemplated in the Debt Financing Commitment, or (y) impose new or additional conditions or otherwise expand, amend or modify any of the conditions to the receipt of the Debt Financing or (z) amend other terms in the case of this clause (z) in a manner that would otherwise adversely impact the ability of Purchaser to timely consummate the transactions contemplated hereby or the likelihood of consummation of the transactions contemplated hereby, (iv) enforce the obligations of the lenders under the Debt Financing Commitments and (v) subject to the satisfaction or waiver of the conditions set forth herein (excluding conditions that by their terms cannot be satisfied until the Closing Date, but subject to the satisfaction or waiver of such conditions), consummate the Debt Financing at or prior to the Closing, to the extent that the proceeds of the Debt Financing are necessary to finance the transactions contemplated hereby. If any portion of the Debt Financing becomes unavailable on the terms and conditions contemplated in the Debt Financing Commitments, Purchaser shall use its reasonable best efforts to arrange to obtain alternative financing from alternative sources (on terms and conditions that in the aggregate are not materially less favorable to Purchaser, taking into account the flex provisions) in an amount sufficient to consummate the transactions contemplated by this Agreement as promptly as practicable following the occurrence of such event. Purchaser shall give Seller prompt notice of any material breach by any party to the Debt Financing Commitments, of which Purchaser becomes aware, or any termination of the Debt Financing Commitments, to the extent Purchaser becomes aware of such termination. Purchaser shall keep Seller informed on a reasonably current basis of the status of its efforts to arrange the Debt Financing and provide copies of all documents related to the Debt Financing to Seller. In furtherance of the foregoing, Purchaser agrees that it shall use its reasonable best efforts to enter into definitive agreements with respect to the Debt Financing as contemplated by clause (a)(iii) above not later than 45 calendar days after the date of this Agreement and that any failure to do so shall be a material breach of this Agreement. Notwithstanding anything to the contrary contained herein, in no event shall Purchaser be required pursuant to this Agreement to agree to pay to the lenders providing the Debt Financing, any material additional fees or to materially increase any interest rates applicable to the Debt Financing, except as expressly required pursuant to the Debt Financing Commitments (including the flex provisions) in existence as of the date hereof.

(b) Purchaser acknowledges and agrees that the consummation of the transactions contemplated by this Agreement is not conditional upon the receipt by Purchaser of the proceeds of the Debt Financing Commitments and that any failure by Purchaser to have available the funds necessary to consummate the Purchase at Closing shall constitute a material breach by Purchaser of this Agreement.

(c) Seller shall, and shall cause the Company and its Subsidiaries, and its, and their respective, officers, employees and advisors, including legal and accounting advisors, to provide to Purchaser all cooperation reasonably requested by Purchaser in order for Purchaser to complete the Debt Financing or any Alternative Permanent Financing as of the Closing and that is customary in connection with a financing comparable to the Debt Financing and equity or debt securities offerings (including, without limitation, first mortgage bonds) to the public including: (i) furnishing the Purchaser (by a date that is not later than 60 days after the end of any fiscal quarter after the date hereof that is not a fiscal year end, in respect of unaudited quarterly financial statements required pursuant to this Section 5.13(c), 40 days after the date hereof in the case of the fiscal quarter ended March 31, 2010, or 90 days after December 31, 2010 in respect of audited annual financial statements required pursuant to this Section 5.13(c), as applicable) with: (A) the audited consolidated balance sheet of the Company and separately the audited unconsolidated balance sheets of KU and LG&E as of December 31, 2010 to the extent that the Closing has not occurred prior to March 30, 2011), and the related audited statements of income and cash flows for the years then ended, and the notes and schedules thereto, (B) the unaudited consolidated balance sheet of the Company and separately the unaudited unconsolidated balance sheets of KU and LG&E as of March 31, 2010 and March 31, 2009 (and as of the end of any subsequent quarterly period that is not a fiscal year end ended no less than 60 days prior to the Closing Date along with the corresponding financial statements for the same period in the immediately prior year) and the related unaudited statements of income and cash flows, which shall have been reviewed by the Company's accountants as provided in SAS 100, and (C) all financial information related to the Company and its Subsidiaries reasonably required by Purchaser for Purchaser to produce the pro forma financial statements required under SEC Regulation S-X for equity or debt securities offerings of Purchaser to the public and specified in writing by Purchaser to Seller not later than 20 days after the date hereof (information required to be delivered pursuant to this clause (i) being referred to as, the "Required Information"); (ii) participating in a reasonable and limited number of meetings, presentations, due diligence sessions, drafting sessions and sessions with prospective lenders, investors and rating agencies in connection with the Debt Financing and any Alternative Permanent Financing; (iii) assisting with the preparation of materials for rating agency presentations, bank information memoranda, offering circulars, prospectuses and prospectus supplements and similar documents required in connection with the Debt Financing and any Alternative Permanent Financing (including requesting any consents of accountants for use of their reports in any materials relating to the Debt Financing and any Alternative Permanent Financing and the delivery of comfort letters and customary representation letters); (iv) facilitating the pledging of collateral in connection with any Alternative Permanent Financing in the form of an issuance of first mortgage bonds by the Company's Subsidiaries, including, executing and delivering any customary pledge and security documents, currency or interest hedging arrangements or other definitive financing documents or other certificates, legal opinions, surveys and title insurance (including non-imputation title policy endorsements and affidavits reasonably required by the title company) and documents as may be reasonably requested by Purchaser or otherwise facilitating the pledging of collateral from and after the Closing as may be reasonably requested by Purchaser (provided that any obligations contained in such documents shall be effective no earlier than as of the Closing), (v) causing the taking of corporate actions (subject to the occurrence of the Closing) by the Company and its Subsidiaries reasonably necessary to permit the completion of the Debt Financing and any Alternative Permanent Financing, (vi) facilitating the execution and delivery

(at the Closing) of definitive documents related to the Debt Financing and any Alternative Permanent Financing (including mortgage indentures at KU and LG&E); and (vii) providing such other financial and other information regarding the Company and its Subsidiaries as is reasonably necessary for Purchaser to effect the Debt Financing or any Alternative Permanent Financing; provided, however, that nothing in this Section 5.13(c) shall require any cooperation to the extent that it would unreasonably interfere in any material respect with the business or operations of Seller or its Affiliates, including the Company and its Subsidiaries. Purchaser shall promptly, upon request by Seller, reimburse Seller for all costs and expenses (including attorneys' fees) incurred by Seller or its Affiliates, including the Company and its Subsidiaries, in connection with the cooperation contemplated by this Section 5.13(c). Purchaser shall indemnify, defend and hold harmless the Seller Indemnified Parties from and against any and all Losses actually suffered or incurred by any of the Seller Indemnified Parties, to the extent arising out of any action taken by a Seller Indemnified Party at the request of Purchaser pursuant to this Section 5.13(c) or in connection with the arrangement of the Debt Financing or any Alternative Permanent Financing or any information utilized in connection therewith (other than information with respect to the Company and its Subsidiaries provided to Purchaser in writing by Seller, the Company or the Company's Subsidiaries expressly for use in connection with offering documents or prospectuses for the Debt Financing or Alternative Permanent Financing), and this indemnification shall survive termination of this Agreement and such Seller Indemnified Parties shall be third party beneficiaries of this sentence. Seller, the Company and its Subsidiaries hereby consent to the reasonable use of the Company and its Subsidiaries' logos in connection with the Debt Financing and any Alternative Permanent Financing, provided that such logos are used in a manner that is not intended to harm or disparage Seller or its Affiliates, including the Company and its Subsidiaries, or their marks and on such other customary terms and conditions as Seller shall reasonably impose. Purchaser agrees that any breach of this Section 5.13(c), other than the provision of the Required Information, shall not constitute a breach of this Agreement that gives rise to or contributes to any failure of a condition set forth in Article VII; provided that, notwithstanding anything to the contrary contained herein, the parties agree that any claim by Purchaser resulting from a breach by Seller of this Section 5.13(c) shall survive the Closing or the earlier termination of this Agreement. Purchaser agrees that this Agreement shall not obligate the Company or its Subsidiaries to issue any securities or make any borrowings prior to Closing.

Section 5.14 Regulatory Commitments. Seller and Purchaser agree (a) that the applications submitted to the State Commissions with respect to the Purchase shall include the information concerning the Purchase, the Company and its Subsidiaries, Seller and Purchaser required by applicable laws of the Commonwealth of Kentucky, the Commonwealth of Virginia and the State of Tennessee, as the case may be, (b) that such applications and any amendments or supplements thereto shall include the commitments and agreements set forth in Exhibit B hereto to the extent applicable to such jurisdictions and such additional agreements or commitments as Seller and Purchaser agree are advisable to obtain prompt approval of such applications, and (c) that neither Seller nor Purchaser shall agree to, or accept, any additional or different agreements, commitments or conditions in connection with the Purchase pursuant to any settlement or otherwise with the State Commissions or any other Person without the prior written consent of the other party hereto, which consent shall not be unreasonably withheld, conditioned or delayed. Purchaser further agrees that, subject to obtaining the consent of Seller as required by this Section 5.14, it will agree to, or accept, any additional or different agreements, commitments or

conditions reasonably necessary, proper or advisable to obtain any Governmental Authorizations necessary to promptly consummate the Purchase, including any Company Required Regulatory Approvals or any Purchaser Required Regulatory Approvals, except to the extent that any such agreements, commitments or conditions, individually or in the aggregate, would cause the condition set forth in Section 7.2(c) to fail to be satisfied.

Section 5.15 Competing Transactions. Purchaser agrees that it shall not, and shall not permit any of its Affiliates to, directly or indirectly, acquire or agree to acquire, whether by merger, consolidation, purchasing a substantial portion of the assets of or equity in or by any other manner, any assets, business or any Person, if the entering into of a definitive agreement relating to or the consummation of such acquisition, merger, consolidation or purchase could reasonably be expected to (w) impose any delay (other than in an immaterial respect) in the expiration or termination of any applicable waiting period or impose any delay (other than in an immaterial respect) in the obtaining of, or increase the risk of not obtaining, any Governmental Authorizations necessary to consummate the Purchase, including any Company Required Regulatory Approvals or any Purchaser Required Regulatory Approvals, (x) increase the risk of any Governmental Authority entering a Prohibitive Order, (y) increase the risk of not being able to remove any such Prohibitive Order on appeal or otherwise or (z) other than in an immaterial respect, delay or impede the consummation of the Purchase.

Section 5.16 Loss of Property. In the event that between the date of this Agreement and the Closing Date, (i) any assets (other than immaterial assets) expected to be owned by the Company and its Subsidiaries on the Closing Date have suffered property damage (ordinary wear and tear excepted) or are subject to eminent domain or condemnation proceedings, or (ii) are lost, in each of clauses (i) and (ii) other than in the Company Ordinary Course of Business, Seller shall notify Purchaser reasonably promptly in writing upon it becoming aware of such event. Seller shall, or shall cause its Affiliates to, either (i) prior to the Closing, use any insurance recoveries or other proceeds actually received by Seller or its Affiliates in respect of such damage, regardless of materiality, by property damage, eminent domain, condemnation proceedings or loss to repair, rebuild or replace the portion of the assets damaged or lost prior to the Closing, or (ii) (x) to the extent of any insurance recoveries or other proceeds actually received prior to the Closing and not used to repair, rebuild or replace such portion of assets, hold such insurance recoveries or other proceeds in trust for the Purchaser and, at the Closing, assign all of Seller's or Seller's Affiliates', as applicable, right, title, and interest in and to such insurance recoveries or other proceeds to Purchaser in compensation for such damage or loss, or (y) to the extent of any insurance recoveries or other proceeds yet to be received, use its reasonable best efforts to diligently pursue any and all claims related thereto and assign all of Seller's or Seller's Affiliates', as applicable, right, title, and interest to receive and collect such insurance recoveries or other proceeds upon payment thereof; provided, however, that Purchaser shall reimburse Seller for Seller's costs and out-of-pocket expenses incurred in using its reasonable best efforts in pursuing such claims. For the avoidance of doubt, notwithstanding anything to the contrary contained herein, this Section 5.16 shall survive the Closing solely to the extent any such lost or damaged assets exist, and then only until the applicable insurance recoveries or other claim proceeds are received or denied.

Section 5.17 Further Assurances. Seller and Purchaser, subject to the provisions of this Agreement, (i) shall execute and deliver, or shall cause to be executed and delivered, such

documents and other instruments and shall take, or shall cause to be taken, such further actions as may be reasonably required to carry out such party's obligations under this Agreement and give effect to the transactions contemplated by this Agreement, and (ii) shall refrain from taking any actions that could reasonably be expected to impair, delay or impede the Closing.

Section 5.18 Rate Cases. Between the date of this Agreement and the Closing, Seller hereby agrees to cause the Company and its Subsidiaries to continue to diligently pursue the Rate Cases consistent with past practice, and to the extent permitted by Law and Governmental Order, notify Purchaser about any material developments, or material communications with FERC or the State Commissions, relating thereto. Except as required by Section 5.14 and Exhibit B, prior to making any commitments or settlement offers in the Rate Cases, Seller shall cause the Company and its Subsidiaries to consult with Purchaser and to consider in good faith any suggestions made by Purchaser in connection therewith. Seller shall not permit the Company or its Subsidiaries to settle the Rate Cases without the prior written consent of Purchaser (such consent not to be unreasonably withheld, conditioned or delayed) to the extent that such settlement would result in an outcome for the Company and its Subsidiaries that would be materially adverse to the Company or any of its Subsidiaries, taking into account the requests made by the Company and its Subsidiaries in the proceeding, the resolution of similar recent proceedings under similar circumstances in the utility industry and the reasonable expectations of Purchaser as of the date hereof for such outcome.

Section 5.19 Insurance. (a) Except as set forth in this Section 5.19, coverage of the Company and its Subsidiaries or any of their respective businesses, operations, personnel and other risks attributable to them under all insurance policies of Seller and its Affiliates (other than the Company and its Subsidiaries) shall cease as of the Closing Date.

(b) To the extent that prior to the date hereof Seller and/or its Affiliates (other than the Company and its Subsidiaries) retained in effect policies of insurance that covered the business, assets and operations of the Company and its Subsidiaries, then Seller shall, or shall cause its Affiliates to, maintain such insurance in effect for a period of one year following the Closing Date (subject to the terms of those policies) for the Company and its Subsidiaries (the "Seller Insurance") for liabilities, costs or damages relating to any event occurring prior to the Closing Date (but not occurring after the Closing Date), and upon the request of Purchaser, Seller shall use its commercially reasonable efforts to assert any and all claims for payment made by the Company at the request of Purchaser under the Seller Insurance (any such request to be made no later than the first anniversary of the Closing Date) ("Pre-Closing Claims"); provided that nothing herein shall require Seller and/or its Affiliates (other than the Company and its Subsidiaries) to maintain or preserve in effect any policies of insurance which it does not otherwise maintain or preserve in effect for entities other than the Company and its Subsidiaries or for its business other than the business of the Company and its Subsidiaries. Any Pre-Closing Claim shall be processed by Seller and/or its Affiliates in the same manner and shall be given the same priority relative to other claims as if such claim had been made by Seller or one of its Affiliates. Seller (or its designee) will reasonably promptly remit to the Company any and all amounts recovered pursuant to Seller Insurance for any Pre-Closing Claim. The Company shall provide all assistance and information reasonably requested by Seller in connection with processing Pre-Closing Claims and providing information to its insurance underwriters, in each case in a manner consistent with the practices of Seller and the Company prior to the date hereof

and Seller shall consult with the Company, and keep the Company reasonably informed with respect to, any of the foregoing. Seller shall coordinate with the Company to provide such information relating to the Seller Insurance as the Company may reasonably request, in a manner consistent with the practices of Seller and the Company prior to the Closing, including providing the Company with notice of any cancellation or termination of such Seller Insurance as promptly as practicable after (i) receiving any notice thereof or (ii) reaching a final decision to provide a notice of cancellation or termination. The Company shall pay the Company's allocable cost for such insurance (based on the amount paid by the Company with respect to coverage for the period from December 31, 2008 to December 31, 2009) and shall promptly reimburse Seller or its designee for all other reasonable out-of-pocket costs and expenses whatsoever incurred (a) at Purchaser's request or (b) in providing the assistance described in this Section 5.19 ("Assistance Costs"). "Assistance Costs" shall include third party expenses, including without limitation attorneys' fees and claims adjustment expenses, paid in connection with investigating, preparing, or pursuing recoveries from insurance contracts and retroactive or prospective premium increases to the extent (and only to the extent) attributable to losses incurred in connection with the Company and its Subsidiaries following the Closing.

ARTICLE VI
TAX MATTERS

Section 6.1 Section 338 Election. Purchaser agrees, except to the extent it has received Seller's express written consent, not to make (and to cause each of its Affiliates not to make) any election under Section 338 (including but not limited to Section 338(h)(10)) of the Code or any similar provision of any U.S. state or local or foreign law with respect to any of the transactions contemplated by this Agreement.

Section 6.2 Seller Liability for Taxes. Effective as of the Closing Date, except for Taxes provided for in the Company Financial Statements Seller and Parent shall, indemnify and hold the Purchaser Indemnified Parties harmless from and against any Losses in respect of (i) any Taxes imposed with respect to the Company or any of its Subsidiaries for the taxable periods, or portions thereof, ended on or before the Cut-Off Date (a "Pre-Cut-Off Date Tax Period"), (ii) any Taxes of Seller or any of its Affiliates (other than the Company or any of its Subsidiaries) and any Taxes for which the Company or any of its Subsidiaries is held liable under Treasury Regulations Section 1.1502-6 or similar provision by reason of the Company or any of its Subsidiaries being included in any consolidated, affiliated, combined, or unitary group with Seller or any of its Affiliates, other than the Company and its Subsidiaries, (iii) any breach of (A) any representation or warranty contained in Section 3.9 or (B) any covenant set forth in Section 5.1(a)(xv) and (iv) Taxes imposed on the Company or any Subsidiary as a result of the recognition of any "excess loss account", as defined for federal income tax purposes, triggered by the sale of the Interests to the Purchaser pursuant to this Agreement.

Section 6.3 Purchaser Liability for Taxes. Effective as of the Closing Date and without duplication of any payment due to Seller pursuant to Section 6.7, Purchaser shall indemnify and hold the Seller Indemnified Parties harmless from and against any Losses in respect of Taxes with respect to the Company or any of its Subsidiaries other than those Taxes for which Seller is responsible pursuant to Section 6.2.

Section 6.4 Proration of Taxes. To the extent necessary to allocate the liability for Taxes, or any attribute relating to Taxes, for a portion of a taxable year or period that begins before and ends after the Cut-Off Date (a "Straddle Period"), the determination of the Taxes for the portion of the year or period ending on, and the portion of the year or period beginning after, the Cut-Off Date shall be determined by assuming that the taxable year or period ended as of the close of business on the Cut-Off Date, except that any property taxes, exemptions, allowances or deductions that are calculated on an periodic basis shall be prorated on a time basis.

Section 6.5 Preparation of Tax Returns. (a) Seller shall prepare and file (or cause to be prepared and filed) all Tax Returns relating to the Company or any of its Subsidiaries which are required to be filed after the Closing Date and which are filed on a consolidated, unitary or combined basis with the Seller. With respect to any Tax Return to be prepared and filed by the Seller pursuant to the preceding sentence, Purchaser shall cause the Company to prepare and provide to Seller a package of Tax information materials (the "Tax Package"), which shall be completed in accordance with past practice, and shall include drafts of the Tax Returns (computed on a stand-alone basis with respect to the Company and its Subsidiaries), schedules and significant work papers (other work papers shall be made available to the Seller upon request). With respect to any consolidated federal income Tax Return or any Kentucky consolidated state income Tax Returns, Purchaser shall cause the Tax Package to be delivered to Seller no later than 45 days in advance of the due date (giving effect to any extension thereof) for the Tax Return to which such Tax Package relates. With respect to any Tax Return to be prepared and filed by the Seller referred to in the first sentence of this Section 6.5 other than a consolidated federal or Kentucky consolidated income Tax Return, Purchaser shall cause the Tax Package to be delivered to Seller as promptly as reasonably possible prior to the filing of such Tax Returns to enable Seller to review and timely file the Tax Return to which such Tax Package relates. Purchaser shall prepare and file (or cause to be prepared and filed) all Tax Returns relating to the Company or any of its Subsidiaries to be filed after the Closing other than Tax Returns referred to in the first sentence of this Section 6.5. With respect to any Tax Return to be filed by one party for which the other party may have an indemnification obligation, the Indemnified Party shall provide the Indemnifying Party adequate opportunity to review and comment on such Tax Return and shall incorporate comments of the Indemnifying Party on such Tax Returns to the extent such comments could affect the Indemnifying Party's indemnity obligations under this Agreement.

(b) With respect to any Tax Returns for any taxable period which begins before and ends after the Closing Date, to the extent permissible, but not required, pursuant to applicable Tax Law, the parties shall cause the Company and its Subsidiaries to, (i) take all steps as may be reasonably necessary, including the filing of elections or returns with applicable Governmental Authority, to cause such period to end on the Closing Date or (ii) if the foregoing clause (i) of this Section 6.5(b) is inapplicable, report the operations of the Company and its Subsidiaries only for that portion of such period ending on the Closing Date in a combined, consolidated or unitary Tax Return filed by Seller or an Affiliate of Seller, notwithstanding that such taxable period does not end on the Closing Date.

Section 6.6 Tax Cooperation. (a) Effective as of the Closing Date, Seller and Purchaser shall provide each other, upon reasonable request, as promptly as practicable, with such cooperation and information (including reasonable access to employees during normal

operating hours) as either of them may reasonably request of the other (and Purchaser shall cause the Company and its Subsidiaries to provide such cooperation and information) in filing any Tax Return, amended Tax Return or claim for refund, making any Tax election, determining a liability for Taxes or a right to a refund of Taxes, or participating in or conducting any audit, contest or other proceeding in respect of Taxes, but only to the extent such information is reasonably available to the other party. Seller's and Purchaser's cooperation shall include providing copies of relevant Tax Returns or portions thereof, together with related work papers, documents relating to rulings or other determinations by Governmental Authorities and any other information or documentation which may be useful in connection with the preparation of any Tax Return or management of any audit, contest or other proceeding in respect of Taxes. Seller and Purchaser shall make themselves (and their respective employees) reasonably available on a mutually convenient basis to execute any documents as required in connection with any audit, contest or other proceeding in respect of Taxes covered by this Section 6.6; or to provide explanations of any documents or information provided under this Section 6.6. Any information obtained under this Section 6.6 shall be kept confidential, except as may be otherwise necessary in connection with the filing of Tax Returns or claims for refund or in conducting an audit or other proceeding. Notwithstanding anything to the contrary contained herein, neither Purchaser nor Seller shall have any access to any books and records, Tax Returns or other information of the other party or its Affiliates that do not relate exclusively to the Company and its Subsidiaries. Prior to the Closing Date, upon request of the other party, Seller and Purchaser shall cooperate with each other and use their respective reasonable best efforts to provide the other with information in each case as relevant to the Tax planning relating to the transition of the ownership of the Interests, the Company and its Subsidiaries.

(b) Effective as of the Closing Date, if a claim shall be made by any taxing authority, which, if successful, might result in an indemnity payment to any Indemnified Party pursuant to this Article VI, then such Indemnified Party shall give prompt notice to the Indemnifying Party in writing of such claim; provided, however, the failure to give prompt notice shall relieve the Indemnifying Party of its indemnity obligation only to the extent its ability to contest such claim is prejudiced in a manner that is not immaterial as a result of such failure.

(c) Effective as of the Closing Date, Seller shall be entitled to participate at its expense in the conduct of, and, at its option, take sole and exclusive control of the conduct and settlement of any Tax audit, contest or other proceeding in respect of Taxes for which Seller is responsible pursuant to this Agreement, and to employ counsel and other advisors of its choice at its expense; provided that Purchaser shall be permitted to participate in any such audit, contest or other proceeding to the extent it relates to Taxes of the Company or its Subsidiaries and could reasonably be expected to have an adverse effect on the Company or its Subsidiaries in a Tax period ending after the Cut-Off Date.

(d) Effective as of the Closing Date, Purchaser shall control all Tax audits, contests or other proceedings in respect of any Taxes of the Company or any of its Subsidiaries not described in paragraph (c).

(e) Effective as of the Closing Date and notwithstanding any other provision of this Agreement, neither party may agree to settle any claim for Taxes for which the other party

is responsible pursuant to this Agreement without the prior written consent of such other party (such consent not to be unreasonably withheld, delayed or conditioned).

(f) Effective as of the Closing Date, at Seller's request, Purchaser shall cause the Company and/or any of its Subsidiaries to make and/or join with Seller (or any of its Affiliates) in making any Tax election if the making of such election (i) would not have any adverse impact that is material on Purchaser and (ii) would not have any adverse impact that is material on the Company or the Company's Subsidiaries for any taxable period ending after the Cut-Off Date.

(g) Each party shall pay or cause to be paid to the other party any refunds or credits of Taxes for which the other party is responsible pursuant to this Agreement (including any interest thereon paid by the applicable Governmental Authority in respect of such refund or credit) within thirty (30) Business Days after the receipt of such refund or the realization of such credit. Each party shall, at the reasonable request of the other party, cooperate in good faith with such other party in obtaining such refunds or credits, including through the filing of amended Tax Returns or refund claims.

Section 6.7 Tax Sharing Matters. Any Tax sharing agreement or arrangement between Seller or any of its Affiliates (other than the Company and its Subsidiaries), on the one hand, and the Company and its Subsidiaries, on the other hand, including the Tax Sharing Agreement, shall be terminated as of the Closing. All amounts payable under the Tax Sharing Agreement as of the Closing shall be determined promptly after the Closing (for the avoidance of doubt, such amounts to be determined without regard to the due dates for payments otherwise applicable under the Tax Sharing Agreement and without regard to Section 7 of the Tax Sharing Agreement) and shall be settled no later than the due date for the payment of the Tax to the relevant Tax authority to which such amount relates.

Section 6.8 Post-Closing Actions Affecting Tax Liabilities for Pre-Closing and Straddle Periods. (a) Except to the extent required by Law and subject to Sections 6.5 and 6.6, neither Purchaser nor any of its Affiliates shall (nor shall cause or permit the Company or any of its Subsidiaries to), without the prior written consent of Seller (such consent not to be unreasonably withheld, delayed or conditioned), (i) amend, file, re-file, revoke or otherwise modify any Tax Return previously filed with any Governmental Authority relating in whole or in part to the Company or any of its Subsidiaries with respect to any Pre-Cut-Off Date Tax Period or (ii) make any Tax election, adopt or change any method of Tax accounting or undertake any other extraordinary action on the Closing Date, if doing so could reasonably be expected to have an adverse effect that is material on the Seller or any of its Affiliates or result in any indemnification obligation of Seller for Taxes pursuant to this Agreement.

(b) Except to the extent required by Law and subject to Sections 6.5 and 6.6, neither Seller nor any of its Affiliates shall, without the prior written consent of Purchaser (such consent not to be unreasonably withheld, delayed or conditioned), (i) amend, file, re-file, revoke or otherwise modify any Tax Return previously filed with any Governmental Authority relating in whole or in part to the Company or any of its Subsidiaries with respect to any taxable period ending after the Cut-Off Date or (ii) make any Tax election, adopt or change any method of Tax accounting or undertake any other extraordinary action after the Closing Date, if doing so could

reasonably be expected to have an adverse effect that is material on the Purchaser or any of its Affiliates (including, for purposes of this Section 6.8(b), after the Cut-Off Date, the Company or any of its Subsidiaries) or result in any indemnification obligation of Purchaser for Taxes pursuant to this Agreement.

(c) Notwithstanding anything to the contrary contained in this Agreement, neither Purchaser nor any of its Affiliates shall waive any statute of limitations or agree to any extensions thereof in respect of any Pre-Cut-Off Date Tax Period without the prior written consent of Seller.

Section 6.9 Rights With Respect to Loss Sharing With Respect to the Company and its Subsidiaries.

(a) If any tax losses or credits of the Company or any of its Subsidiaries (including any portion of any consolidated net operating loss of the Seller Consolidated Group that is attributable to the Company or any of its Subsidiaries, and any corresponding losses attributable to the Company or any of its Subsidiaries under applicable state or local Law) reflected in Section 3.9(m) of the Company Disclosure Schedule (such tax losses or credits other than the credit referenced by the item "Alternative Minimum Tax Credit Carryover", the "Company Non-AMT Tax Attributes", and the credit referenced by the item "Alternative Minimum Tax Credit Carryover", the "Company AMT Tax Attribute") are used to offset or to reduce any Taxes for which Seller would otherwise be responsible pursuant to this Agreement, whether utilizing such losses occurs by operation of law, pursuant to an election, such as an election to surrender losses of one entity to another entity, or by any other means, and the effect of such use is to either reduce (i) the aggregate amount of Company Non-AMT Tax Attributes immediately following the Closing below the Adjusted Non-AMT Cut-Off Date Amount (such reduced amount of Company Non-AMT Tax Attributes, the "Reduced Non-AMT Post-Closing Tax Attributes") or (ii) the amount of the Company AMT Tax Attribute immediately following the Closing below the Adjusted AMT Cut-Off Date Amount (such reduced amount of the Company AMT Tax Attribute, the "Reduced AMT Post-Closing Tax Attribute"), then the Seller shall pay to the Purchaser cash equal to the amount of Taxes so offset or reduced by the difference between (i) the Adjusted Non-AMT Cut-Off Date Amount and the Reduced Non-AMT Post-Closing Tax Attributes or (ii) the Adjusted AMT Cut-Off Date Amount and the Reduced AMT Post-Closing Tax Attribute, as the case may be, within thirty (30) Business Days after such offset or reduction. The "Adjusted Non-AMT Cut-Off Date Amount" and the "Adjusted AMT Cut-Off Date Amount", respectively, shall be the aggregate amount of the Company Non-AMT Tax Attributes or the Company AMT Tax Attribute, respectively, (i) reduced by the amount of Company Non-AMT Tax Attributes or the Company AMT Tax Attribute, respectively, that are or is used to offset or to reduce any Taxes of the Company or any of its Subsidiaries in respect of any taxable period, or portion thereof, ending on or prior to the Closing Date, for which Purchaser would otherwise be responsible pursuant to this Agreement, whether utilizing such losses occurs by operation of law, pursuant to an election, such as an election to surrender losses of one entity to another entity, or by any other means and (ii) increased by the amount of any such tax loss or credit of the Company or any of its Subsidiaries (other than any worthless security deduction with respect to LG&E International Inc. realized after the Cut-Off Date) that is realized in respect of any taxable period or portion thereof beginning after the Cut-Off Date and ending on or prior to the Closing Date unless such

losses or credits are used to offset or reduce the income of the Company or its Subsidiaries. For purposes of the preceding sentence, Taxes, tax losses and tax credits in respect of a taxable period that begins before and ends after the Cut-Off Date or the Closing Date, as the case may be, shall be allocated pursuant to the principles of Section 6.4. For purposes of determining the aggregate amount of Company Non-AMT Tax Attributes, Adjusted Non-AMT Cut-Off Date Amount and Reduced Non-AMT Post-Closing Tax Attributes, tax credits of the Company and its Subsidiaries shall be taken into account after dividing the nominal amount of such tax credits by 0.35. Notwithstanding anything therein to the contrary, no amount shall be payable pursuant to Section 6.9(a) to the extent such payment would duplicate any amount payable pursuant to the Tax Sharing Agreement.

(b) Seller reserves the right to reduce any Taxes of the Company or any of its Subsidiaries for which Seller would otherwise be liable by utilizing any Tax losses of Seller or any Affiliate of Seller (other than the Company or any of its Subsidiaries), whether utilizing such losses occurs by operation of law, pursuant to an election, such an election to surrender losses of one entity to another entity, or by any other means. For the avoidance of doubt, Seller shall not be entitled to any payment from Purchaser or any of its Affiliates for such use of any such Tax losses.

(c) To the extent permitted pursuant to Treasury Regulations Section 1.1502 95, Seller shall elect to apportion all of any consolidated section 382 limitation of the Seller Consolidated Group to the Company and its Subsidiaries and shall apportion to the Company and its Subsidiaries the maximum permitted net unrealized built-in gain of any loss group of which the Company or any of its Subsidiaries was a member.

Section 6.10 Miscellaneous. (a) Notwithstanding anything to the contrary contained in this Agreement, the covenants and agreements of Seller and Purchaser contained in this Article VI shall survive the Closing and shall remain in full force and effect until the expiration of the relevant statutes of limitation.

(b) Purchaser shall, and shall cause the Company and its Subsidiaries to, (i) retain all Company Books and Records with respect to Tax matters pertinent to the Company and any of its Subsidiaries relating to any taxable period beginning on or before the Closing Date until the expiration of the statute of limitations of the respective taxable periods, and (ii) abide by all record retention agreements entered into with any Governmental Authority and give Seller reasonable written notice and opportunity to obtain possession (at Seller's expense) prior to transferring, destroying or discarding any such Company Books and Records.

Section 6.11 Exclusivity. Notwithstanding any other provision of this Agreement, except as specifically provided in Sections 3.9, 5.1(a)(xv) and Article IX, any matter related to Taxes shall be governed solely by this Article VI.

ARTICLE VII
CONDITIONS TO CLOSING

Section 7.1 Conditions to Obligations of Each Party. The respective obligations of each party hereto to effect the Purchase are subject to the satisfaction or waiver at or prior to the Closing of each of the following conditions:

(a) HSR Clearance. The waiting period (and any extension thereof) applicable to the consummation of the Purchase under the HSR Act shall have expired or been earlier terminated.

(b) Regulatory Approvals. The Company Required Regulatory Approvals and the Purchaser Required Regulatory Approvals shall have been obtained and shall have become Final Orders. As used in this Section 7.1(b), the term "Final Order" means action by the relevant Governmental Authority which has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by Law or Governmental Order before the transactions contemplated hereby may be consummated has expired, and as to which all conditions (other than conditions the satisfaction of which is within the control of a party) to the consummation of such transaction prescribed by Law or Governmental Order have been satisfied.

(c) No Prohibitive Order. No court or other Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law or Governmental Order (whether temporary, preliminary or permanent) that is in effect and prevents, restrains, enjoins or otherwise prohibits the consummation of the Purchase (a "Prohibitive Order").

Section 7.2 Conditions to Obligations of Purchaser. Subject to Section 2.5(a), the obligations of Purchaser to effect the Purchase are subject to the satisfaction or waiver by Purchaser at or prior to the Closing of each of the following further conditions:

(a) Representations and Warranties of Seller. The representations and warranties of Seller set forth in this Agreement (without regard to materiality or "Company Material Adverse Effect" qualifiers contained therein) shall be true and correct as of the Closing, as if made on the Closing Date (except to the extent that any such representation or warranty expressly speaks as of a specified date, in which case such representation or warranty shall be true and correct as of such specified date) except where the failure of any such representations and warranties to be true and correct, individually or in the aggregate, has not had and is not reasonably likely to have a Company Material Adverse Effect; provided, however, that, notwithstanding anything to the contrary contained herein, the representations or warranties of Seller (x) contained in Section 3.1 (Organization), Section 3.2 (Authorization of Transaction; Binding Obligation), Section 3.5 (Title to the Interests), Section 3.6 (Capitalization) and Section 3.20 (Brokers) shall be true and correct in all material respects, (y) contained in Section 3.8(b) shall be true and correct without disregarding the reference to "Company Material Adverse Effect" contained therein and (z) (i) with respect to Section 3.11(a)(iii), the word "material" shall be deemed to be included before the reference to "likelihood", (ii) with respect to Section 3.15(a), the word "material" shall be deemed to be included before the reference to

"amendments, waivers or other charges", (iii) with respect to Section 3.18 the word "material" shall be deemed to be included before the first reference to "current insurance policies", before the first reference to "premium increase" and before the first reference to "changes", (iv) with respect to Section 3.19 the word "material" shall be deemed to be included before the reference to "to the Company and its Subsidiaries taken as a whole" in the penultimate sentence thereof and (v) with respect to Section 3.25, the word "material" shall be deemed to be included before the references to "other documents" and the reference to "financial obligations." Purchaser shall have received a certificate signed by a duly authorized officer of Seller on behalf of Seller to the effect that the conditions set forth in this Section 7.2(a) have been satisfied.

(b) Performance of Obligations of Seller. Seller shall have performed in all material respects all obligations required to be performed by it hereunder on or prior to the Closing Date, and Purchaser shall have received a certificate signed by a duly authorized officer of Seller on behalf of Seller to such effect.

(c) Regulatory Approvals. The Company Required Regulatory Approvals and the Purchaser Required Regulatory Approvals obtained in the form of Final Orders referred to in Section 7.1(b) shall not, individually or in the aggregate, impose terms, conditions, liabilities, obligations, commitments or sanctions upon the Company and the Company's Subsidiaries, taken as a whole, or Purchaser and its Subsidiaries, taken as a whole, that would have, or be reasonably likely to have, a material and adverse effect on the condition (financial or otherwise), assets, liabilities, businesses or results of operations of the Company and its Subsidiaries, taken as a whole, or Purchaser and its Subsidiaries, taken as a whole; provided, however, that any terms, conditions, liabilities, obligations, commitments or sanctions contained in or arising out of any Final Order shall not constitute or be taken into account in determining whether there has been or is such a material and adverse effect pursuant to this Section 7.2(c) to the extent such terms, conditions, liabilities, obligations, commitments or sanctions implement the Regulatory Commitments.

Section 7.3 Conditions to Obligations of Seller. The obligations of Seller to effect the Purchase are subject to the satisfaction or waiver by Seller at or prior to the Closing of each of the following further conditions:

(a) Representations and Warranties of Purchaser. The representations and warranties of Purchaser set forth in this Agreement shall be true and correct in all material respects as of the Closing, as if made on the Closing Date (except to the extent that any such representation or warranty expressly speaks as of a specified date, in which case such representation or warranty shall be true and correct as of such specified date). Seller shall have received a certificate signed by a duly authorized officer of Purchaser on behalf of Purchaser to the effect that the conditions set forth in this Section 7.3(a) have been satisfied.

(b) Performance of Obligations of Purchaser. Purchaser shall have performed in all material respects all obligations required to be performed by it hereunder on or prior to the Closing Date, and Seller shall have received a certificate signed by a duly authorized officer of Purchaser on behalf of Purchaser to such effect.

ARTICLE VIII
TERMINATION

Section 8.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by mutual written consent of Seller and Purchaser;

(b) by either Purchaser or Seller if (i) the Closing shall not have occurred on or prior to April 28, 2011 (the "Termination Date"), provided that, if on April 28, 2011 the conditions to Closing set forth in Section 7.1(a) or Section 7.1(b) shall not have been fulfilled but remain capable of fulfillment and each of the other conditions to Closing set forth in Article VII has been satisfied or waived or remains capable of satisfaction, then either Purchaser or Seller may, by written notice to the other, extend the termination date to October 28, 2011 (which extended date shall then be the "Termination Date"), or (ii) any Prohibitive Order permanently preventing, restraining, enjoining or otherwise prohibiting the consummation of the Purchase shall have become final and non-appealable; provided, however, that, in case of each of the foregoing clauses (i) and (ii) of this Section 8.1(b), the right to terminate this Agreement pursuant to this Section 8.1(b) shall not be available to any party hereto seeking to terminate this Agreement if such party shall have failed to perform in any material respect its obligations under this Agreement such that they shall have proximately caused the occurrence of the failure of the Closing to occur on or prior to the Termination Date, or the occurrence of any Prohibitive Order;

(c) by Seller if (i) Purchaser has breached in any material respect any representations, warranties, covenants or agreements made by Purchaser in this Agreement or any such representation or warranty shall have failed to be true after the date of this Agreement, such that the conditions set forth in Sections 7.1, 7.3(a) or 7.3(b) would not be satisfied and such breach or failure to be true is not curable or, if curable, has not been cured prior to the earlier of (x) thirty (30) days after written notice thereof is given by Seller to Purchaser and (y) the Termination Date; provided, however, that Seller is not then in material breach of this Agreement so as to cause any of the conditions set forth in Sections 7.1, 7.2(a) or 7.2(b) not to be satisfied; or (ii) Purchaser has failed to consummate the Purchase on the date on which the Closing would have occurred, pursuant and subject to the provisions of Section 2.5 hereof, if Purchaser had not failed to consummate the transactions contemplated hereby, and all of the conditions set forth in Section 7.1 would have been satisfied if the Closing were to have occurred on such date; provided that Seller is not then in breach of this Agreement so as to cause the conditions set forth in Section 7.2 not to be satisfied; or

(d) by Purchaser if Seller has breached in any material respect any representations, warranties, covenants or agreements made by Seller in this Agreement or any such representation or warranty shall have failed to be true after the date of this Agreement, such that the conditions set forth in Sections 7.1, 7.2(a) or 7.2(b) would not be satisfied and such breach or failure to be true is not curable or, if curable, has not been cured prior to the earlier of (x) thirty (30) days after written notice thereof is given by Purchaser to Seller and (y) the Termination Date; provided, however, that Purchaser is not then in material breach of this Agreement so as to cause any of the conditions set forth in Sections 7.1, 7.3(a) or 7.3(b) not to be satisfied.

Section 8.2 Effect of Termination. (a) Except as provided in this Section 8.2, in the event of a termination of this Agreement pursuant to this Article VIII, this Agreement shall become void and of no effect, with no liability to any Person on the part of any party hereto (or of any of its Representatives or Affiliates); provided, however, that (x) the confidentiality obligations set forth in Section 5.3, Section 5.4, this Section 8.2, Article X and the Confidentiality Agreement shall survive any termination of this Agreement; and (y) except as provided in the next succeeding sentence, nothing herein shall relieve any party hereto from any liability or damages to the other party hereto resulting from any willful misconduct or fraud or any willful material breach of this Agreement occurring prior to such termination. In the event that (i) the conditions set forth in Section 7.2 are satisfied, (ii) the Closing has failed to occur because the lenders under the Debt Financing Commitments have failed to fund such commitments, (iii) Purchaser has used its reasonable best efforts to satisfy all conditions precedent to the receipt of the Debt Financing and enforce such commitments and Debt Financing definitive agreements and otherwise complied in all material respects with its obligations under this Agreement, including to obtain alternative financing pursuant to and subject to the terms of Section 5.13(a) and (iv) the proceeds of the Debt Financing are not available to the Purchaser, or would not have been received by Purchaser if the Closing had occurred on the date of such termination, then Purchaser shall pay $450 million (the "Purchaser Termination Fee"), to Seller no later than two Business Days after termination of this Agreement by Seller pursuant to Section 8.1(c)(ii) hereof, and the right to so terminate and receive such Purchaser Termination Fee shall be the sole and exclusive remedy of Seller and its Affiliates against Purchaser or any of its current, former or future Affiliates and representatives (including the Debt Financing Sources) for any Losses suffered in connection with this Agreement or the transactions contemplated hereby. Purchaser acknowledges that the agreements contained in this Section 8.2 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, Seller and Parent would not enter into this Agreement. Accordingly, if Purchaser fails to promptly pay the amounts due pursuant to this Section 8.2 and, in order to obtain such payment, Seller and/or Parent commence a suit that results in a judgment against Purchaser for the Purchaser Termination Fee or any portion thereof, Purchaser shall pay to Seller and Parent their costs and expenses thereof (including attorneys' fees) in connection with such suit, together with interest on the amount of the Purchaser Termination Fee or portion thereof ordered to be paid by a court at a rate per annum equal to 12% from the date such payment was required to be made through the date of the payment.

(b) In the event that this Agreement is terminated pursuant to Section 8.1, neither Purchaser nor any of its Affiliates shall, directly or indirectly, (i) induce, encourage or solicit any Company Employee to leave such employment or to accept any other position or employment with Purchaser, any of its Affiliates or any other Person, or (ii) hire or assist any other Person in hiring any Company Employee, so long as such Company Employee is employed by Seller or any of its Affiliates (including the Company and its Subsidiaries), provided that the foregoing restriction shall not apply to any Company Employee who has left the employment of Seller and its Affiliates (including the Company and its Subsidiaries) without any breach or violation by Purchaser or any of its Affiliates of this Section 8.2(b) and shall not prohibit general solicitation by Purchaser or any of its Affiliates for employment through advertisements or other means that do not specifically target any individual Company Employee or any group of Company Employees.

ARTICLE IX
INDEMNIFICATION

Section 9.1 Survival of Representations and Warranties. The representations and warranties of the parties hereto contained in this Agreement at the Closing shall survive the Closing for eighteen (18) months after the Closing except that the representations and warranties set forth in (i) Section 3.1 (Organization), Section 3.2 (Authorization of Transaction; Binding Obligation), Section 3.5 (Title to the Interests), Section 3.6 (Capitalization), Section 3.20 (Brokers), Section 4.1 (Organization), Section 4.2 (Authorization of Transaction; Binding Obligation) and Section 4.10 (Brokers) shall survive indefinitely, (ii) Section 3.16 (Environment) and Section 3.25 (WKE Matters) shall survive the Closing for a period of four (4) years and (iii) Section 3.9 (Taxes) shall survive the Closing until the expiration of the applicable statute of limitations; provided, however, that any claim for breach of any representation or warranty contained herein made within such applicable time period with reasonable specificity by the party hereto seeking to be indemnified shall survive until such claim is finally resolved. All covenants herein that by their terms apply or are to be performed in their entirety on or prior to Closing shall terminate at the Closing; provided that the failure of such provisions to survive shall not prevent Purchaser from making any claim hereunder for a breach, prior to the Closing, of Section 5.1 hereof.

Section 9.2 Indemnification by Seller. Subject to Section 9.4, from and after the Closing Date, Seller and Parent shall indemnify and hold harmless Purchaser and its Affiliates and their respective directors, officers, employees, agents, successors and assigns (each, a "Purchaser Indemnified Party") from and against all Losses actually imposed on, suffered or incurred by them in connection with, arising out of or resulting from any (i) breach or inaccuracy of any representation or warranty made by Seller in this Agreement (other than the representations and warranties set forth in Section 3.9, which shall be governed by Section 6.2) and (ii) any breach of any covenant or agreement of Seller in this Agreement other than the covenant or agreement to provide the certificate pursuant to Section 7.2 hereof, which shall be covered by Section 9.2(i).

Section 9.3 Indemnification by Purchaser. Subject to Section 9.4, from and after the Closing Date, Purchaser shall indemnify and hold harmless Seller and its Affiliates and their respective directors, officers, employees, agents, successors and assigns (each, a "Seller Indemnified Party") from and against all Losses actually imposed on, suffered or incurred by them in connection with, arising out of or resulting from (i) any breach or inaccuracy of any representation or warranty made by Purchaser in this Agreement and (ii) any breach of any covenant or agreement of Purchaser in this Agreement, other than the covenant or agreement to provide the certificate pursuant to Section 7.3 hereof, which shall be covered by Section 9.3(i).

Section 9.4 Limitations on Indemnification. (a) No claim may be made or asserted nor may any Action be commenced pursuant to Section 6.2, 6.3, 9.2(i) or Section 9.3(i) against any party hereto for breach of any representation or warranty contained herein, unless written notice of such claim or Action has been given by the Indemnified Party to the Indemnifying Party, describing in reasonable detail the facts and circumstances with respect to the subject matter of such claim or Action on or prior to the date on which the representation or warranty on which such claim or Action is based ceases to survive as set forth in Section 9.1.

(b) Notwithstanding anything to the contrary contained in this Agreement:

(i) Seller and/or Parent shall not be liable for any claim for indemnification pursuant to Section 9.2(i) (other than any claims relating to the matters contained in Section 3.1 (Organization), Section 3.2 (Authorization of Transaction; Binding Obligation), Section 3.5 (Title to the Interests), Section 3.6 (Capitalization), Section 3.20 (Brokers) and Section 3.25 (WKE Matters)) unless and until the aggregate amount of indemnifiable Losses that may be recovered from Seller and/or Parent pursuant to Section 9.2(i) equals or exceeds $60 million (the "Deductible"), at which point (subject to the other limitations set forth in this Agreement) Seller and/or Parent shall be liable only for the amount of those Losses to the extent they exceed the Deductible;

(ii) no Losses may be claimed under Section 9.2(i) (other than any claims relating to the matters contained in Section 3.1 (Organization), Section 3.2 (Authorization of Transaction; Binding Obligation), Section 3.5 (Title to the Interests), Section 3.6 (Capitalization), Section 3.20 (Brokers) and Section 3.25 (WKE Matters)) by any Indemnified Party nor shall any Losses be reimbursable or included in calculating the aggregate indemnifiable Losses set forth in clause (i) of this Section 9.4(b), other than Losses in excess of $1.75 million (the "De Minimis") resulting from any single claim or series of claims arising out of related facts, events or circumstances, provided that (subject to the other limitations set forth in this Agreement), after such amount is reached, all such Losses on any such single claim or series of claims may be claimed under Section 9.2 by an Indemnified Party;

(iii) the maximum amount of indemnifiable Losses that may be recovered from Seller and/or Parent for any amounts due under Section 9.2(i) (other than any claims relating to the matters contained in Section 3.1 (Organization), Section 3.2 (Authorization of Transaction; Binding Obligation), Section 3.5 (Title to the Interests), Section 3.6 (Capitalization), Section 3.20 (Brokers) and Section 3.25 (WKE Matters)) shall be an amount equal to $400 million (the "Cap");

(iv) the maximum amount of indemnifiable Losses that may be recovered from Seller and/or Parent for any amounts due under Section 9.2(i) in respect of any claims relating to the matters contained in Section 3.25 (WKE Matters) shall be an amount equal to the Cap;

(v) no party hereto shall have any Liability pursuant to Section 6.2, Section 6.3, Section 9.2 or Section 9.3 for any special, indirect, consequential (including lost profits) or punitive damages relating to the breach or alleged breach of this Agreement, except to the extent such damages are awarded in a third-party action by a court of competent jurisdiction; provided that, nothing in this Section 9.4(b)(v) shall prevent Purchaser from claiming indemnification hereunder for Losses suffered by the Company and its Subsidiaries;

(vi) for the purposes of Sections 9.2(i) and 9.3(i), any qualification of representations and warranties by reference to materiality or "Company Material Adverse Effect" or words of similar effect shall be disregarded for purposes of determining any breach thereof or the amount of Losses arising therefrom; provided that (x) with respect to Section 3.8(b) the reference to "Company Material Adverse Effect" shall not be disregarded and (y) (i) with respect to Section 3.11(a)(iii), the word "material" shall be deemed to be included before the reference to "likelihood", (ii) with respect to Section 3.15(a), the word "material" shall be deemed to be included before the reference to "amendments, waivers or other charges", (iii) with respect to Section 3.18 the word "material" shall be deemed to be included before the first reference to "current insurance policies", before the first reference to "premium increase" and before the first reference to "changes", (iv) with respect to Section 3.19 the word "material" shall be deemed to be included before the reference to "to the Company and its Subsidiaries taken as a whole" in the penultimate sentence thereof and (v) with respect to Section 3.25, the word "material" shall be deemed to be included before the references to "other documents" and the reference to "financial obligations";

(vii) Purchaser shall not be liable for any claim for indemnification pursuant to Section 9.3(i) (other than any claims relating to the matters contained in Section 4.1 (Organization), Section 4.2 (Authorization of Transaction; Binding Obligation) and Section 4.10 (Brokers)) unless and until the aggregate amount of indemnifiable Losses that may be recovered from Purchaser pursuant to Section 9.3 equals or exceeds the Deductible, at which point (subject to the other limitations set forth in this Agreement) Purchaser shall be liable only for the amount of those Losses to the extent they exceed the Deductible;

(viii) no Losses may be claimed under Section 9.3(i) (other than any claims relating to the matters contained in Section 4.1 (Organization), Section 4.2 (Authorization of Transaction; Binding Obligation) and Section 4.10 (Brokers)) by any Indemnified Party nor shall any Losses be reimbursable or included in calculating the aggregate indemnifiable Losses set forth in clause (vi) of this Section 9.4(b), other than Losses in excess of the De Minimis resulting from any single claim or series of claims arising out of related facts, events or circumstances, provided that (subject to the other limitations set forth in this Agreement), after such amount is reached, all such Losses on any such single claim or series of claims may be claimed under Section 9.3 by an Indemnified Party; and

(ix) the maximum amount of indemnifiable Losses that may be recovered from Purchaser for any amounts due under Section 9.3(i) (other than any claims relating to the matters contained in Section 4.1 (Organization), Section 4.2 (Authorization of Transaction; Binding Obligation) and Section 4.10 (Brokers)) shall be an amount equal to the Cap.

Section 9.5 Notice of Loss; Third Party Claims. (a) Other than with respect to any Third Party Claim that is provided for in Section 9.5(b), an Indemnified Party shall give the

Indemnifying Party notice of any matter that an Indemnified Party has determined has given rise to a right of indemnification under this Article IX, within ten (10) days of such determination, stating the estimated amount of the Losses to the extent then ascertainable and method of computation thereof, and containing a reference to the provisions of this Agreement in respect of which such right of indemnification is claimed or arises; provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations under this Article IX except to the extent that the Indemnifying Party is materially prejudiced by such failure.

(b) If an Indemnified Party shall receive notice of any Action, audit, claim, demand or assessment (each, a "Third Party Claim") against it that may give rise to a claim for Losses under this Article IX, within ten (10) days of the receipt of such notice, the Indemnified Party shall give the Indemnifying Party notice of such Third Party Claim (a "Claim Notice"); provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations under this Article IX except to the extent that the Indemnifying Party is materially prejudiced by such failure. The Indemnifying Party shall be entitled, to the extent permitted by applicable Law and Governmental Orders, to assume and control the defense of such Third Party Claim at its expense and through counsel of its choice, if it gives notice of its intention to do so to the Indemnified Party within thirty (30) days of its receipt of the Claim Notice except that Seller shall not be entitled to assume and control the defense of any Third Party Claim with respect to allegations of noncompliance with New Source Review requirements; provided that prior to assuming such defense Indemnifying Party acknowledges in writing that it is obligated to indemnify the Indemnified Party hereunder from Losses resulting from such Third Party Claims in accordance with this Article IX. Purchaser agrees that in connection with its control of the defense of a Third Party Claim related to allegations of noncompliance with New Source Review requirements as provided above that Purchaser shall (i) exercise control of such matters in a manner that gives due regard to the interests of Seller and Parent, including by seeking to minimize in a commercially reasonable manner Losses subject to indemnification, (ii) to the extent reasonably practicable, give Seller and Parent the opportunity to be fully involved in the defense of the matter, including by participating in discussions with any person bringing such a Third Party Claim, (iii) consult with Seller and Parent regarding any decisions of significance in connection with such matter and give reasonable consideration to any views of Seller and Parent in connection therewith and (iv) not settle any such matter without the prior written consent of Parent and Seller, which consent shall not be unreasonably withheld, conditioned or delayed.

(c) Notwithstanding the foregoing, if the actual or potential defendants in, or targets of, such Third Party Claim include both the Indemnifying Party and the Indemnified Party, and the Indemnified Party shall have reasonably concluded that there exists an actual conflict of interest between them that would make it inappropriate in the reasonable judgment of the Indemnified Party for the same counsel to represent both the Indemnified Party and the Indemnifying Party, then the Indemnified Party shall be entitled to employ its own counsel to participate in the defense of such Third Party Claim at the expense of the Indemnifying Party, provided that the Indemnified Party shall use diligent and good faith efforts in such defense. The Indemnifying Party shall not, without the prior written consent of the Indemnified Party (such consent not to be unreasonably withheld, conditioned or delayed), settle, compromise or consent to the entry of any judgment in respect of any Third Party Claim if any Indemnified Party is a

party to the applicable claim unless such settlement, compromise or consent includes an unconditional release of such Indemnified Party from all liability arising out of such claim and provides solely for monetary relief to be satisfied by the Indemnifying Party.

(d) The Indemnified Party shall reasonably cooperate with the Indemnifying Party in the defense and settlement of any Third Party Claim and make available to the Indemnifying Party all witnesses, pertinent records, materials and information in the Indemnified Party's possession or under the Indemnified Party's control relating thereto as is reasonably required by the Indemnifying Party.

(e) If the Indemnifying Party does not assume control over the defense of such Third Party Claim as provided in Section 9.5(b), then the Indemnified Party shall have the right to defend, resolve, settle or compromise such Third Party Claim, provided that the Indemnified Party shall use diligent, reasonable and good faith efforts in its defense of such Third Party Claim and shall not settle such Third Party Claim without obtaining the written consent of the Indemnifying Party (such consent not to be unreasonably withheld, conditioned or delayed). The Indemnified Party shall not pay, or permit to be paid, any part of such Third Party Claim unless the Indemnifying Party consents in writing (such consent not to be unreasonably withheld, conditioned or delayed) to such payment or unless a final judgment from which no appeal may be taken by or on behalf of the Indemnifying Party has been entered against the Indemnified Party for such Third Party Claim, it being understood and agreed that the Indemnified Party's right to indemnification for a Third Party Claim shall not be adversely affected by assuming the defense of such claim pursuant to this Section 9.5(e).

Section 9.6 Mitigation; Adjustments. (a) Each Indemnified Party shall use its reasonable best efforts to mitigate any Losses under Article VI and this Article IX. In the event an Indemnified Party fails to so mitigate an indemnifiable Loss, the Indemnifying Party shall have no liability for any portion of such Loss that reasonably could have been avoided had the Indemnified Party made such efforts. Purchaser shall, and shall cause the Company and its Subsidiaries to, reasonably cooperate with Seller in recovering from the Company's insurers or other third parties (including with respect to enforcement of the Company's or any of its Subsidiaries' indemnification rights) any Loss paid by Seller pursuant to Article VI and this Article IX.

(b) In calculating the amount of any Loss, the proceeds actually received by the Indemnified Party or any of its Affiliates under any insurance policy or pursuant to any claim, recovery, settlement or payment by or against any other Person, net of any actual costs, expenses or premiums incurred in connection with securing or obtaining such proceeds, shall be deducted from such Loss. In the event that an Indemnified Party has any rights against a third party with respect to any occurrence, claim or loss that results in a payment by an Indemnifying Party under Article VI and this Article IX, such Indemnifying Party shall be subrogated to such rights to the extent of such payment. Without limiting the generality or effect of any other provision hereof, each Indemnified Party and Indemnifying Party shall duly execute upon request all instruments reasonably necessary to evidence and perfect the subrogation rights detailed herein, and otherwise cooperate in the prosecution of such claims.

(c) In calculating the amount of any Loss or any indemnification payment pursuant to Sections 6.2, 6.3, 9.2 or 9.3, there shall be deducted from such Loss an amount equal to any net Tax benefit (including the utilization of a Tax deduction or the availability of any future Tax benefit) resulting from such Loss to the party claiming such Loss or indemnification. The amount of a net Tax benefit shall be 92.5% of the present value of the Tax benefit as of the date of any indemnification payment (using LIBOR + 0.95% determined as of such date, as the discount rate and assuming the Indemnified Party has sufficient taxable income or other tax attributes to permit the utilization of such Tax benefit at the earliest possible time) multiplied by (i) the combined effective federal and state corporate tax rates in effect at the time of the indemnity payment or (ii) in the case of a credit, one hundred percent (100%).

(d) If an Indemnified Party recovers an amount from a third party in respect of a Loss that is the subject of indemnification hereunder after all or a portion of such Loss has been paid by an Indemnifying Party pursuant to Article VI and this Article IX, the Indemnified Party shall promptly remit to the Indemnifying Party the excess (if any) of (i) the amount paid by the Indemnifying Party in respect of such Loss, plus the amount received from the third party in respect thereof, less (ii) the full amount of such Loss.

(e) Seller shall not be liable pursuant to Section 9.2 for any Loss in respect of any matter hereunder to the extent that such Loss is discovered by Purchaser or any of its Affiliates by conducting any subsurface environmental investigations or sampling (other than any preconstruction soil engineering and structural investigations conducted in the Company Ordinary Course of Business or as required in connection with financings) on any properties of the Company, its Subsidiaries or any Company Joint Venture, except as required by applicable Law or Governmental Order.

(f) A Purchaser Indemnified Party shall not be entitled to recover under Section 9.2 any environmental remediation or corrective action costs associated with a material change in the use of the subject parcels from the use of the subject parcels as of the Closing Date.

(g) Seller and/or Parent shall not be liable pursuant to Section 9.2 for any Loss in respect of any matter hereunder to the extent that such Loss is recovered through a rate increase expressly attributable to such Loss that is approved by the applicable state Governmental Authority, and to the extent Seller has made any indemnification payment pursuant to this Article IX in respect of any such Loss, Purchaser shall refund to Seller the amount of such indemnification payment made by Seller.

(h) It is the intention of the parties hereto to treat any indemnification payment made under this Agreement as an adjustment to the Purchase Price for all federal, state, local and foreign Tax purposes.

Section 9.7 Remedy. Except as otherwise provided in Section 10.6 of this Agreement and except with respect to fraud, (a) this Article IX shall be the exclusive remedy of the parties hereto following the Closing for any Losses arising out of any breach or inaccuracy of the representations or warranties of the parties contained in this Agreement or the breach of any covenant or agreement contained herein, and (b) each of the parties hereto hereby waives, to the fullest extent permitted by applicable Law, any and all rights, claims and causes of action it may

have against the other parties hereto after the Closing with respect to any breach or inaccuracy of the representations or warranties of the parties contained in this Agreement or the breach of any covenant or agreement contained herein, arising under or based upon any Law or Governmental Order, other than the right to seek indemnity pursuant to this Article IX.

Section 9.8 Director and Officer Release. Purchaser shall cause the Company and its Subsidiaries to release each director or officer of the Company or its Subsidiaries who resigns at the Closing (or before the Closing at the request of Purchaser) from any and all liability the same may have to the Company or its Subsidiaries as a director or officer thereof arising on or before the Closing other than liabilities arising from his gross negligence, fraud, recklessness, breach of fiduciary duty, criminal conduct or self-dealing.

Section 9.9 Payment. The Indemnifying Party shall pay all amounts payable pursuant to this Article IX, by wire transfer of immediately available funds, promptly following receipt from an Indemnified Party of a bill, together with all accompanying reasonably detailed back-up documentation, for a Loss that is the subject of indemnification hereunder, unless the Indemnifying Party in good faith disputes the Loss or its obligation to pay the requested amounts, in which event it shall so notify the Indemnified Party. The Indemnifying Party shall pay to the Indemnified Party, by wire transfer of immediately available funds, the amount of any Loss for which it is liable hereunder no later than 5 Business Days following any final determination of such Loss and the Indemnifying Party's liability therefor. A "final determination" shall exist when (i) the parties to the dispute have reached an agreement in writing, (ii) a court of competent jurisdiction shall have entered a final and non-appealable order or judgment, or (iii) an arbitration or like panel shall have rendered a final non-appealable determination with respect to disputes the parties have agreed to submit thereto.

ARTICLE X
MISCELLANEOUS

Section 10.1 Notices. All notices, requests and other communications to any party hereto hereunder shall be in writing (including electronic facsimile transmission) and shall be given by delivery in person, by an internationally recognized overnight courier service, or by facsimile or certified mail (postage prepaid, return receipt requested) to such party hereto at the following addresses (or at such other address or electronic facsimile number for a party hereto as shall be specified in a notice given in accordance with this Section 10.1):

(a) if to Purchaser, to:

PPL Corporation
Office of General Counsel
Two North Ninth Street
Allentown, PA 18101
Attention: General Counsel
Facsimile No.: +610-774-4455

with a copy to:

Simpson Thacher & Bartlett, LLP
425 Lexington Avenue
New York, NY 10017
Attention: Mario A. Ponce, Esq.
Facsimile No.: +212-455-2501

(b) if to Seller or Parent, to:

E.ON AG
E.ON-Platz 1
40479 Düsseldorf
Germany
Attention: Karl-Heinz Feldmann
Facsimile No.: +49-211-4579-446

with a copy to:

Sullivan & Cromwell LLP
125 Broad Street
New York, NY 10004
Attention: Joseph B. Frumkin, Esq.
Facsimile No.: +1-212-558-3588

All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. in the place of receipt and such day is a Business Day. Otherwise, any such notice, request or other communication shall be deemed not to have been received until the next succeeding Business Day.

Section 10.2 Amendments and Waivers. Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by each party to this Agreement, or in the case of a waiver, by the party hereto against whom the waiver is to be effective. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition of this Agreement. No failure or delay by any party hereto in exercising any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof, preclude any other or further exercise thereof or the exercise of any other right.

Section 10.3 Expenses. Except as otherwise set forth in this Agreement, all costs and expenses (including fees and expenses of counsel and financial advisors, if any) incurred in connection with this Agreement or the transactions contemplated hereby shall be paid by the party incurring such costs or expenses, whether or not the Closing shall have occurred; provided, that any filing fees for filings made pursuant to the HSR Act shall be shared equally by the parties hereto.

Section 10.4 Assignment. This Agreement may not be assigned by a party hereto by operation of Law or otherwise without the express written consent of the other party hereto and any attempt to assign this Agreement without such consent shall be void and of no effect.

Section 10.5 Governing Law; Jurisdiction; Waiver of Jury Trial. (a) This Agreement shall be governed by, and construed in accordance with, the Laws of the State of New York, without regard to the conflict of laws rules thereof.

(b) All Actions arising out of or relating to this Agreement shall be heard and determined exclusively in any federal court sitting in the Borough of Manhattan of The City of New York; provided, however, that if such federal court does not have jurisdiction over such Action, such Action shall be heard and determined exclusively in any state court sitting in the Borough of Manhattan of The City of New York. Consistent with the preceding sentence, the parties hereto hereby (i) irrevocably submit to the exclusive jurisdiction of any federal or New York state court sitting in the Borough of Manhattan of The City of New York for the purpose of any Action arising out of or relating to this Agreement brought by any party hereto, (ii) irrevocably waive, and agree not to assert by way of motion, defense or otherwise, in any such Action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the Action is brought in an inconvenient forum, that the venue of the Action is improper, or that this Agreement or the transactions contemplated by this Agreement may not be enforced in or by any of the above-named courts, and (iii) irrevocably consent to and grant any such court exclusive jurisdiction over the person of such parties and over the subject matter of such Action and agree that mailing of process or other papers in connection with any such Action in the manner provided in Section 10.1 or in such other manner as may be permitted by applicable Law shall be valid and sufficient service thereof.

(c) EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY ACTION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH OF THE PARTIES HERETO HEREBY (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF ACTION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS CONTAINED IN THIS SECTION 10.5(c).

(d) Notwithstanding the foregoing, each of the parties hereto agrees that it will not bring or support any Action, including but not limited to any action, cause of action, claim, cross-claim or third-party claim of any kind or description, whether in law or in equity, whether in contract or in tort or otherwise, against the Debt Financing Sources in any way relating to this Agreement or any of the transactions contemplated by this Agreement, including but not limited

to any dispute arising out of or relating in any way to any agreement entered into by the Debt Financing Sources in connection with the Debt Financing Commitments or the performance thereof, in any forum other than the Supreme Court of the State of New York, County of New York, or, if under applicable law exclusive jurisdiction is vested in the Federal courts, the United States District Court for the Southern District of New York (and appellate courts thereof). The parties hereto further agree that all of the provisions of Section 10.5(c) relating to waiver of jury trial shall apply to any action, cause of action, claim, cross-claim or third party claim referenced in this paragraph.

Section 10.6 Specific Performance. The parties hereto recognize and agree that if for any reason any of the provisions of this Agreement are not performed in accordance with their specific terms or are otherwise breached, immediate and irreparable harm or damage would be caused for which money damages would not be an adequate remedy. Accordingly, each party hereto agrees that, in addition to any other available remedies, each party shall be entitled to seek to enforce specifically the terms and provisions of this Agreement or to seek an injunction restraining any breach or violation or threatened breach or violation of the provisions of this Agreement without the necessity of posting a bond or other form of security. In the event that any Action should be brought in equity to enforce the provisions of this Agreement, no party shall allege, and each party hereto hereby waives the defense, that there is an adequate remedy at law. Notwithstanding anything to the contrary contained herein, including in this Section 10.6, Seller hereby acknowledges and agrees that it shall not have any right to enforce specifically the obligation of Purchaser to effect the Closing, or otherwise consummate the transactions contemplated hereby, in the event that the Purchaser Termination Fee is payable by Purchaser pursuant to Section 8.2(a) hereof; provided that, Purchaser expressly acknowledges that nothing contained in this sentence shall restrict Seller from enforcing specifically the obligations of Purchaser set forth in the second sentence of Section 5.13(a) hereof.

Section 10.7 Counterparts. This Agreement may be executed and delivered (including by facsimile or other electronic transmission) in one or more counterparts, and each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement. The facsimile or other electronic transmission of any signed original counterpart of this Agreement shall be deemed to be the delivery of an original counterpart of this Agreement.

Section 10.8 Entire Agreement; Severability. (a) This Agreement, the Company Disclosure Schedule, the Purchaser Disclosure Schedule and the Confidentiality Agreement constitute the entire agreement between the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings, both oral and written, between the parties hereto with respect to the subject matter hereof and thereof.

(b) If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any Law, Governmental Order or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect for so long as the economic or legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties

hereto as closely as possible in an acceptable manner in order that the transactions contemplated by this Agreement are consummated as originally contemplated to the greatest extent possible.

Section 10.9 Disclosure Schedules. There may be included in the Company Disclosure Schedule or the Purchaser Disclosure Schedule (collectively, the "Disclosure Schedules") items and information, the disclosure of which is not required either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in Article III or Article IV or to one or more covenants contained in Article V. Inclusion of any items or information in the Disclosure Schedules shall not be deemed to be an acknowledgment or agreement that any such item or information (or any non-disclosed item or information of comparable or greater significance) is "material" or is reasonably likely to result in a Company Material Adverse Effect or to affect the interpretation of such term for purposes of this Agreement. The Disclosure Schedules set forth items of disclosure with specific reference to the particular Section or subsection of this Agreement to which the items or information in such Disclosure Schedule relates; provided, however, that any information set forth in one section or subsection pertaining to representations, warranties and covenants of the Company Disclosure Schedule or the Purchaser Disclosure Schedule, as the case may be, shall be deemed to apply to each other section or subsection thereof pertaining to representations, warranties and covenants to the extent that it is reasonably apparent that it is relevant to such other sections or subsections of the Company Disclosure Schedule or the Purchaser Disclosure Schedule, as the case may be, provided further, that no information contained in the Disclosure Schedules shall apply to, or be disclosed against, the representations and warranties set forth in Section 3.8(b) hereof unless expressly set forth in Section 3.8(b) of the Company Disclosure Schedule (without cross reference).

Section 10.10 No Third Party Beneficiaries. Except as provided in Section 5.5 and Section 5.13(c) that is intended to benefit the indemnified parties to the extent stated in Section 5.5 and Section 5.13(c) only, this Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their respective successors and permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person other than Seller, Purchaser and their respective successors and permitted assigns, any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement; provided that the Debt Financing Sources shall be express third party beneficiaries hereof with respect to Section 8.2(a) and Section 10.5.

Section 10.11 Waiver of Damages. Notwithstanding anything to the contrary contained herein or provided for under any applicable Law or Governmental Order, except with respect to any such damages sought by third parties against Purchaser, Seller or Parent, no party hereto will, in any event, be liable to any other party hereto, either in contract or in tort, for any punitive damages or any damages or Losses resulting from the transactions contemplated hereby in excess of the sum of the Purchase Price plus the amounts payable by Purchaser pursuant to Section 5.7(a) hereof.

[SIGNATURE PAGE FOLLOWS THIS PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

E.ON US INVESTMENTS CORP.

By: _____
Name: Edward Postweiler
Title: EVP

PPL CORPORATION

By: _____
Name:
Title:

E.ON AG (solely for purposes of Article VI, Article IX and Article X hereof)

By: _____
Name: Bevan Jost
Title: VP PM

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

E.ON US INVESTMENTS CORP.

By: _____
Name:
Title:

PPL CORPORATION

By: _____
Name: James H. Miller
Title: Chairman, President and Chief Executive Officer

E.ON AG (solely for purposes of Article VI, Article IX and Article X hereof)

By: _____
Name:
Title:

Exhibit A Form Mutual Release

MUTUAL RELEASE

[•], 201[0/1]

Reference is made to the Purchase and Sale Agreement (the "Agreement"), dated as of April 28, 2010, by and between E.ON US Investments Corp., a Delaware corporation ("Seller"), PPL Corporation, a Pennsylvania corporation ("Purchaser") and, solely for purposes of Article VI, Article IX and Article X of the Agreement, E.ON AG, a German corporation ("Parent"), for the sale of all of the issued and outstanding limited liability company interests of E.ON U.S. LLC, a Kentucky limited liability company (the "Company"). Capitalized terms used but not defined herein shall have the meanings set forth in the Agreement.

For good and valuable consideration, receipt of which is hereby acknowledged, Parent, for and on behalf of itself and for and on behalf of its Affiliates (other than the Company and its Subsidiaries), hereby voluntarily and knowingly acquits, releases and discharges each of the Company and its Subsidiaries from any and all disputes, claims, controversies, demands, rights, obligations, liabilities, actions and causes of action of every kind and nature ("Claims") that Parent or any of its Affiliates (other than the Company and its Subsidiaries) have as of the date hereof or that arise in the future from events or occurrences taken place prior to or as of the date hereof, but excluding any Claims arising out of or relating to any obligations under any of the provisions of the Agreement, any agreements entered into in connection with the transactions contemplated by the Agreement or relating to allegations of fraud.

For good and valuable consideration, receipt of which is hereby acknowledged, the Company, for and on behalf of itself and for and on behalf of each of its Subsidiaries, hereby voluntarily and knowingly acquits, releases and discharges each of Parent and its Affiliates (other than the Company and its Subsidiaries) from any and all Claims that the Company and its Subsidiaries have as of the date hereof or that arise in the future from events or occurrences taken place prior to or as of the date hereof, but excluding any Claims arising out of or relating to any obligations under any of the provisions of the Agreement or any agreements entered into in connection with the transactions contemplated by the Agreement or relating to allegations of fraud.

This Mutual Release shall become effective contemporaneously with the Closing and shall have no effect unless and until the Closing occurs. This Mutual Release may not be changed orally. This Mutual Release may be executed and delivered (including by facsimile or other electronic transmission) in one or more counterparts, and each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

THIS MUTUAL RELEASE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAWS RULES THEREOF.

[The next page is the signature page]

IN WITNESS WHEREOF, each of Parent and the Company has caused this Mutual Release to be duly executed on the date first written above.

E.ON AG

By _____
Name:
Title:

E.ON U.S. LLC

By _____
Name:
Title:

Exhibit B Regulatory Commitments

EXHIBIT B TO PURCHASE AND SALE AGREEMENT

Set forth below in Part I are commitments that Purchaser agrees to offer to make to the Kentucky Public Service Commission (the "Commission") as contemplated by Sections 5.2 and 5.14 of the Purchase and Sale Agreement dated as of April 28, 2010 (the "Purchase and Sale Agreement") by and between E.ON US Investments Corp., PPL Corporation ("Purchaser"). and, solely for purposes of Article VI, Article IX and Article X thereof, E.ON AG in connection with Purchaser's proposed acquisition of E.ON U.S. LLC (the "Company") (the "Purchase"). Purchaser also agrees to address potential market power issues and other issues that may arise in any proceeding before the Federal Energy Regulatory Commission ("FERC") in the manner set forth in Part II below.

Imposition of any of these terms, conditions, liabilities, obligations, commitments or sanctions on Purchaser and its Subsidiaries or the Company and its Subsidiaries by the Commission or any other Governmental or Regulatory Authority and any resulting effect thereof will not be considered for any purpose in determining whether any such terms, conditions, liabilities, obligations, commitments or sanctions would have a material and adverse effect for purposes of Section 7.2(c).

Capitalized terms used herein and not defined herein have the meanings assigned to them in the Purchase and Sale Agreement.

PART I

COMMITMENT

1. Except to the extent expressly superseded by KRS 278.2201 through 278.2219, the jurisdiction of the FERC or the findings and conditions set forth in this Order, Purchaser, the Company, Louisville Gas and Electric Company ("LG&E"), and Kentucky Utilities Company ("KU") shall adhere to the conditions described in the Commission's Orders in Case Nos. 10296, 89-374, 97-300, 2000-095, and 2001-104. The conditions, restated in Appendix B to the Commission's May 15, 2000 Order in Case No. 2000-095 and incorporated by reference into the Commission's August 6, 2001 Order in Case No. 2001-104, concern protection of utility resources, monitoring the holding company and the subsidiaries, and reporting requirements.

2. Purchaser commits that the books and records of the Company, LG&E, and KU will be kept in Kentucky.

3.

(a) Purchaser, the Company, LG&E, and KU commit not to assert that the FERC's jurisdiction under PUHCA 2005 legally preempts the Commission from disallowing recovery in retail rates for the cost of goods and services that LG&E or KU obtain from or transfer to an associate, affiliate, or subsidiary in the same holding-company system. However, LG&E and KU shall retain the right to assert that the charges are reasonable and appropriate.

(b) The Commission or its agents may audit the accounting records of Purchaser and its subsidiaries that are the bases for charges to LG&E or KU, to determine the

reasonableness of allocation factors used by Purchaser to assign costs to LG&E or KU and amounts subject to allocation or direct charges. Purchaser agrees to cooperate fully with such Commission audits.

(c) Purchaser, the Company, LG&E and KU will comply with all applicable Commission statutes and regulations regarding affiliated transactions, including timely filing of applications and reports.

(d) Each of LG&E and KU will file on an annual basis an affiliated interest report including an organization chart, narrative description of each affiliate, revenue for each affiliate and transactions with each affiliate.

(e) Purchaser, the Company, LG&E and KU will not cross-subsidize between the regulated and non-regulated businesses, and shall comply with the Commission's applicable orders and rules with respect to such matters.

Purchaser, the Company, LG&E and KU will provide the Commission access to all books of account, as well as all documents, data, and records of their affiliated interests, which pertain to transactions between LG&E or KU, on the one hand, and their affiliated interests, on the other hand, or which are otherwise relevant to the business of LG&E or KU, as the case may be.

4. Purchaser, the Company, LG&E, and KU commit to provide the Commission with notice 30 days prior to any FERC filing that proposes new allocation factors. The notice need not be in precise form of the final filing but will include, to the extent information is available, a description of the proposed factors and the reasons supporting such factors. Purchaser, the Company, LG&E, and KU commit to make a good faith attempt to resolve differences, if any, with the Commission in advance of filing with the FERC.

5. Purchaser, the Company, LG&E, and KU commit that the Purchase will have no impact on the base rates or the operation of the fuel adjustment clauses, environmental surcharges, gas supply clause, demand side management clause, of LG&E or KU.

6. Purchaser, the Company, LG&E, and KU commit to obtaining Commission approval prior to the transfer of any LG&E or KU Property, Plant and Equipment asset with an original book value in excess of $10 million.

7. Purchaser, the Company, LG&E, and KU commit that the Power Supply System Agreement and the Transmission Coordination Agreement between KU and LG&E shall remain in effect and that any proposed amendment thereto be submitted to the Commission for its review 30 days in advance of filing the amendment with the FERC.

8. Purchaser, the Company, LG&E , and KU commit that the Company, its subsidiaries, LG&E and KU, and their ratepayers, directly or indirectly, shall not incur any additional costs, liabilities, or obligations in conjunction with the Purchase (other than except in connection with the repayment and refinancing of Closing Indebtedness in accordance with its terms) including, but not limited to, the following:

(a) The Company, LG&E, and KU shall not incur any additional indebtedness, issue any additional securities, or pledge any assets of LG&E or KU to finance any part

of the purchase price paid by Purchaser for the Company equity interest; provided however that the Company, LG&E and KU shall be permitted to take any of the foregoing actions in connection with the repayment and refinancing of Closing Indebtedness.

(b) The payment for the Company equity interest shall be recorded on Purchaser's books, not the books of the Company or its subsidiaries.

(c) Neither (i) the premium paid by Purchaser for the Company equity interest, as well as any other associated costs, or (ii) losses from the unwind and termination of the lease agreement with Big Rivers shall be "pushed down" to LG&E or KU.

(d) All transaction-related costs, including the cost of purchase and the premium paid for the Company's equity, shall be excluded for rate-making purposes and from the rates of LG&E and KU.

(e) In future rate cases LG&E and KU shall not seek a higher rate of return on equity than would have been sought if no acquisition had occurred.

(f) The accounting and rate-making treatments of LG&E's and KU's excess deferred income taxes shall not be affected by the Purchase.

(g) The Company, LG&E and KU will each maintain its own corporate credit rating as well as ratings for long-term debt from Moody's and S&P or their successor rating agencies.

(h) No costs of the Company Advisory Board shall be borne by LG&E or KU.

(i) No change in control payments will be allocated to the ratepayers of LG&E and KU.

(j) If early termination costs are incurred for any senior management of the Company, none of these costs will be allocated to LG&E or KU.

No generation assets located within Kentucky will be sold to finance this or any subsequent merger or acquisition without prior Commission authorization.

9. Purchaser, the Company, LG&E and KU commit that the corporate officers of the Company, LG&E, and KU shall maintain their current titles and responsibilities as officers unless and until otherwise determined by either of their respective Boards of Directors. Purchaser, the Company, LG&E and KU will maintain the highest level of management experience within the Company, LG&E, and KU, and will provide an opportunity to broaden that experience by exchanging positions with other managers in Purchaser's organization.

10. Purchaser commits to taking an active and ongoing role in managing and operating LG&E and KU in the interests of customers, employees, and the Commonwealth of Kentucky, and to take the lead in enhancing LG&E's and KU's relationship with the

Commission, with state and local government, and with other community interests, including, but not limited to, meetings between Purchaser's chief executive and the Commission at least twice a year.
11. Purchaser commits to maintaining a sound and constructive relationship with those labor organizations that may represent certain employees of the Company, LG&E, and KU; to remain neutral respecting an individual's right to choose whether or not to be a member of a trade union; to continue to recognize the unions that currently have collective bargaining agreements with LG&E; and to honor those agreements.
12. Purchaser, the Company, LG&E, and KU commit to advising the Commission at least annually on the adoption and implementation of best practices at both LG&E and KU following the consummation of the Purchase.
13. Purchaser, the Company, LG&E, and KU commit to provide such information as the Commission may request regarding the implementation of best practices, customer service, reliability, and safety.
14. LG&E and KU acknowledge that in any Commission proceeding involving safety violations by employees of independent contractors, LG&E and KU shall be responsible for the acts of the employees of the independent contractors to the same extent that LG&E and KU are responsible for the acts of their own employees.
15. Purchaser commits to develop, with the assistance of an external consultant, a retention and incentive program for the Company, LG&E, and KU managers, to be implemented following the consummation of the Purchase. The plan will be developed with the goal of being finalized within 120 days of the date of the Commission order approving the Purchase.
16. Purchaser commits that no planned workforce reductions in the Company's, LG&E's, or KU's employees will be made as a result of the Purchase.
17. If new debt or equity in excess of $100 million is issued by the Company, the Company commits to notify the Commission as soon as practicable prior to the issuance.
18. Purchaser commits to notifying the Commission subsequent to its board approval and as soon as practicable following any public announcement of (a) any acquisition of a regulated or non-regulated business representing 5 percent or more of Purchaser's capitalization; or (b) the change in effective control or acquisition of any material part of or all of the Company, LG&E or KU, by any other firm, whether by merger, combination, transfer of stock or assets.
19. Purchaser commits to providing an annual report to the Commission detailing the Company's proportionate share of Purchaser's total assets, total operating revenues, operating and maintenance expenses, and number of employees.
20. Purchaser commits to notifying the Commission 30 days prior to LG&E or KU, as the case may be, paying any dividend or transferring more than 5 percent of the retained earnings of LG&E or KU, respectively to the Company or Purchaser.
21. Purchaser commits to filing with the Commission a copy of its annual reports and its quarterly interim reports on Form 10-K and Form 10-Q filed with the United States Securities and Exchange Commission.
22. Purchaser commits to filing with the Commission such additional financial reports as the Commission, from time to time, reasonably determines to be necessary for it to effectively regulate the operation of LG&E and KU.

23. LG&E and KU will file with the Commission for informational purposes copies of any applications that (a) are filed with any other state public utility commission which has jurisdiction over Purchaser or any of its affiliates, and (b) relate to a money pool arrangement or capital contributions to LG&E or KU.
24. Purchaser, the Company, LG&E, and KU commit to notifying the Commission 30 days prior to making any capital contribution to LG&E or KU and to provide the accounting entries reflecting the capital contribution within 60 days after the close of the month in which the contribution was made.
25. Purchaser, the Company, LG&E, and KU commit that customers will experience no adverse change in utility service due to changes, if any, related to LG&E Services, Inc.
26. Purchaser, the Company, LG&E, and KU commit to: a) adequately funding and maintaining LG&E's and KU's transmission and distribution systems; b) complying with all Kentucky laws and all Commission regulations and statutes; and c) supplying LG&E and KU customers' service needs.
27. When implementing best practices, Purchaser, the Company, LG&E, and KU commit to taking into full consideration the related impacts on the levels of customer service and customer satisfaction, including any negative impacts resulting from workforce reductions.
28. Purchaser, the Company, LG&E, and KU commit that they will minimize, to the extent possible, any negative impacts on levels of customer service and customer satisfaction resulting from workforce reductions.
29. LG&E and KU commit to periodically filing the various reliability and service quality measurements they currently maintain, to enable the Commission to monitor their commitment that reliability and service quality will not suffer as a result of the Purchase
30. The Company, LG&E, and KU commit to notifying the Commission in writing 30 days prior to any material changes in their participation in funding for research and development. Material changes include, but are not limited to, any change in funding equal to or greater than 5 percent of any individual company's previous year's budget for research and development. The written notification shall include an explanation and the reasons for the change in policy. This Commitment No. 30 does not apply to LG&E's and KU's participation in or commitments to FutureGen.
31. Purchaser commits to maintaining the Company's level of commitment to high quality utility service, and will fully support maintaining the LG&E and KU track record for superior service quality.
32. Purchaser, the Company, LG&E, and KU commit that LG&E and KU shall continue to operate through regional offices with local service personnel and field crews.
33. Purchaser, the Company, LG&E, and KU commit that local customer service offices will not be closed as a result of the proposed transaction and that, if and when local customer service offices may be closed to achieve world class best practices, Purchaser, the Company LG&E and KU will take into account the impact of the closures on customer service.
34. Purchaser, the Company, LG&E, and KU commit to maintaining the respective headquarters of each of the Company, LG&E and KU in Kentucky for a period of 15 years following the consummation of the Purchase. KU's headquarters shall be

maintained in Lexington, Kentucky; and the Company's and LG&E's headquarters shall be maintained in Louisville, Kentucky.
35. Purchaser, the Company, LG&E, and KU commit to dedicating LG&E's and KU's existing and future generating facilities to the requirements of LG&E's and KU's existing and future native load customers.
36. Purchaser and the Company commit that LG&E and KU shall maintain a substantial level of involvement in community activities, through annual charitable and other contributions, on a level comparable to or greater than the participation levels experienced prior to the date of the merger. Purchaser commits to maintaining and supporting the relationship between LG&E and KU with the communities that each serves for a period of 10 years from the Purchase.
37. Purchaser and the Company commit that the Purchase will have no effect or impact on KU's contractual relationships with either its municipal customers or Berea College
38. Purchaser and the Company commit that the Purchase shall have no effect or impact on various agreements associated with the unwind and termination of the lease agreement with Big Rivers.
39. Purchaser, the Company, LG&E, and KU commit that within 60 days after the closing of the Purchase, the Applicants will file with the Commission a petition setting forth a formal analysis of any potential synergies and benefits from the Purchase and a proposed methodology for allotting an appropriate share of the potential synergies and benefits to LG&E's and KU's ratepayers.
40. Purchaser commits to maintaining LG&E's and KU's pro-active stance on developing economic opportunities in Kentucky and supporting economic development, and social and charitable activities, throughout LG&E's and KU's service territories.
41. Purchaser commits that for as long as it owns, controls, or manages LG&E or KU, Purchaser shall endeavor to have an individual resident of Kentucky on Purchaser's Board of Directors. Purchaser shall commence a search for such director following the Purchase. Purchaser shall have sole discretion in selecting qualified candidates and determining which individual is the best qualified for nomination.
42. Purchaser commits that the Company's Board of Managers (or similar body) shall consist of at least three members, one of whom shall be the then-current chief executive officer of the Company.
43. Purchaser commits to review with LG&E and KU management their current policies and practices with respect to low-income customers to determine whether policies and practices more sympathetic to the needs of such customers would be appropriate. In addition, Purchaser, the Company, LG&E, and KU commit that the current policies for low-income customers will not change as a result of the Purchase.
44. Purchaser, the Company, LG&E, and KU commit that the Company shall hold 100 percent of the common stock of LG&E and KU and that the Company shall not transfer any of that stock without prior Commission approval even if the transfer is pursuant to a corporate reorganization as defined in KRS 278.020(6)(b).
45. KU will maintain a contact person in Lexington to respond to special needs in the Lexington area.
46. Purchaser, the Company, LG&E, and KU commit that when budgets, investments, dividend policies, projects, and business plans are being considered by Purchaser's Board

for the Kentucky business, at a minimum, the CEOs of LG&E and KU or their designees must be present to offer a Kentucky perspective to the decision and be permitted to participate in any debates on the issues.
47. Purchaser, the Company, LG&E, and KU commit that all corporate officers of LG&E and KU shall reside within Kentucky, including the Louisville metropolitan area, subject to a 2-month relocation allowance for newly appointed officers. This commitment will remain in effect for a period of 15 years following the consummation of the Purchase.
48. As part of their commitment to maintaining the corporate headquarters of the Company in Louisville, Kentucky, Purchaser and the Company commit that these corporate headquarters will include the corporate management personnel of the Company. Further, Purchaser and the Company commit that the CEO and subordinate officers of the Company shall reside in Kentucky, including the Louisville metropolitan area. This commitment will remain in effect for a period of 15 years following the consummation of the Purchase.
49. Purchaser, the Company, LG&E and KU commit that if any of their subsidiaries or business units considers a potential renewable energy project in Kentucky, the subsidiary or business unit will inform KU and LG&E of the potential project and will allow KU and LG&E to make a reasonable business judgment on whether to pursue the project as a generation resource for their customers.
50. Any diversified holdings and investments (e.g., non-utility business or foreign utilities) of Purchaser following the closing of the Purchase will not be held by LG&E or KU or a subsidiary of either LG&E or KU.
51. Purchaser, the Company, LG&E and KU will work with the Governor of the Commonwealth of Kentucky and state agencies designated by the Governor to promote economic development in Kentucky.
52. Purchaser, the Company, LG&E and KU agree to consult with the Governor of the Commonwealth of Kentucky and state agencies designated by the Governor regarding clean coal technologies and to consult on the development of programs by Kentucky that qualify for federal funding for research and development and projects utilizing clean coal technologies.
PART II
53. Purchaser agrees that it shall use its reasonable best efforts to address market power concerns of FERC, the DOJ and the FTC through mitigation measures that do not require (a) participation by LG&E or KU in an RTO, (b) divestiture of operating assets of LG&E or KU, or (c) LG&E or KU to decline to use or benefit from the use of their generating facilities for the purpose of serving their native load customers.
54. Purchaser acknowledges that wholesale customers should be held harmless.

COMPANY DISCLOSURE SCHEDULE

This Company Disclosure Schedule is being delivered by E.ON US Investments Corp., a Delaware corporation, pursuant to that certain Purchase and Sale Agreement (the "Agreement"), dated as of April 28, 2010, by and between E.ON US Investments Corp., a Delaware corporation ("Seller"), and PPL Corporation, a Pennsylvania corporation ("Purchaser") and, solely for purposes of Article VI, Article IX and Article X of the Agreement, E.ON AG ("Parent"), a German corporation. Capitalized terms used but not defined herein shall have the same meanings given to them in the Agreement.

There may be included in this Company Disclosure Schedule items and information, the disclosure of which is not required either in response to an express disclosure requirement contained in a provision of the Agreement or as an exception to one or more representations or warranties or covenants contained in the Agreement. Inclusion of any items or information in this Company Disclosure Schedule shall not be deemed to be an acknowledgment or agreement that any such item or information (or any non-disclosed item or information of comparable or greater significance) is material or is reasonably likely to result in a Company Material Adverse Effect or to affect the interpretation of such terms for purposes of the Agreement.

No part of this Company Disclosure Schedule shall constitute or be interpreted or construed as an admission or characterization by the Seller, the Company or any of its Subsidiaries, any Company Joint Ventures or any Affiliate, regarding any obligation to any third party or any liability under any federal, state or local Law, including but not limited to whether the Seller, the Company, any Subsidiary, any Company Joint Venture or other affiliate is in violation of, or has ever violated, any federal, state or local Laws, rules or regulations or is in default of any Contract.

This Company Disclosure Schedule sets forth items of disclosure with specific reference to the particular section or subsection of the Agreement to which the items or information in this Company Disclosure Schedule relates; provided, however, that any information set forth in one section or subsection pertaining to representations, warranties and covenants of this Company Disclosure Schedule shall be deemed to apply to each other section or subsection of the Agreement to the extent that it is reasonably apparent that it is relevant to such other section or subsection; provided, further, that no information contained herein shall apply to, or be disclosed against, the representations and warranties set forth in Section 3.8(b) of the Agreement unless expressly set forth in Section 3.8(b) of this Company Disclosure Schedule (without cross reference).

The table of contents and headings have been inserted in this Company Disclosure Schedule for convenience of reference only and shall not affect in any way the meaning or interpretation of this Company Disclosure Schedule or the Agreement.

Table of Contents

Page

Section 1.1(a)
Certain Excluded Company Employees

1. Brian Peers, an E.ON UK employee currently working with the Company in the U.S.

2. Andreas Fasshauer, an E.ON Energy Trading employee currently working with the Company in the U.S.

3. Juliane Dittrich, an E.ON Edis AG employee currently working with the Company in the U.S.

Section 1.1(b)
Knowledge

1. Victor A. Staffieri
2. John R. McCall
3. S. Bradford Rives
4. Paul W. Thompson
5. Chris Hermann
6. Ronald Miller (for purposes of Section 3.9(f) (Taxes) only)
7. John N. Voyles, Jr. (for purposes of Section 3.16 (Environmental) only)
8. Dr. Frank Possmeier
9. Alan Bevan

Section 1.1(c)
Closing Indebtedness

($ Millions)

	Estimated Closing Indebtedness*
Short-term debt-affiliated company	
Short-term debt-third party	
Current portion of long-term debt–affiliated company	
Current portion of long-term debt–third party	
Notes payable – affiliated company	
Long-term debt – affiliated company	
Long-term debt – third party	
Capitalized lease obligations	
Total Debt	
Plus: Accrued and unpaid interest	
Plus: Any prepayment penalties or "make whole" premiums that are due and payable in accordance with the terms of such borrowings upon prepayment thereof and that are unpaid	
Closing Indebtedness	

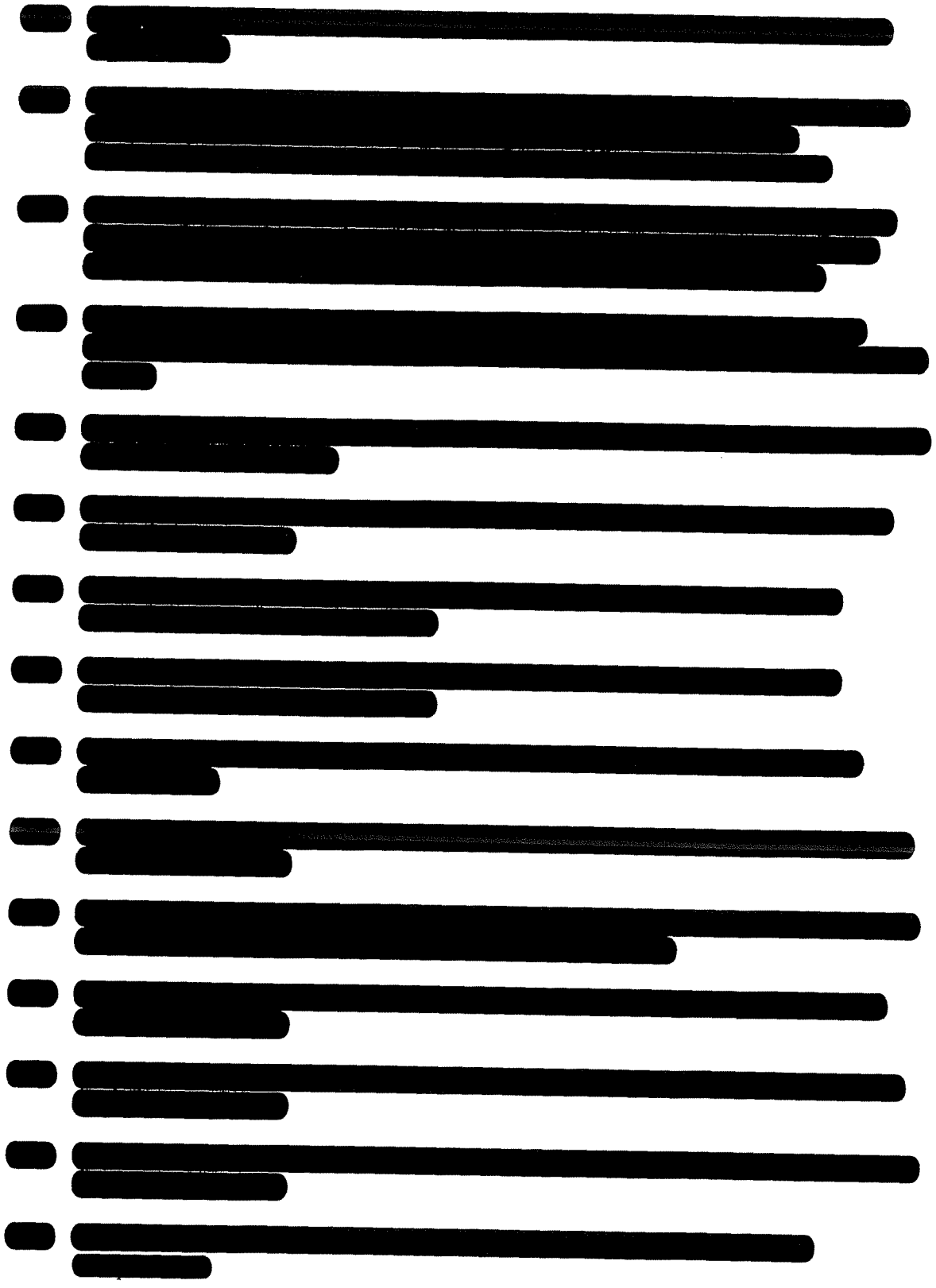
* To be prepared in accordance with Sections 2.3 and 2.4.

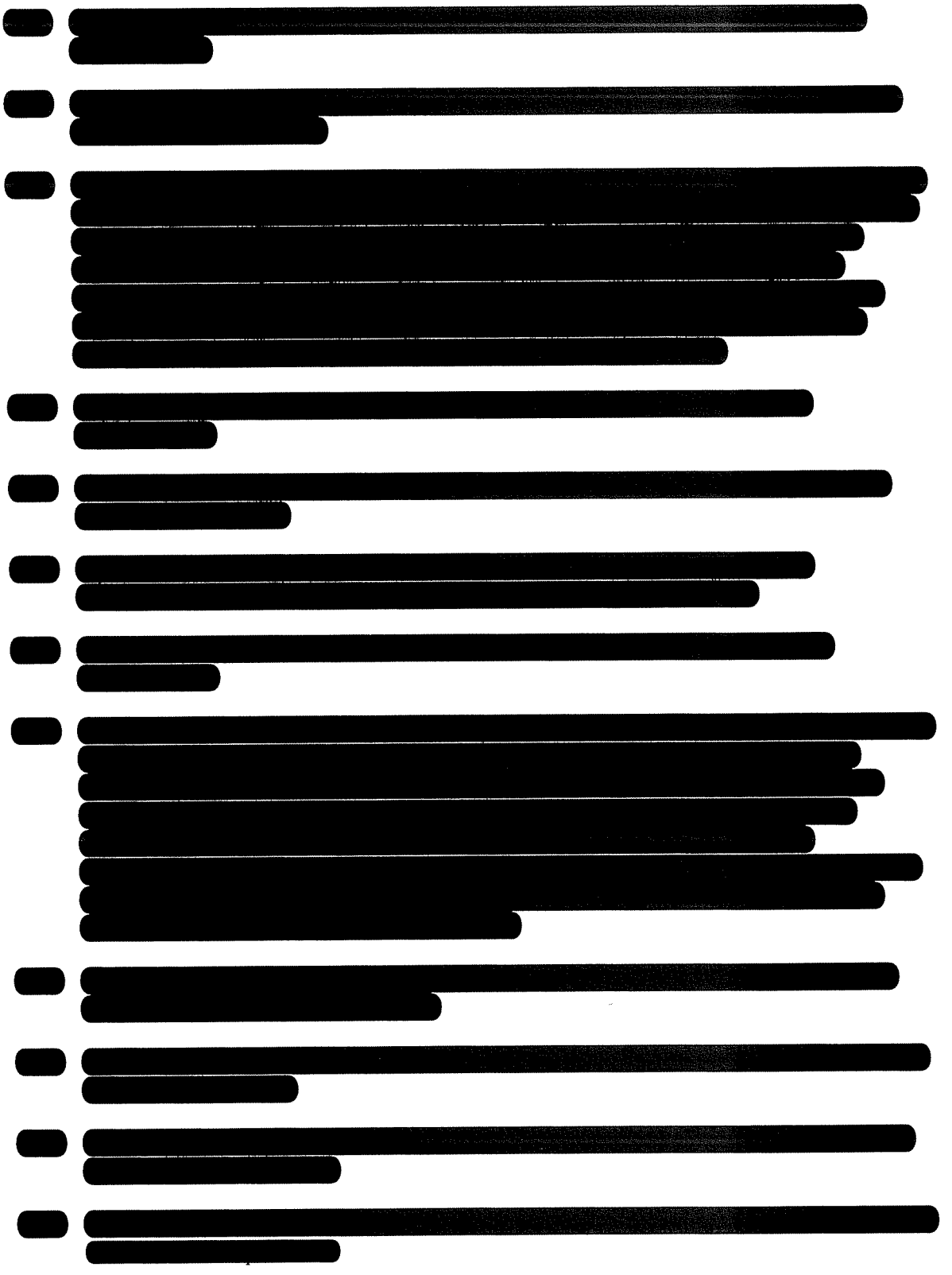
Section 3.3
Non-Contravention

Financing and Debt Arrangements[1]

[redacted]

[1] Notes or other instruments evidencing debt or financing outstanding and issued pursuant to the agreements listed on this Section 3.3 of this Company Disclosure Schedule are deemed incorporated for purposes of this Section 3.3 of this Company Disclosure Schedule.





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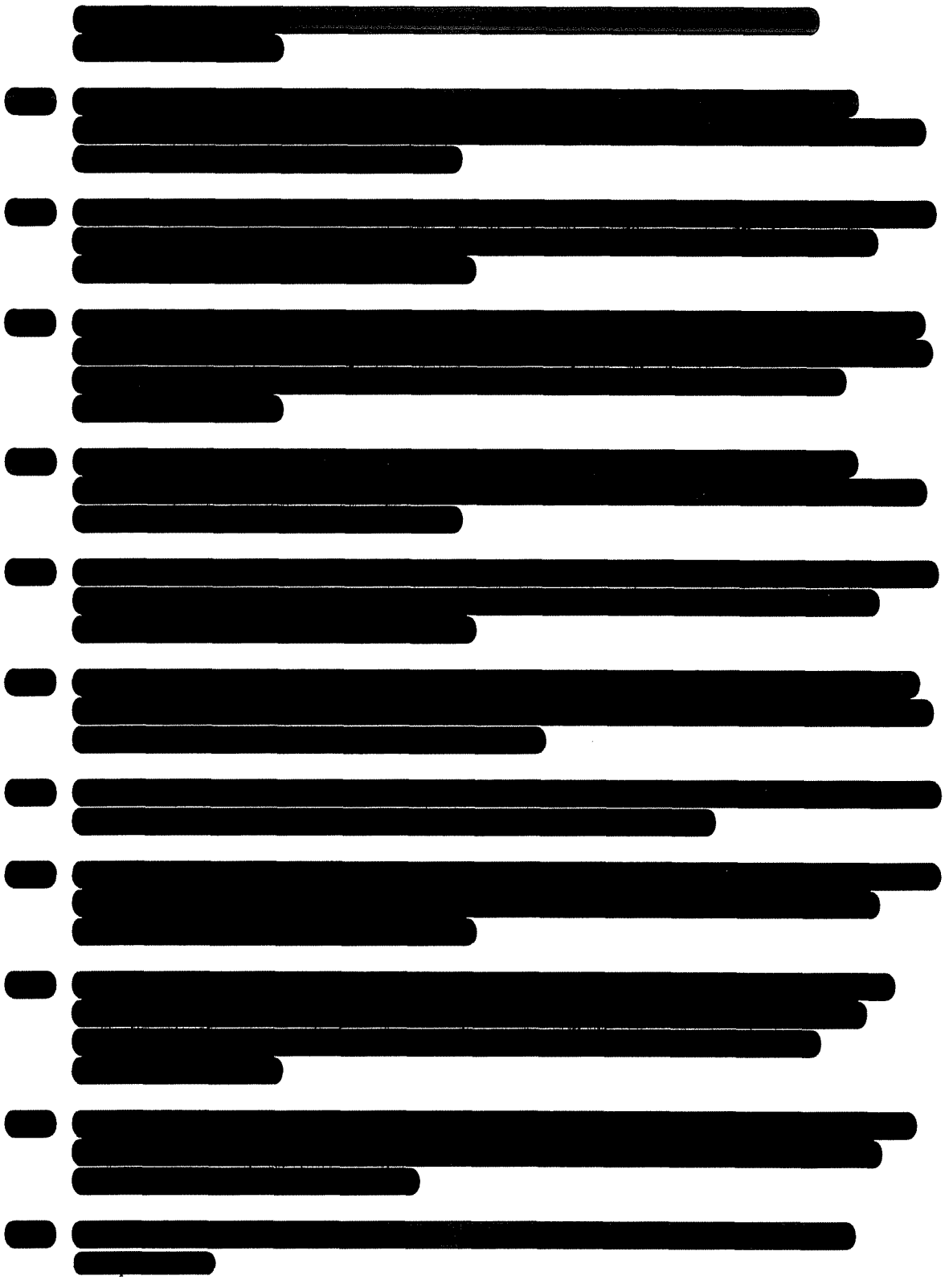


[redacted]

Insurance Arrangements

The following insurance contracts are carried by E.ON AG and will no longer cover the Company or its Subsidiaries following the Closing.

[redacted]

[redacted]

[redacted]

Information Technology Arrangements

As affiliates of Seller, the Company and its Subsidiaries currently have access to third-party intellectual property and information technology rights, benefits and resources via certain master agreements, global licenses, leases, purchasing agreements or similar contractual arrangements either (i) entered into by Seller or its Subsidiaries (other than the Company and its Subsidiaries) or, (ii) in some cases, by Company and its Subsidiaries which access, in each case, may be altered or terminated as a result of the consummation of the Purchase or the other transactions contemplated by the Agreement. These include matters relating to the following vendors, softwares, systems, data bases or applications. The relevant contracts in respect of such IT arrangements are set out below:

[redacted]

[redacted]

[redacted]

Section 3.4
Governmental Approvals and Filings

FERC approval under §203 of the Federal Power Act is required for disposition of the Company's 20% indirect interest in Electric Energy, Inc. The filing with FERC referred to in Section 3.4(ii) of the Agreement will address the Company's indirect interest in Electric Energy, Inc.

Section 3.6(b)
Capitalization

1. See Exhibit 3.6(b) to this Company Disclosure Schedule.

[redacted]

Section 3.6(c)
Capitalization

Name of Entity	**Company's Interest in Entity**	**Description of the Principal Line(s) of Business conducted by Entity**
Electric Energy, Inc. EEI has the following wholly-owned subsidiaries: • Midwest Electric Power Inc. • Joppa and Eastern Railroad Company • Met South, Inc. • Massac Enterprises LLC (99%-owned.)	Kentucky Utilities Company: 20%	Operator of a natural gas-fired and a coal-fired plant in Joppa, Illinois. It sells the power output to an affiliate of its majority owners.
Ohio Valley Electric Corporation ("OVEC") OVEC has the following subsidiary: • Indiana-Kentucky Electric Corporation ("IKEC")	Kentucky Utilities Company: 2.5% Louisville Gas and Electric Company: 5.63%	Operator of two coal-fired plants generating power in the Ohio River Valley region. It sells the power output to its shareholders.
DHA LLC	Company: 11.5%	Loan fund to promote local housing development. The Company provided contribution as part of community efforts.
Airborne Pollution Control, Inc.	LG&E Power Inc.: 5.62%	Pollution-control technologies vendor (Company served as a host of a pilot project and received equity interest following Airborne's financial restructuring).

The company is a member of FutureGen Industrial Alliance, Inc. and Western Kentucky Carbon Storage Foundation Inc., both non-stock, non-profit companies, which shall be deemed not to be Company Joint Ventures for the purposes of the Agreement.

Section 3.7
Company Financial Statements

1. See Exhibit 3.7 to this Company Disclosure Schedule.

Section 3.7(a)
Financial Information

1. E.ON U.S. Foundation Inc., a non-profit entity, is not included in the consolidated financial statements.

Section 3.7(b)
Financial Information

E.ON U.S. Foundation Inc., a non-profit entity, is not included in the consolidated financial statements.

Section 3.7(c)
Financial Information

1. Some invoices from coal suppliers contain price adjustments for federal mine safety compliance costs. The Company has retained a consultant to review such price adjustments. The Company does not accrue such adjustments until the consultant has performed its review and determined how much of each such adjustment should be paid. Approximately $1.0 million requested by coal suppliers was not accrued by LG&E and KU at December 31, 2009. Approximately $0.7 million requested by coal suppliers was not accrued by WKEC at December 31, 2009.

2. See Sections 3.9(f), 3.10, 3.11, 3.13(b), 3.15(b) and 3.16 of this Company Disclosure Schedule.

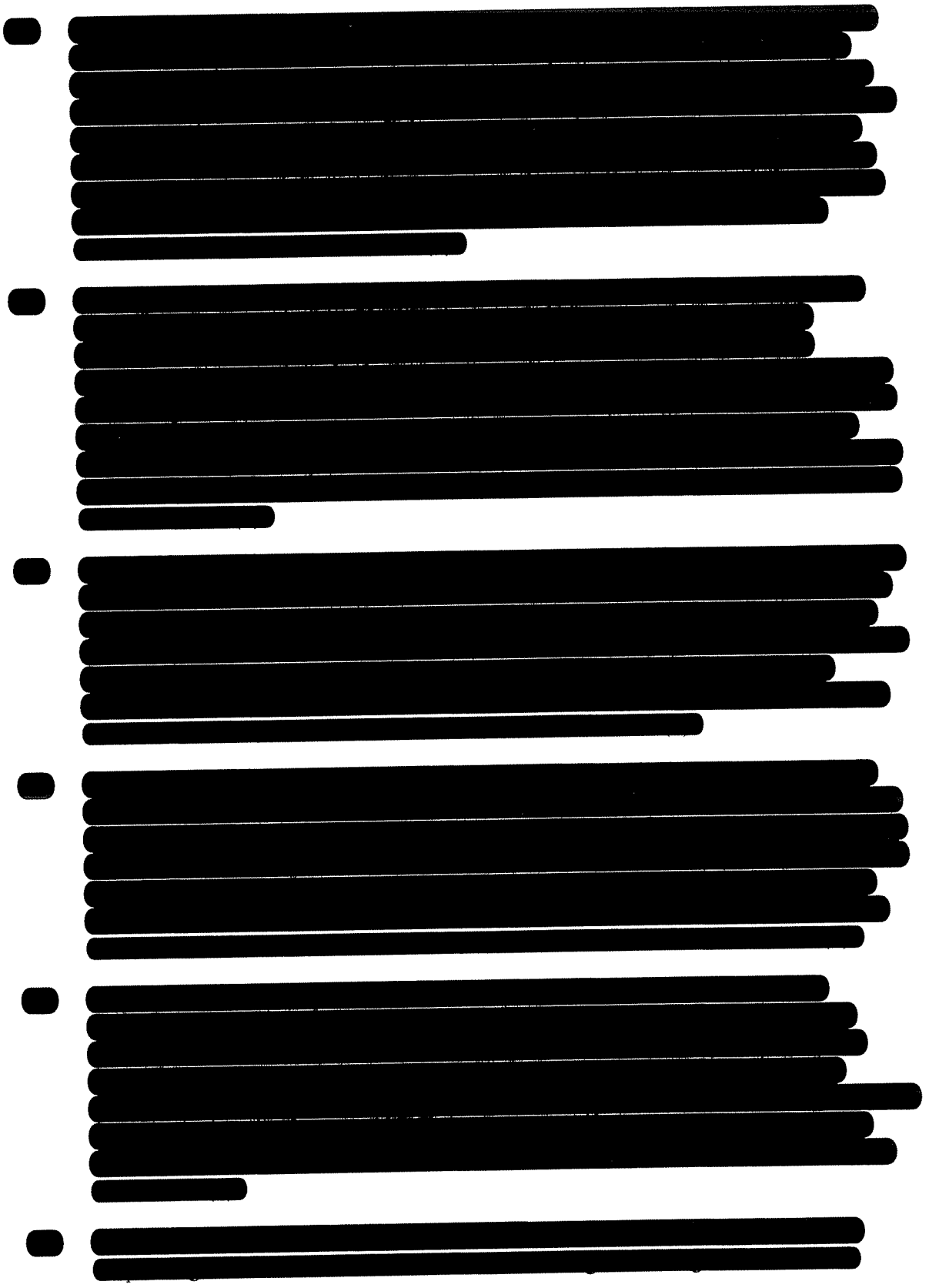
Section 3.8(a)
Conduct in the Company Ordinary Course of Business

1. See Section 3.8(c) of this Company Disclosure Schedule.

Section 3.8(b)
Absence of Company Material Adverse Effect

1. *Goodwill Impairment.* In connection with the execution of, and transactions contemplated by, the Agreement, the 2009 Company Financial Statements show a goodwill impairment calculated in accordance with GAAP.

[redacted]



[redacted]

10. *ITO Exit.* The Company has filed an application with FERC to terminate its ITO arrangements with SPP and proposed revised ITO and other OATT operating arrangements to the FERC. This item is disclosed in this Section 3.8(b) solely to the extent of the greater of (i) the reserve recorded in the 2009 Company Financial Statements relating to such matter, if any, and (ii) such Liabilities relating to such matter as are in existence of the date hereof. Any increase in the Liabilities related thereto after the date hereof shall not be deemed disclosed in this Section 3.8(b).

[redacted]

12. *EPA Information Requests.* In September 2000, U.S.EPA sent information requests to the Company pursuant to Section 114 of the Clean Air Act requesting information on work conducted on Cane Run Units 4-6, Mill Creek Units 1-4, Brown Units 1-3, Ghent Units 1-4, Green River Units 4-5, Tyrone Unit 5, and Pineville Unit 3. In August 2007, EPA sent an additional Section 114 information request seeking

information about work conducted on Mill Creek Unit 4, Ghent Unit 2, and Trimble County Unit 1. The ultimate outcome or consequences of these information requests cannot be determined at this time. This item is disclosed in this Section 3.8(b) solely to the extent of the greater of (i) the reserve recorded in the 2009 Company Financial Statements relating to such matter, if any, and (ii) such Liabilities relating to such matter as are in existence of the date hereof. Any increase in the Liabilities related thereto after the date hereof shall not be deemed disclosed in this Section 3.8(b).

Section 3.8(c)
Conduct in the Company Ordinary Course of Business

1. *Kentucky Base Rate Cases.* In January 2010: (a) LG&E filed an application with the KPSC requesting increases in annual electric base rates of approximately 12%, or $95 million, and in annual gas base rates of approximately 8%, or $23 million and (b) KU filed an application requesting increases in annual base electric base rates of approximately 12%, or $135 million. The requested rates have been suspended until August 2010, at which time they may be put into effect subject to refund. A hearing in the proceeding is scheduled for June 2010.

2. *Virginia Rate Case.* In June 2009, KU filed an application with the VSCC requesting an increase in electric base rates for its Virginia jurisdictional customers. During December 2009, KU and the VSCC staff agreed to a stipulation and settlement authorizing an annual base rate revenues increase of $11 million and a return on rate base of 7.846% based on a 10.5% return on common equity. In March 2010, the VSCC approved the stipulation, with rates to become effective in April 2010. In connection with the stipulation, KU expects to refund approximately $1 million to Virginia customers relating to certain interim rates received in excess of the final increase amounts.

3. In February 2010, the Company filed with FERC a Network Integration Transmission Service Agreement ("NITSA") and Network Operating Agreement ("NOA") for service to Owensboro Municipal Utilities.

4. *ITO Matters.* As described in Section 5.1 of this Company Disclosure Schedule, LG&E's and KU's current contract with Southwest Power Pool, Inc. to serve as Independent Transmission Operator, is currently scheduled to terminate effective September 1, 2010. The Company has applied to the FERC to allow the termination of its ITO arrangements with SPP, perform the bulk of the functions internally and assign certain functions to the Tennessee Valley Authority, its current Reliability Coordinator. During 2010, the Company continued to pursue KPSC and FERC approval proceedings relating to this matter. An KPSC approval order was received in February 2010.

5. *TEECRSG Reserve Sharing Agreement.* During November 2009, certain Subsidiaries of the Company entered into the TEECRSG Reserve Sharing Agreement in replacement of the prior MCRSG contractual arrangements which expired at December 31, 2009. The term of the new agreement commenced on January 1, 2010.

[redacted]

[redacted]

8. *Inactive Subsidiaries.* On February 26, 2010, the Company completed merger or dissolution transactions involving the inactive subsidiaries KU Solutions Inc. and E.ON U.S. Natural Gas Trading Inc.

[redacted]

10. *KPSC Storm Report.* During late 2009 and 2010, LG&E and KU commenced certain programs of various types in conjunction with a KPSC storm report presenting recommendations to relevant Kentucky utilities. Efforts included enhanced inspection, tracking, customer communications and other procedures, as well as commencing certain construction enhancements.

[redacted]

13. *Comverge Thermostat.* In 2010 LG&E and KU have undertaken a voluntary replacement program for approximately 14,000 load control thermostats due to concerns over overheating of thermostat components in a limited number of thermostats. The thermostats are being replaced with non load control thermostats. The cost of the replacement program is estimated at $2,000,000.00. As of April 2010, approximately 11,900 thermostats have been replaced.

[redacted]

[redacted]

Argentina Matters.

[redacted]

Section 3.9(d)
Taxes

Waivers and Extensions:

1. Kentucky Sales/Use Tax extension for Louisville Gas and Electric Company. The statute of limitations for the period of 1/1/05 through 12/31/05 has been extended until February 20, 2011.

2. Kentucky Sales/Use Tax extension for WKE The statute of limitations for the period of 1/1/05 through 12/31/05 has been extended until February 20, 2011.

3. See Section 3.9(f) of this Company Disclosure Schedule.

Section 3.9(f)
Taxes

Audits:

[redacted]

2. Louisville Gas & Electric Company Sales/Use Tax audit: No assessment has been received.

3. Western Kentucky Energy Corp Sales/Use Tax audit: No assessment has been received.

4. LG&E Energy Marketing Kentucky Sales/Use Tax audit: No assessment has been received.

5. E.ON US Services Inc. Kentucky Sales/Use Tax audit: No assessment has been received.

[redacted]

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Section 3.9(k)
Taxes

Closing Agreements:

To the best of the Company's knowledge and based on a diligent search of the Company's records, the following closing agreements have been entered into within the last two years.

Federal

[redacted]

State

[redacted]

Deferred Intercompany Gain

[redacted]

Change in Accounting Method

[redacted]

Section 3.9(m)
Taxes

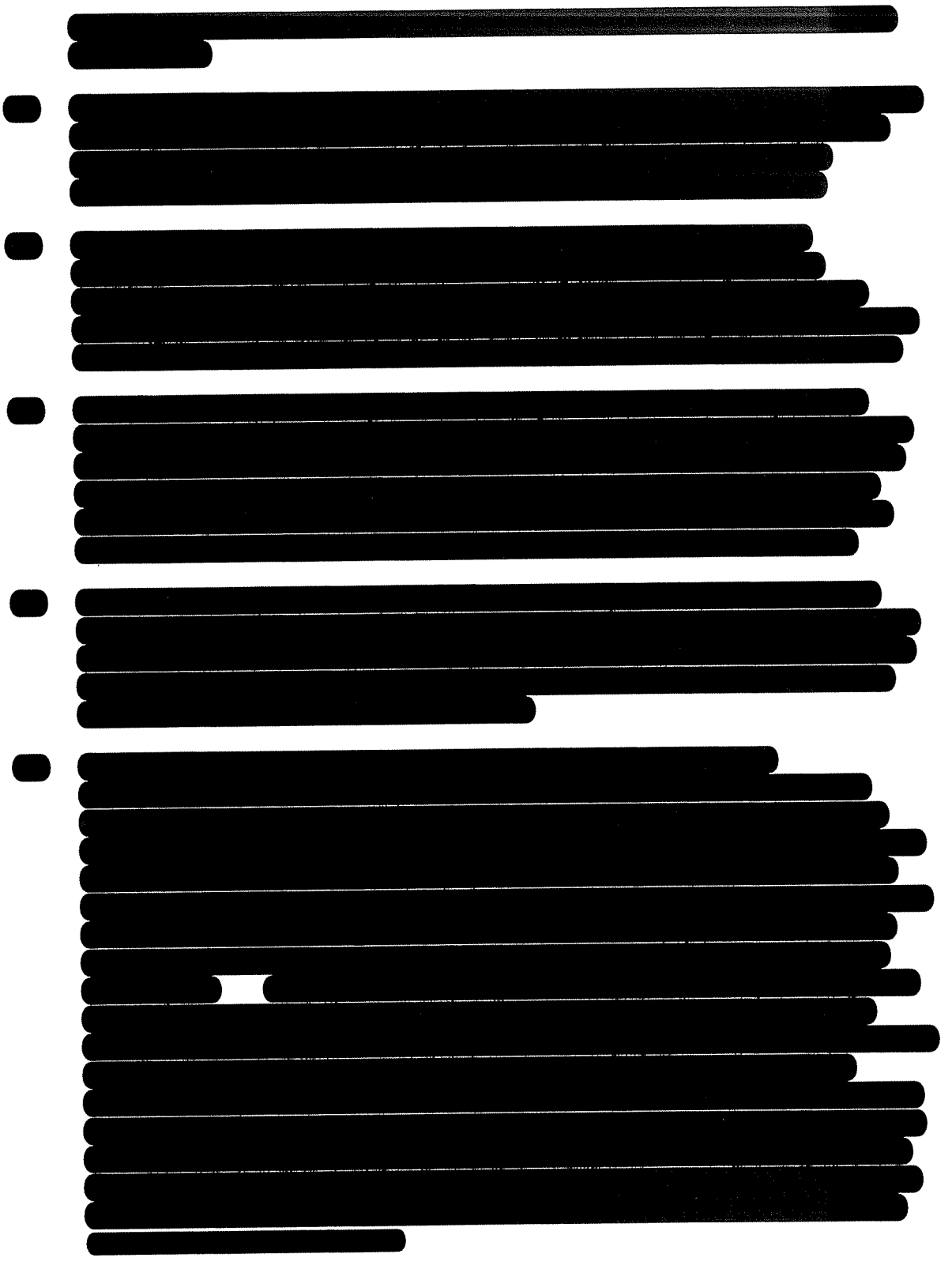
Net Operating Loss Carryover (Federal)	$976,017,393
Net Operating Loss Carryover (State/Kentucky)	$967,269,000
Renewable Electricity Production Credit Carryover	$11,414,492
Alternative Minimum Tax Credit Carryover	$16,879,090
Credit for Increasing Research Activities Carryover	$11,898,000
Advanced Coal Credit	$125,000,000
Foreign Tax Credit	$7,205,741

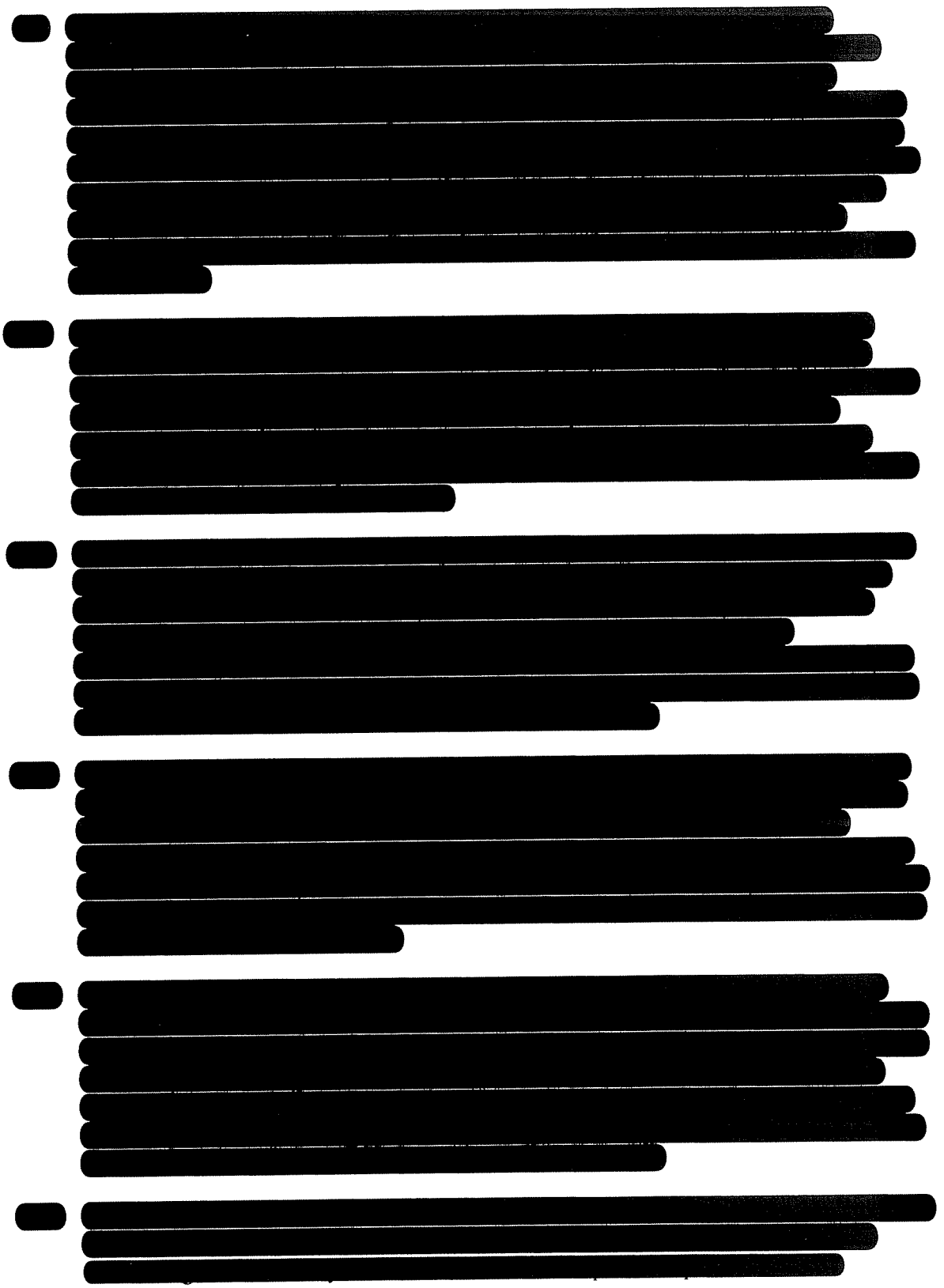
Section 3.10
Litigation

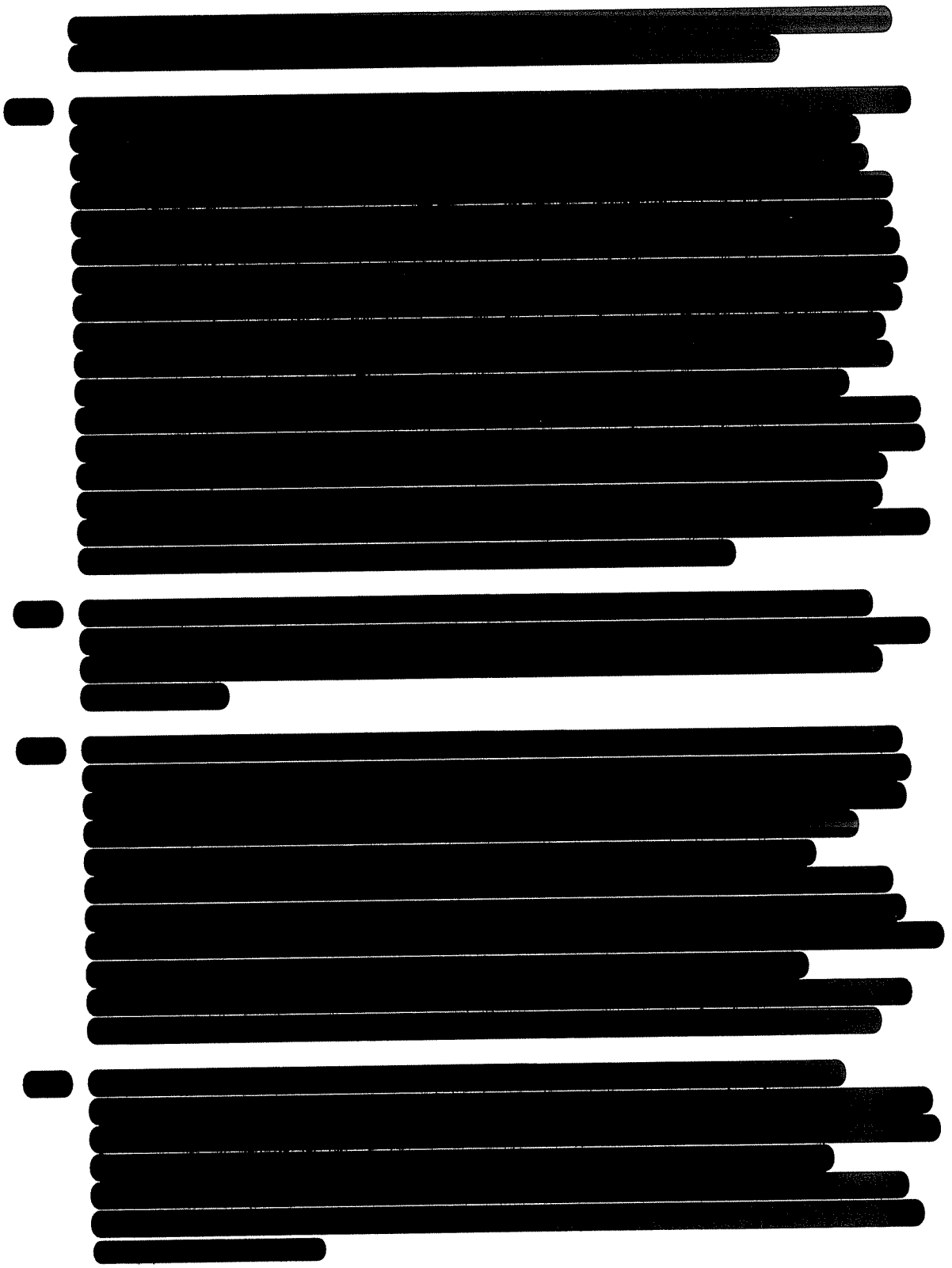
[redacted]

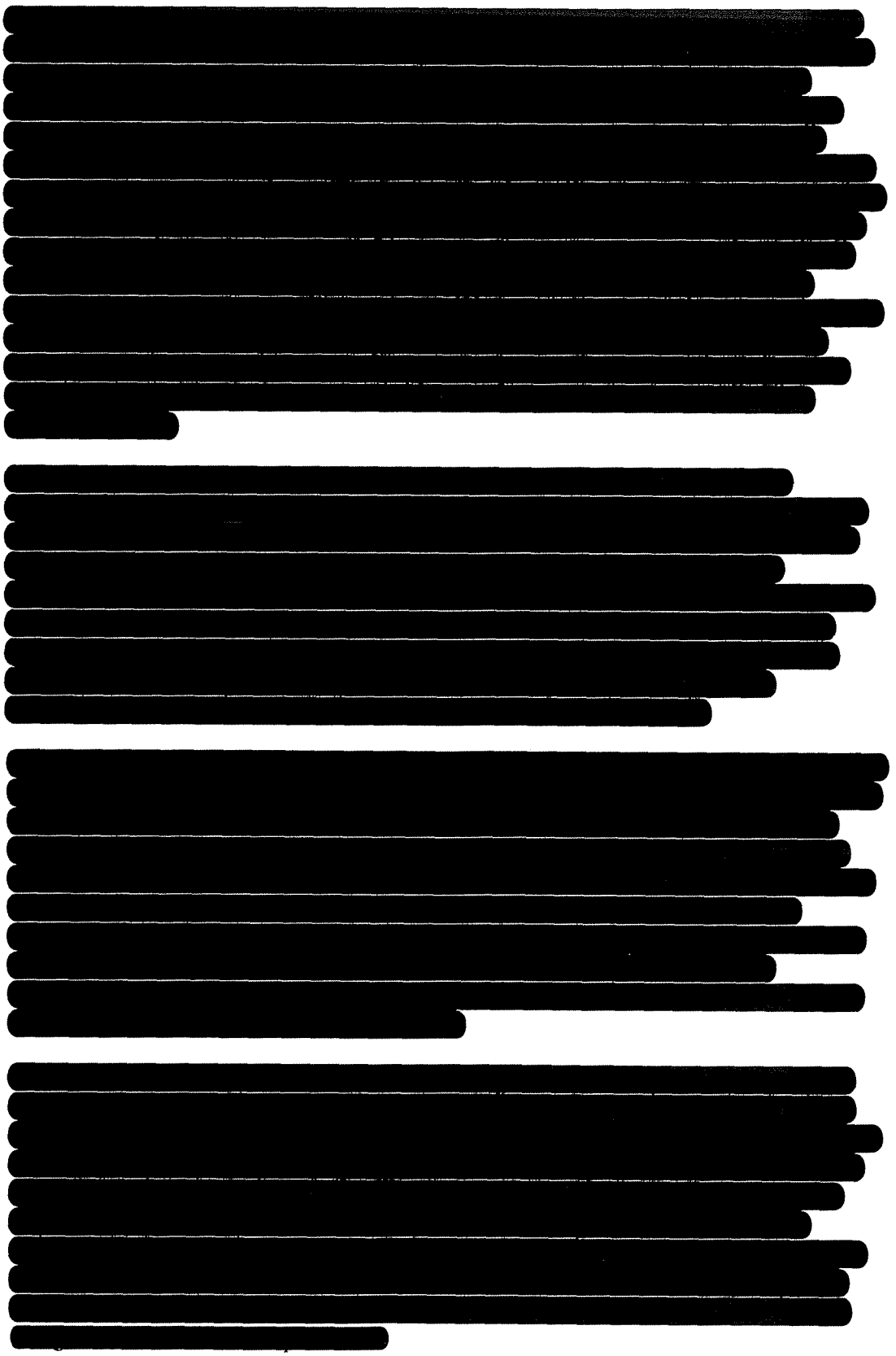
Pending Litigation

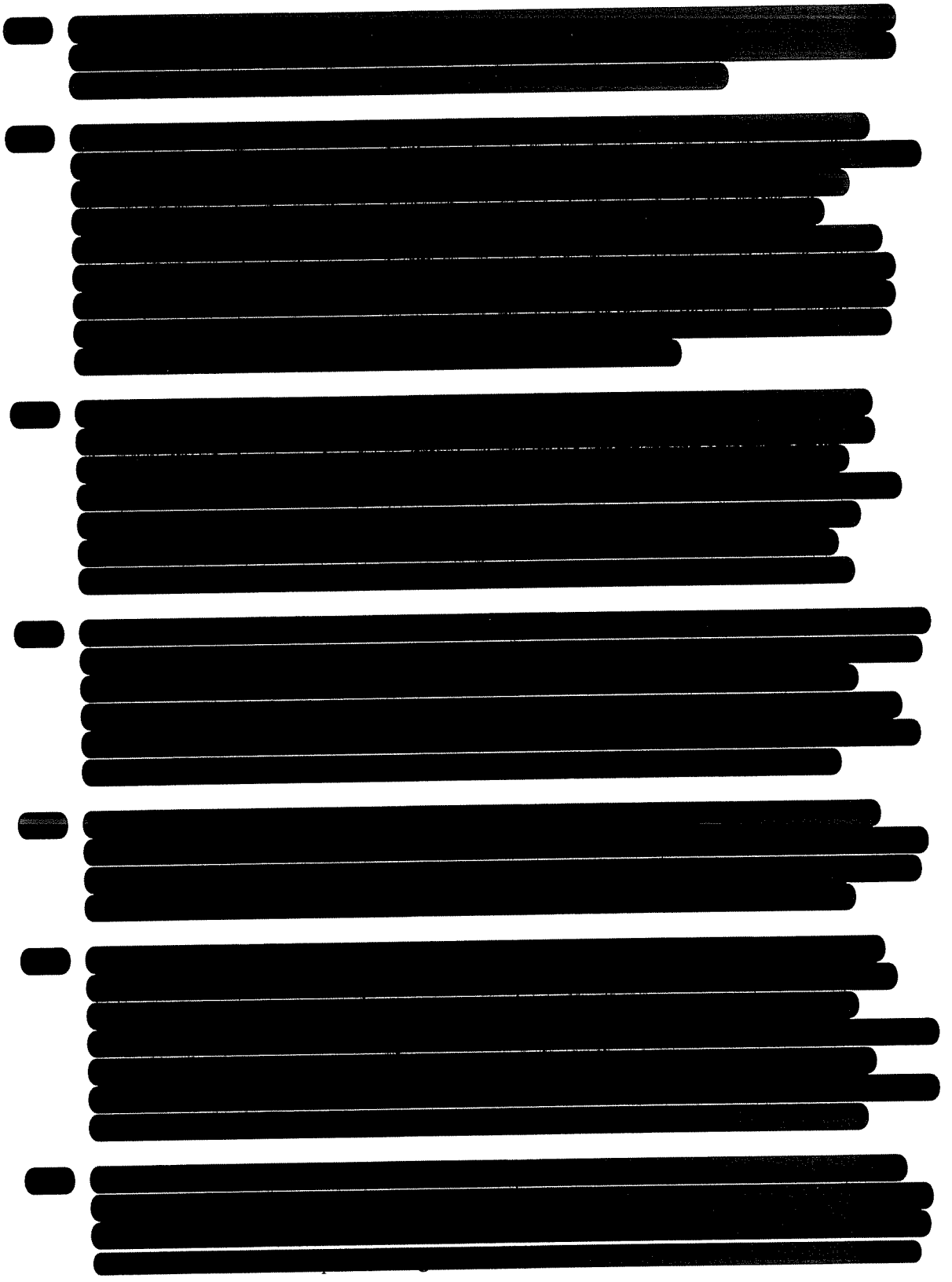
- [redacted]
- [redacted]
- [redacted]
- [redacted]

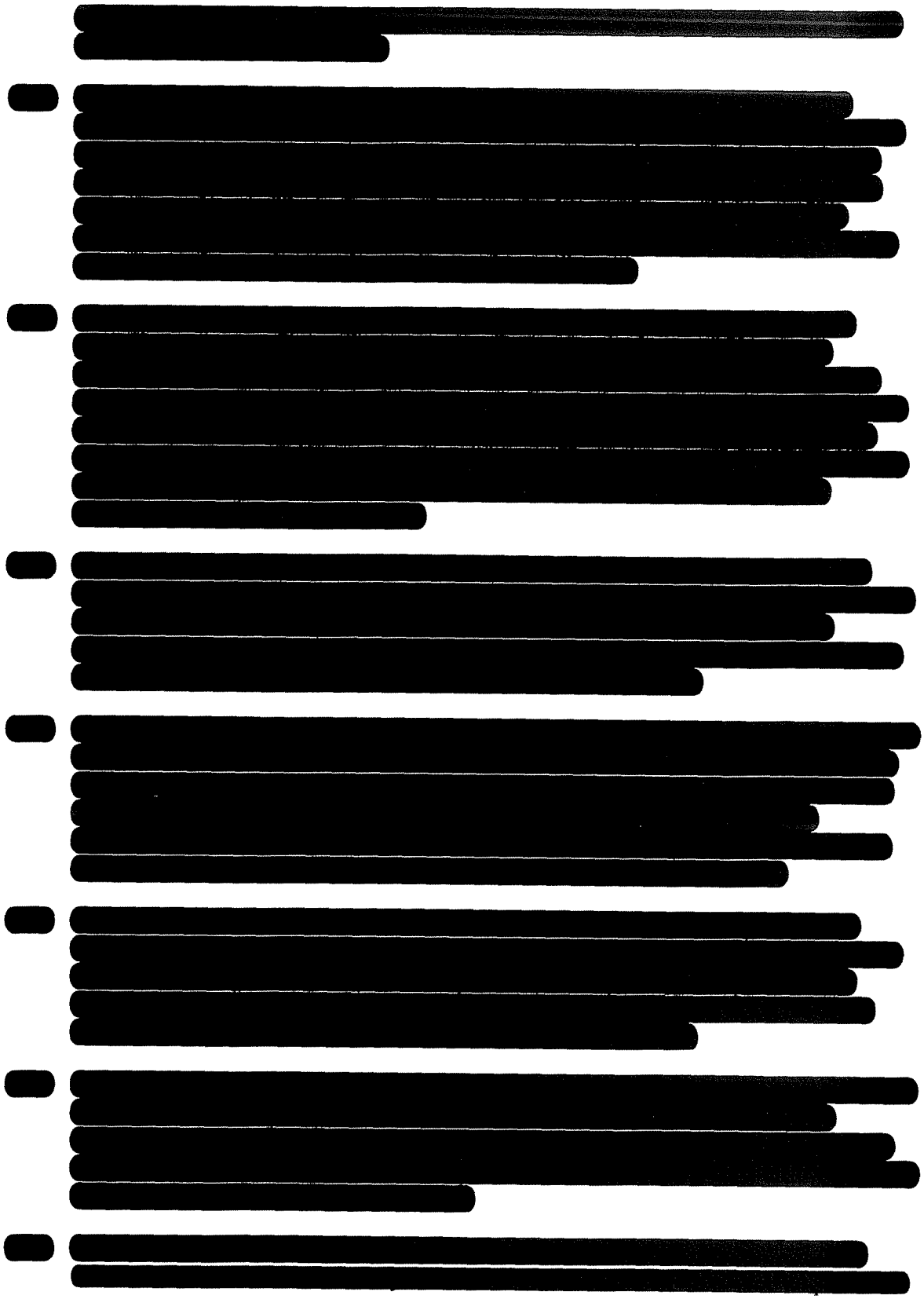


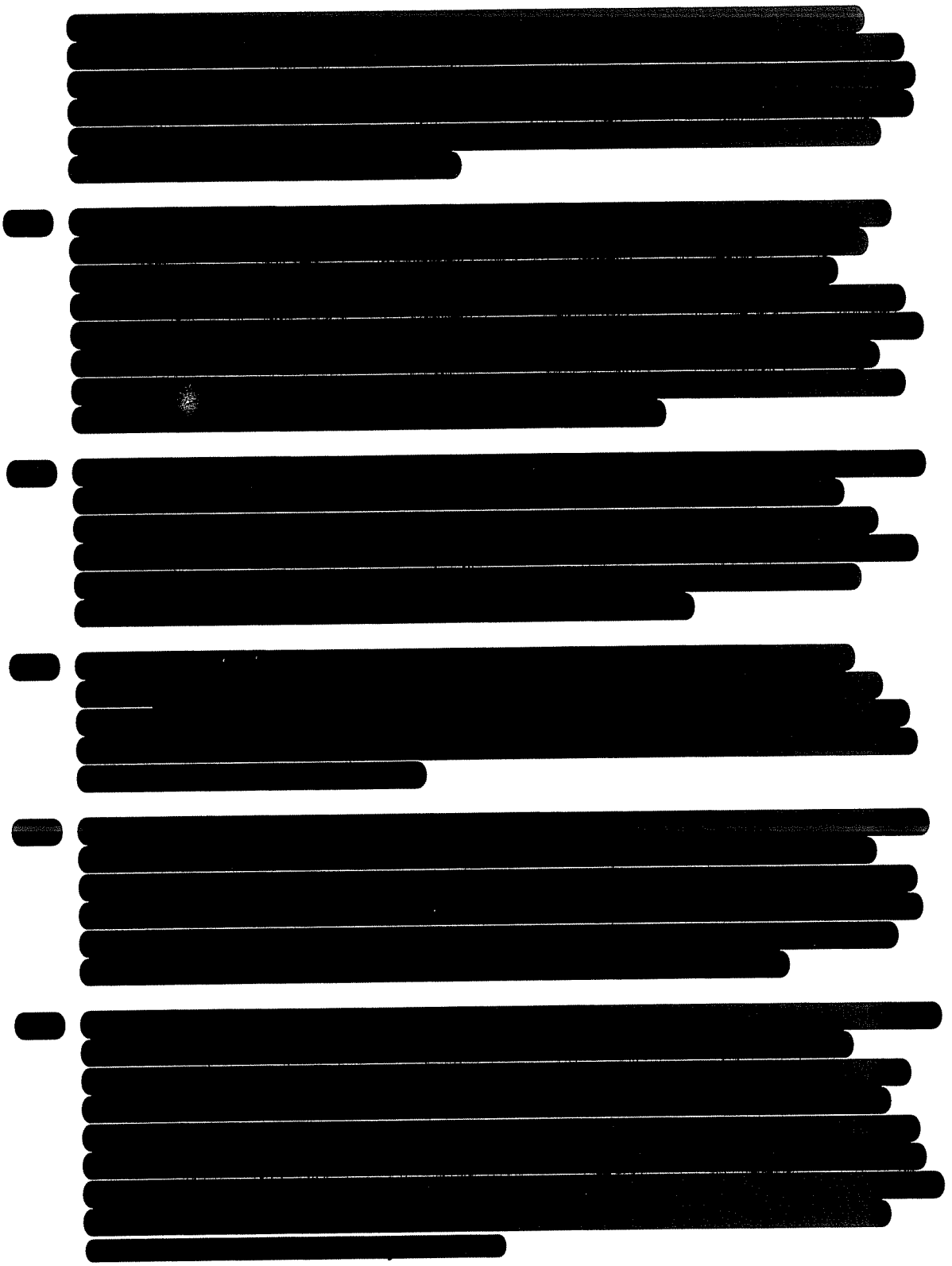


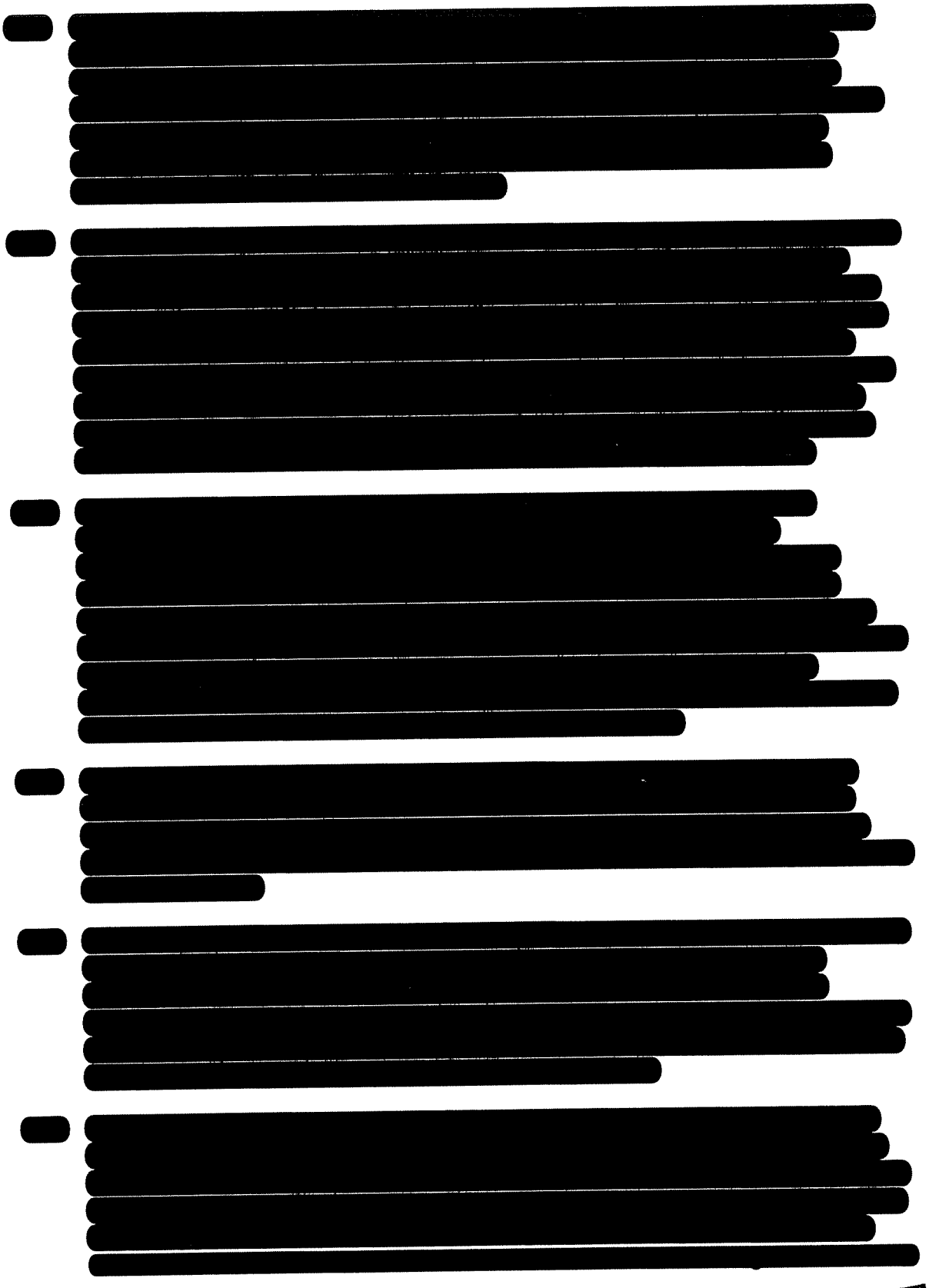


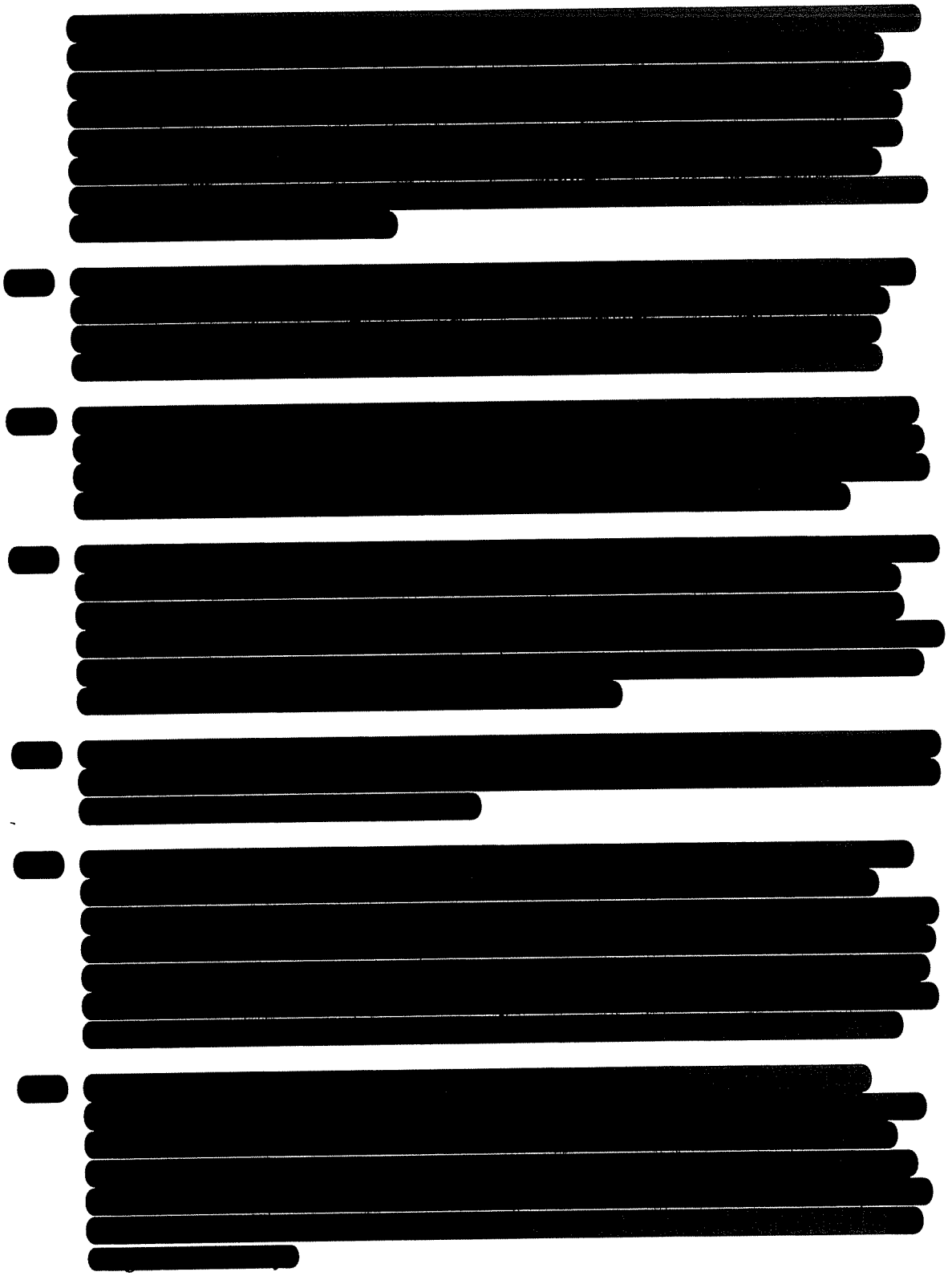












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[redacted]

Threatened Litigation

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

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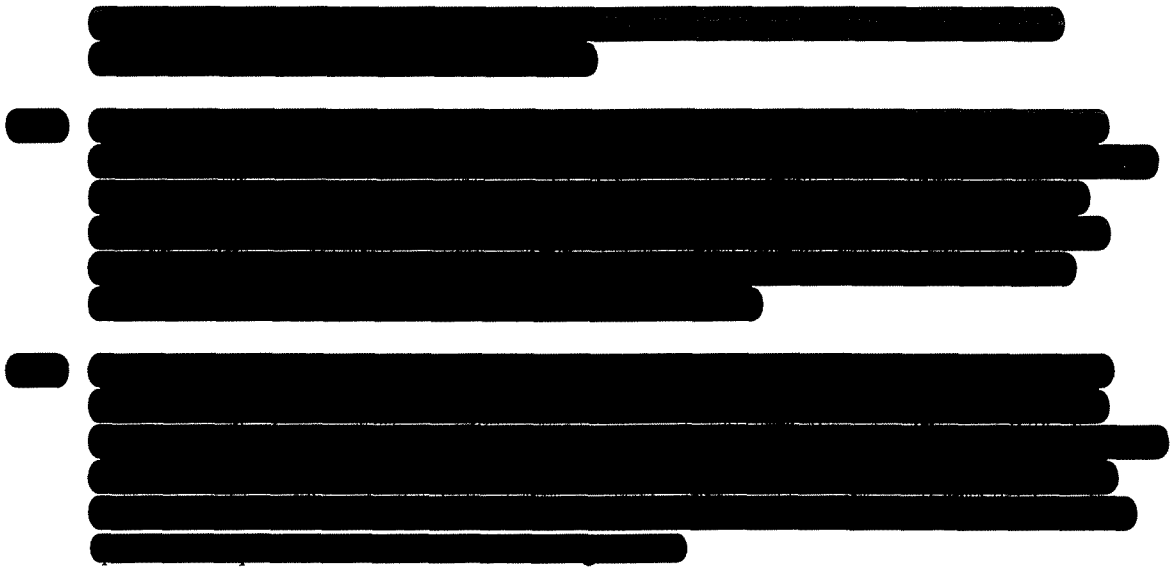


Regulatory Matters

Material Regulatory Matters pending before the Kentucky Public Service Commission

62. LG&E/KU: Consideration of the New Federal Standards of the EISA of 2007, case number 2008-00408. Filed on November 13, 2009.

63. KU: Ice Storm 2009 (Regulatory Asset), request for accounting treatment of expenses incurred, case number 2009-00174. Filed on April 30, 2009. KU has requested recovery of these amounts over 5 years in conjunction with the base rate increase application.

64. LG&E: Ice Storm 2009 (Regulatory Asset), request for accounting treatment of expenses incurred, case number 2009-00175. Filed on April 30, 2009. LG&E has requested recovery of these amounts over 5 years in conjunction with the base rate increase application.

65. LG&E: Investigation (McCoy), contractor injury with alleged violations of NESC, case number 2009-00210. Filed on June 19, 2009.

66. KU: FAC 6-Mth Review, routine 6 month review of Fuel Adjustment Clause mechanism, case number 2009-00287. Filed on August 20, 2009.

67. LG&E: FAC: 6-Mth Review, routine 6 month review of Fuel Adjustment Clause mechanism, case number 2009-00288. Filed on August 20, 2009.

68. KU: ECR 2-Yr Review, routine 6 month review of Environmental Cost Recovery (ECR) mechanism, case number 2009-00310. Filed on August 18, 2009.

69. LG&E: ECR 2-Yr Review, routine 6 month review of Environmental Cost Recovery (ECR) mechanism, case number 2009-00311. Filed on August 18, 2009.

70. KU / LG&E: Seeking confirmation of no CCN needed for construction of temporary transmission lines associated with the Mill-Creek to Hardin County 345KV line, or in the alternative seeking a CCN if KPSC determines CCN is required, case number 2009-00325. Filed on August 3, 2009.

71. KU / LG&E: Application for TC2 Depreciation Rate, case number 2009-00329. Filed on August 7, 2009. In December 2009, the KPSC issued an order authorizing the proposed depreciation rates on an interim basis until such time as a final order is issued.

72. KU / LG&E: Application requesting annual increases in base electric and gas rates, case numbers 2009-00548 and 2009-00549. Filed on January 29, 2010. See Section 3.8(c) of this Company Disclosure Schedule.

73. The Company's wind power approval filing, filed on August 28, 2009 and currently pending with the KPSC (Case No. 2009-00353).

Material Regulatory Matters pending before the Virginia State Corporation Commission

74. KU/ODP: Cost-Effective Energy Conservation, general administrative case seeking information on energy efficiency and conservation, case number PUE-2009-00023. Filed on May 4, 2009.

75. KU/ODP: Rate Case, request for change in base rates, $12.2 million based on 12% ROE, case number PUE-2009-00029. Filed on June 3, 2009. Order issued in March 2010 approving settlement for $11 million annual increase and other components. See Section 3.8(c) of this Company Disclosure Schedule.

76. KU/ODP: IRP, initial filing for Virginia, case number PUE-2009-00062. Filed on July 1, 2009.

77. KU/ODP: Administrative case seeking comments on whether and how to establish pilot programs under which certain customers that generate renewable energy may purchase electric power from, and sell electric power to, participating utilities at dynamic rates, case number PUE-2009-00084. Filed on August 19, 2009.

Regulatory Matters pending before the FERC and Transmission-related matters

78. KU: Disputed rates relating to de-pancaking issues, for KU transmission service to EKPC, covers period 11/02 – 9/06, case number ER02-2560-000. Filed on September 18, 2002.

79. In re: Midwest Independent Transmission System Operator, Inc. ("MISO") Revenue Sufficiency Guarantee ("RSG") Proceedings, Docket Nos. EC06-4-000 and ER06-20-000. In November 2008, the FERC issued orders in industry-wide proceedings relating to MISO RSG calculation and resettlement procedures. Various subsequent FERC orders have altered formulas and principles to calculate certain RSG charges for various periods of time. The FERC proceedings are not yet completed.

80. In re: Mandatory Reliability Standards. Since June 2007, LG&E and KU have filed certain self-reports to SERC relating to potential violations of reliability standards. Settlements regarding the self-reports for standards EOP-008-0 and FAC-001-0 were approved in FERC Docket NP09-2-000. LG&E and KU and SERC have completed a settlement agreement for $115,000 regarding standards FAC-009-1, FAC-008-1, PRC-005-1 (two submissions), and VAR-002-1a which settlement is awaiting NERC and FERC approval. In December 2009, KU and LG&E submitted an unrelated self-report relating to VAR-002-1a. In April 2010, LG&E and KU submitted a self-report regarding potential violations of standard CIP-004.

81. KU/LG&E: Order 890-A and related compliance filings. KU/LG&E and SPP (ITO) compliance with Order 890. Attachment K (OA08-27-001, OA08-27-002 and OA08-27-004); Schedule 11 (ER10-295-000); SIS Studies and SA's and ER-09-1643-001).

82. KU: Municipal rate case, moving KU municipals to formula based rate, case number ER08-1588-000. September 28, 2008.

83. LG&E: Gas Rate proceedings, proposed Texas Gas Pipeline rate changes, case number RP09-194-000 RP09-505-000. Filed on December 31, 2008.

84. KU/LG&E: Network service agreements with Paducah and Princeton, case number ER09-759-000, ER09-759-001, ER09-759-002 and ER09-759-003. Filed on February 25, 2009.

85. KU/LG&E: Network service agreements with OMU, case number ER10-298-000. Filed on November 20, 2009.

86. KU/LG&E: ITO Exit Filed a joint application on October 10, 2009 with SPP to terminate the ITO contract upon its expiration in September 2010. Case numbers ER06-20-000, ER06-20-001, ER06-4-000 and ER10-191-000.

87. Cash Creek. KU and LG&E filed a joint request on April 9, 2010 with SPP and Cash Creek to request a declaratory judgment regarding certain transmission interconnection matters relating to the potential third-party Cash Creek generating station. Case number EL 10-59-000.

88. Line Losses. A rate proceeding is currently pending with OMU and KMPA relating to line loss calculations in rates. Case numbers ER-10-295-000, ER10-298-000, 001; EL10-38-000.

89. De-pancaking. Kentucky Municipal Power Agency letter, dated April 16, 2010, requesting credit amounts and/or revised crediting calculation methodologies going forward for the shielding of pancaking of transmission costs, in relation to KMPA's rates for transmission services associated with LG&E/KU's transmission systems. The claims arise under 2006 agreements among KMPA and LG&E/KU entered into during the Company's withdrawal from the Midwest ISO during that year.

90. De-pancaking. Owensboro Municipal Utilities letter, dated March 23, 2010, requesting credit amounts and/or revised crediting calculation methodologies going forward for the shielding of pancaking of transmission costs, in relation to OMU's rates for transmission services associated with the Company's transmission systems. The claims arise under 2006 agreements among OMU and LG&E/KU entered into during the Company's withdrawal from the Midwest ISO during that year.

Tax Credit Matter

91. In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program and the tax credits issued thereunder. In November 2008, the Court dismissed the suit; however, during 2008 and 2009, additional motions were filed, including amended complaints adding additional claims and requests for injunctive relief, which motions are still before the Court. The Company is not currently a party to this proceeding.

Matters related to Retirement and Savings Plans

92. On May 20, 2009, the Department of Labor conducted an onsite review of E.ON U.S. LLC Retirement Plan for ERISA compliance. After the onsite review, the Department of Labor and the Company have exchanged correspondence. Pursuant to a letter from the Department of Labor, dated March 1, 2010, the Department of Labor will take no further action with respect to this matter.

[redacted]

Environmental Matters

94. See Section 3.16 of this Company Disclosure Schedule

Section 3.11
Compliance with Law and Governmental Authorizations; Regulation as a Utility

1. See Sections 3.10, 3.13(b) and 3.16 of this Company Disclosure Schedule.

2. *KU and LG&E franchises.* KU serves 162 cities under franchises. KU is in discussions with the City of Elizabethtown regarding a new franchise. The city has expressed interest in entering into a five year franchise. LG&E franchises serve 122 cities. Franchise agreements historically existed for 98 of these cities. LG&E gas and/or electric franchise agreements typically provide a single payment upon the commencement of the term of the agreement. Upon the expiration of such franchises, no further payments are typically made to the city. However, LG&E does make an inflation adjusted payment of in excess of $500,000.00 to the City of Louisville under the gas franchise that expired in 2003. After the expiration of its franchise period, the Company has a mere license to occupy a city's public right of way which license may be revoked by the city after reasonable notice. In 24 other cities, LG&E does not have a franchise. LG&E anticipates initiating a process for obtaining franchises in 2010.

3. Prior to March 2007, LG&E did not make pipeline safety reports to the Indiana Utility Regulatory Commission as provided in 170 IAC 5-3-5.

4. The Company has filed a corrective notice with the Federal Communications Commission ("FCC") relating to administrative errors in wireless frequency licenses and ownership certifications. Specifically, counsel to the Company sent the FCC a letter on March 25, 2010 describing the errors and steps taken to prevent future errors.

SERC Mandatory Reliability Standards

5. *In re: Mandatory Reliability Standards.* In June 2007, formerly voluntary transmission reliability standards became mandatory, oversight of which is performed by the SERC Reliability Corporation. In February and March of 2009, SERC conducted a routine, periodic, limited audit of Louisville Gas and Electric Company and Kentucky Utilities Company's compliance with certain designated reliability standards, which audit resulted in a finding of no material violations of the matters covered. Separately, since June 2007, LG&E and KU have filed certain self-reports to SERC relating to potential violations of reliability standards. Settlements regarding the self-reports for standards EOP-008-0 and FAC-001-0 were approved in FERC Docket NP09-2-000. LG&E and KU and SERC have completed a settlement agreement regarding self-reports for standards FAC-009-1, FAC-008-1, PRC-005-1 (two submissions), and VAR-002, which settlement agreement is subject to FERC and other approvals. In December 2009, LG&E and KU submitted an unrelated self-report regarding potential violations of standard VAR-002. In April 2010, LG&E and KU submitted a self-report regarding potential violations of standard CIP-004.

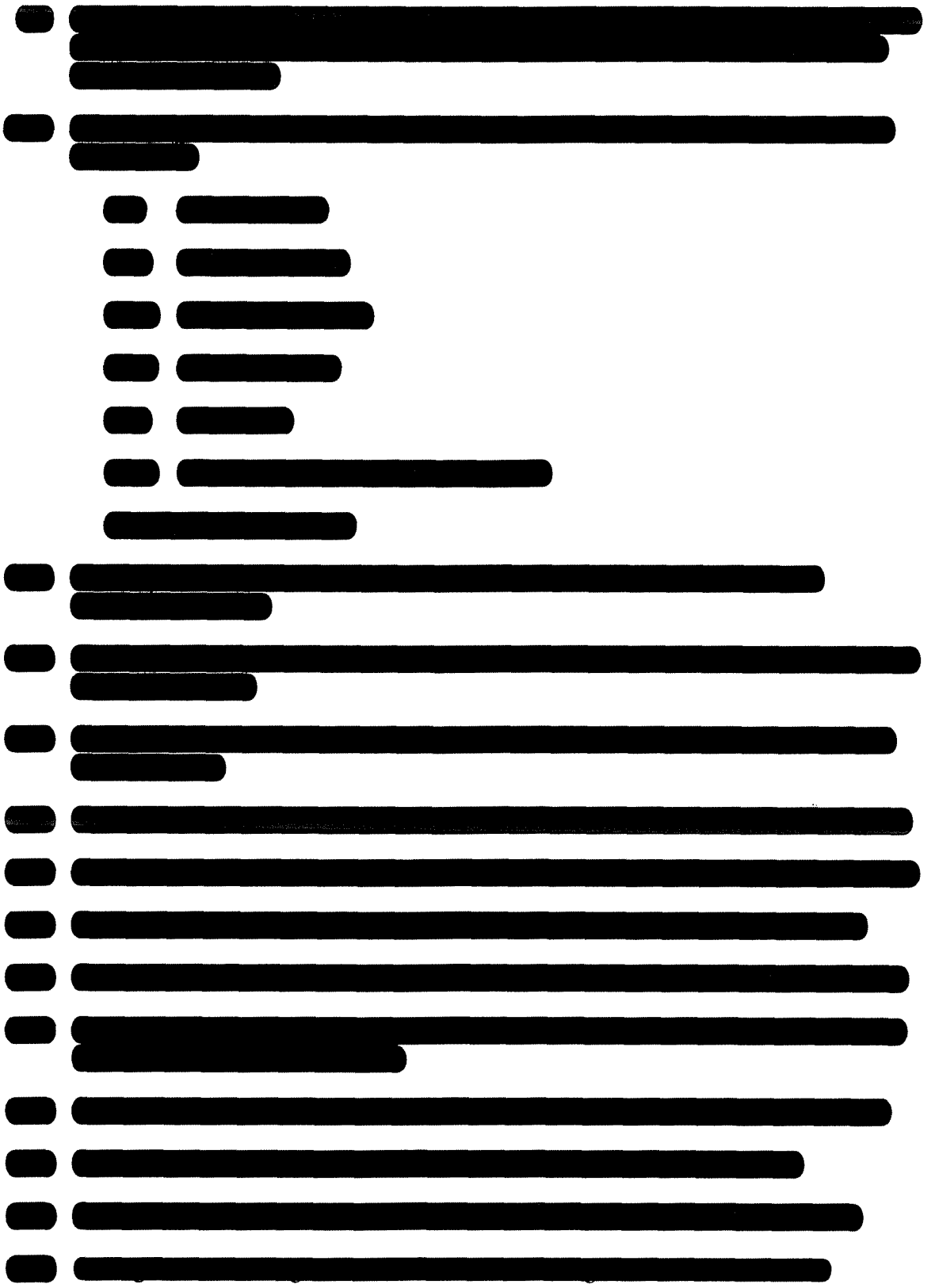
Section 3.12(a)
Employee Benefits

Seller Benefit Plans

[redacted]

Company Benefit Plans

[redacted]



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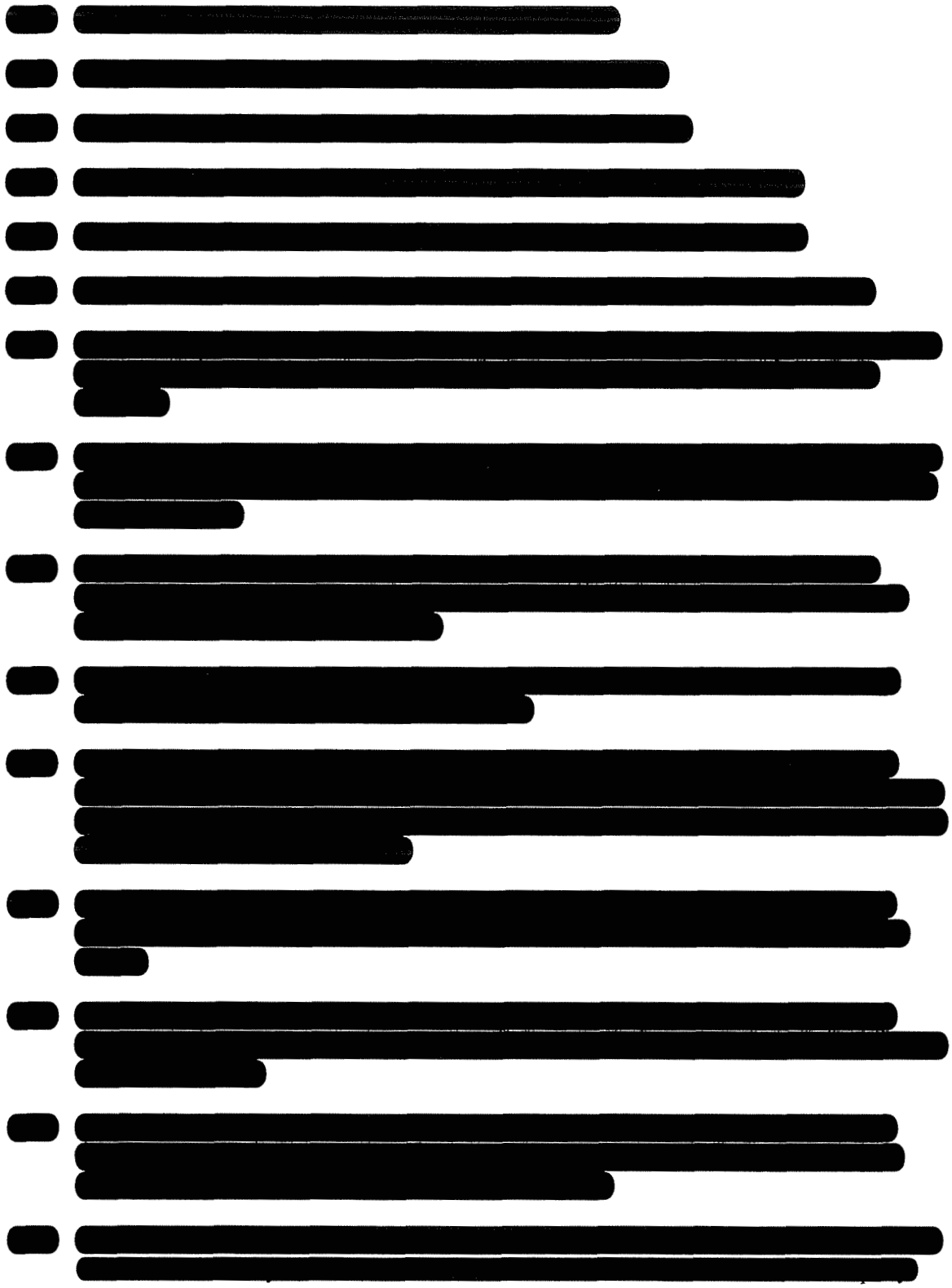


[redacted]

"*" Denotes a benefit plan that has received a favorable opinion letter from the IRS National Office.

Section 3.12(b)
Employee Benefits

[redacted]

2. Item 21 of Section 5.1(a) of this Company Disclosure Schedule is hereby incorporated by reference.

CONFIDENTIAL

Section 3.12(d)
Employee Benefits

1. On May 20, 2009, the Department of Labor conducted an onsite review of E.ON U.S. LLC Retirement Plan for ERISA compliance. After the onsite review, the Department of Labor and the Company have exchanged correspondence. Pursuant to a letter from the Department of Labor, dated March 1, 2010, the Department of Labor will take no further action with respect to this matter.

[redacted]

3. Item 1 of Section 3.12(f) of this Company Disclosure Schedule is hereby incorporated by reference.

The following Company Benefit Plans provide for post-termination health and life benefits:

[redacted]

[redacted]

Section 3.12(e)
Employee Benefit Plans

[redacted]

17. Item 21 of Section 5.1(a) of this Company Disclosure Schedule is hereby incorporated by reference.

Section 3.12(f)
Employee Benefits

[redacted]

Section 3.12(g)
Employee Benefits

[redacted]

Section 3.13(a)
Labor

Labor Agreements

- [redacted]
- [redacted]
- [redacted]

CONFIDENTIAL

Section 3.13(b)
Labor

[redacted]

[redacted]

[redacted]

Section 3.14
Intellectual Property

[redacted]

Section 3.15(a)
Material Contracts

Leases and Reimbursement, Intercompany Loan Agreements, Credit Facilities and Pollution Control Bond Loan Agreements

1. Items 1 through 71 of Section 3.3 are hereby incorporated by reference into this Section 3.15(a).

[redacted]

Pollution Control Facilities

[redacted]

[redacted]

E.ON U.S. Capital Corp. Medium-Term Note Documents

[redacted]

[redacted]

WKE Termination Documents

[redacted]

Sale of Company's Former Mid-stream Gas Gathering and Processing Activities

[redacted]

Other

[redacted]

[redacted]

5 [redacted]

[redacted]

Interest Rate Swap Agreements

[redacted]

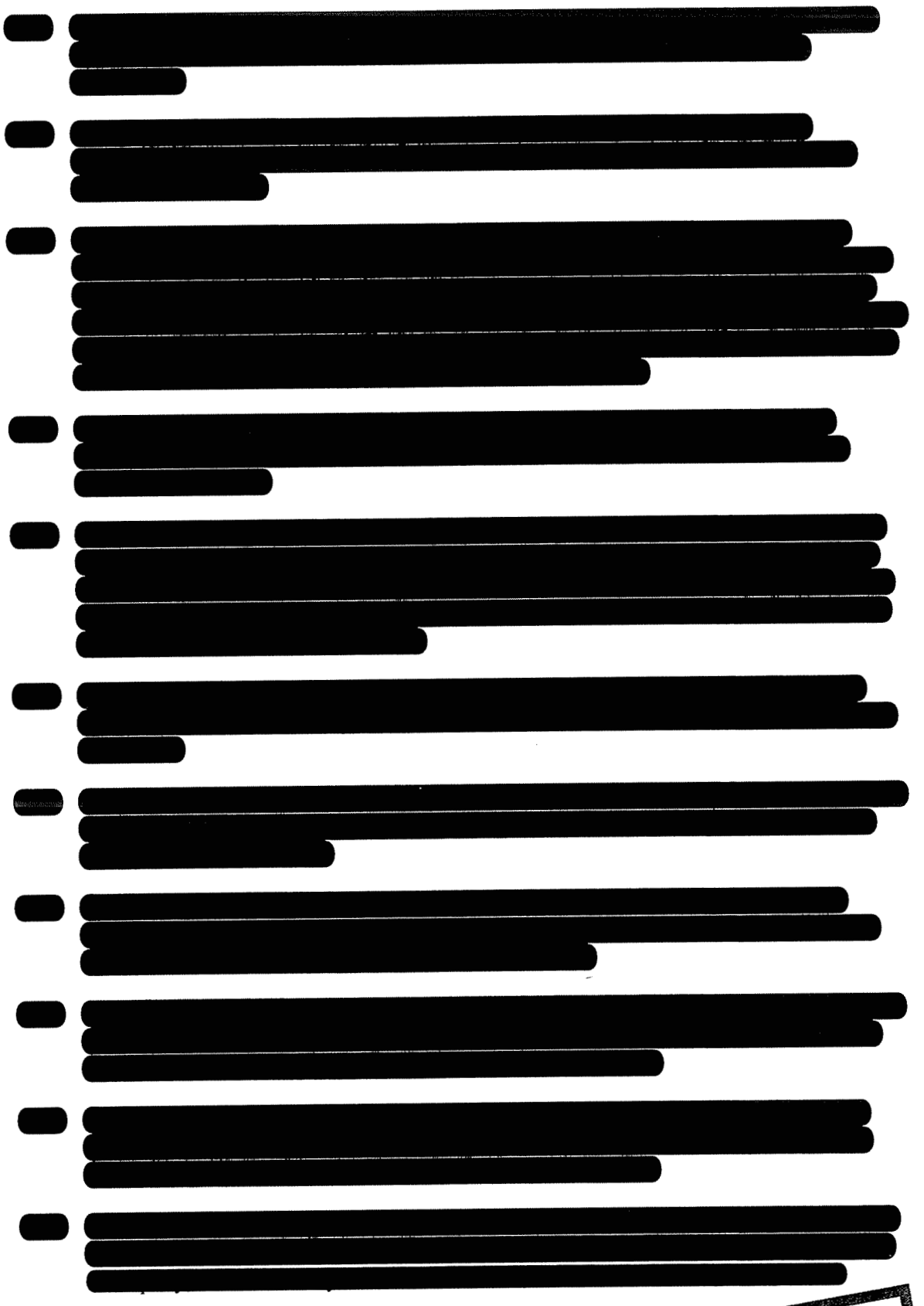
[redacted]

[redacted]

Power Marketing and Fuel Contracts

[redacted]

[redacted]



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[redacted]

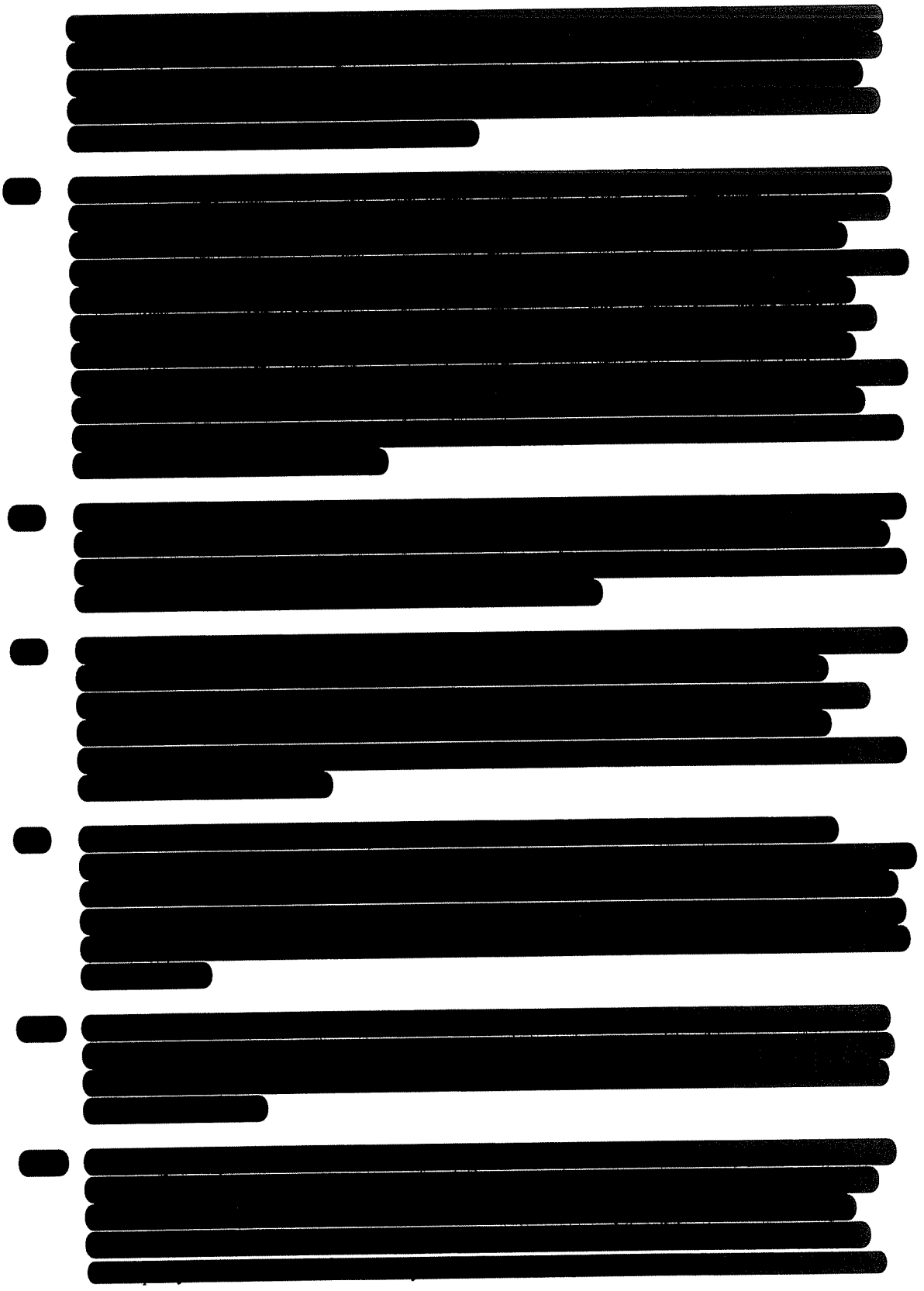
Section 3.15(b)
Material Contracts

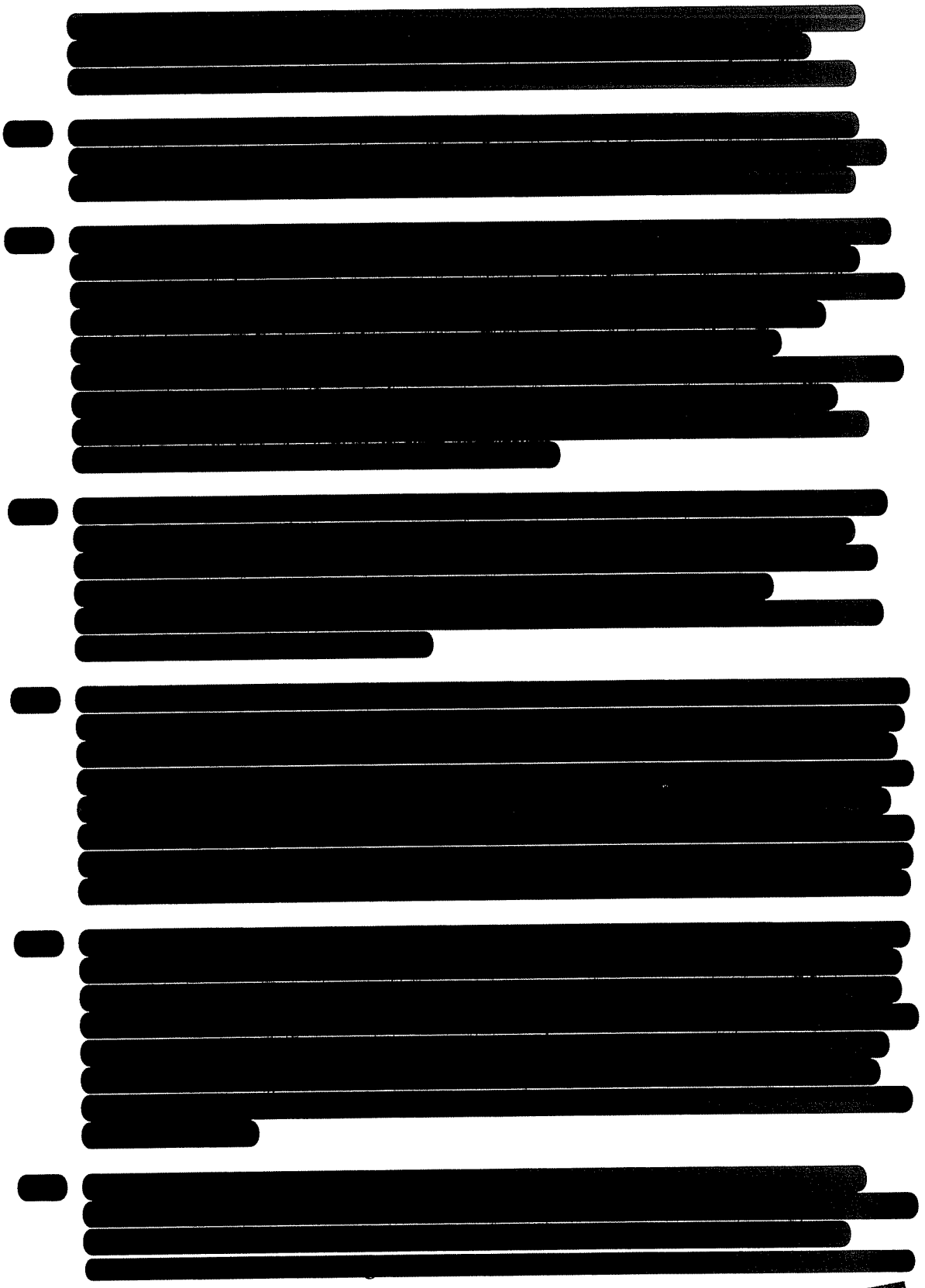
[redacted]

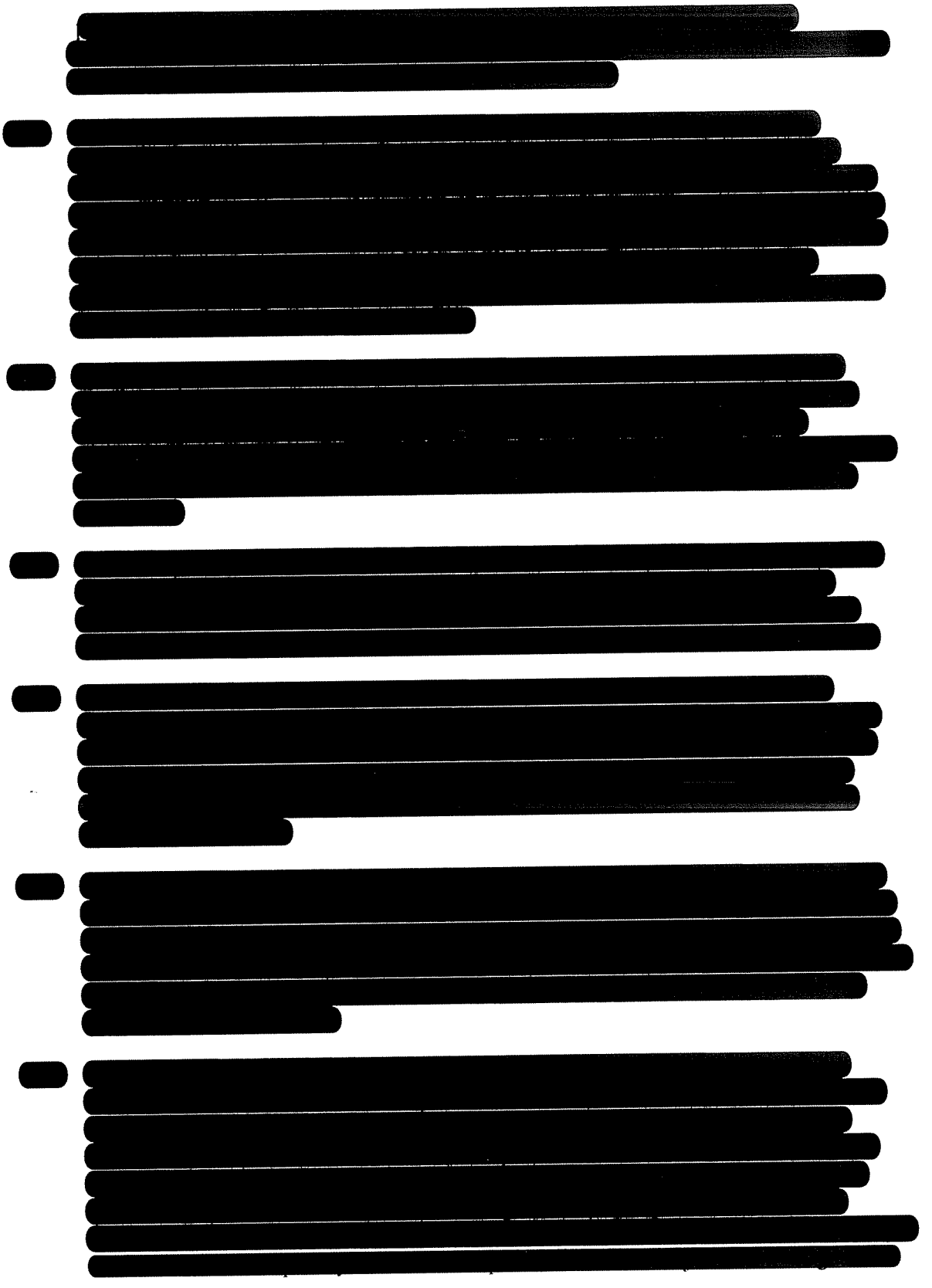
[redacted]

Section 3.16
Environment

[redacted]







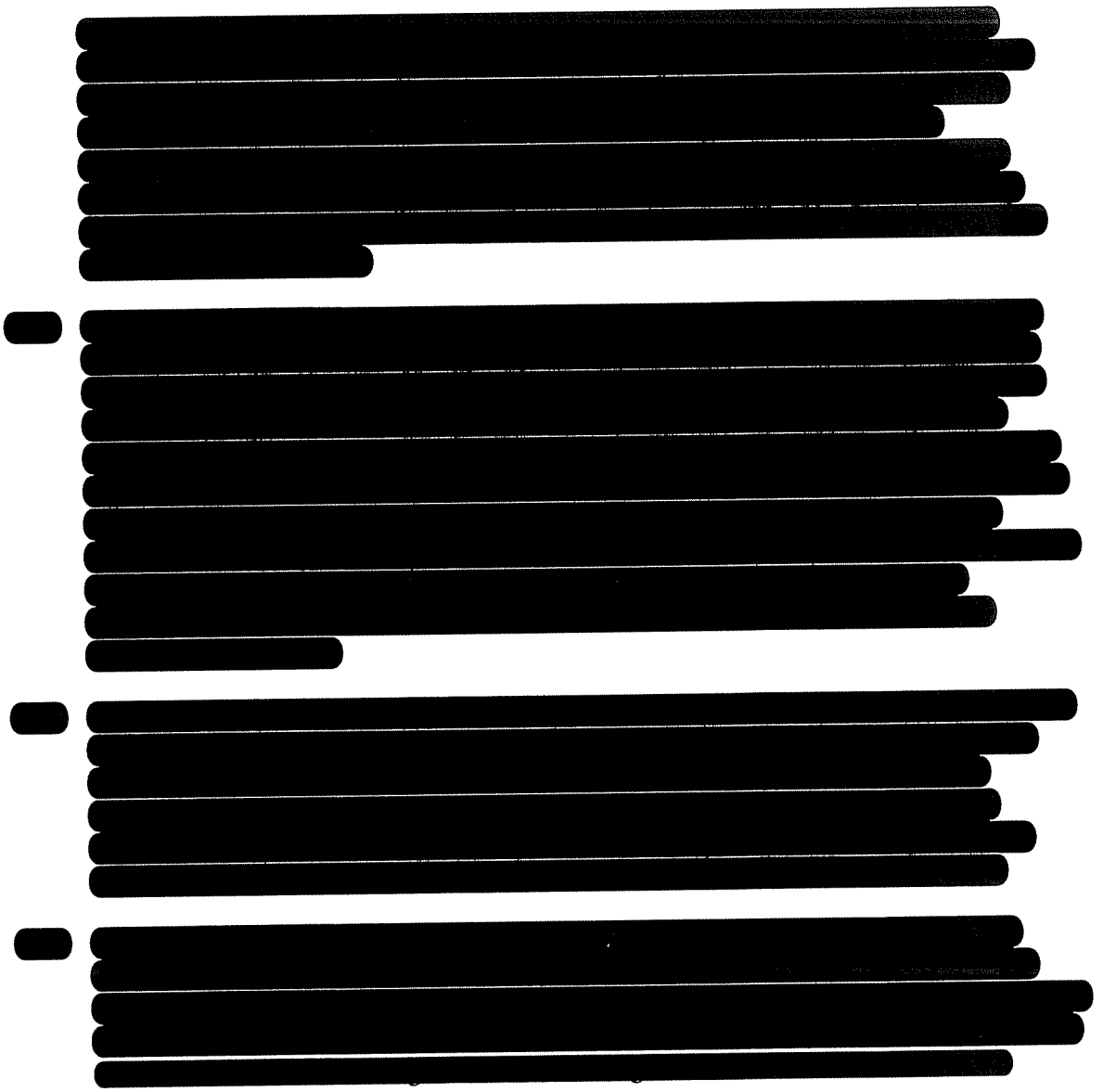
[redacted]

Section 114 Information Requests

[redacted]

Other Environmental Claims

[redacted]



Section 3.17
Affiliate Transactions

1. Matters disclosed in Items 5 –79 in Section 3.3 of this Company Disclosure Schedule are incorporated by reference in this Section 3.17 of this Company Disclosure Schedule.

2. Matters disclosed in Exhibit 3.17 to this Schedule showing certain amounts paid or received during 2009.

3. Matters disclosed in E.ON U.S. Services Inc.'s Annual Report for Service Companies filed on FERC Form No. 60 for the year ended December 31, 2009.

4. Matters disclosed in Company's IRS Form 1042, filed on or about March 15, 2010, for the year ended December 31, 2009.

5. Seller charges the Company for the products and services described below:

[redacted]

- [redacted]
- [redacted]
- [redacted]

The following Letters of Credit are issued by E.ON North America Inc. under its facility.

- [redacted]
- [redacted]
- [redacted]
- [redacted]

Section 3.18
Insurance

The Company has, in the Company Ordinary Course of Business, excluded the following plants/former plants from its property insurance program

1. Canal Generating Station, Louisville, Kentucky
2. Cane Run Generating Station Units 1, 2, 3 and CT11, Louisville, Kentucky
3. Paddy's Run Generating Station Units 11 and 12, Louisville, Kentucky
4. Tyrone Generating Station Units 1 and 2, Woodford County, Kentucky
5. Pineville Units 1, 2, and 3, Bell County, Kentucky

In accordance with industry practices, transmission and distribution assets are generally not insured.

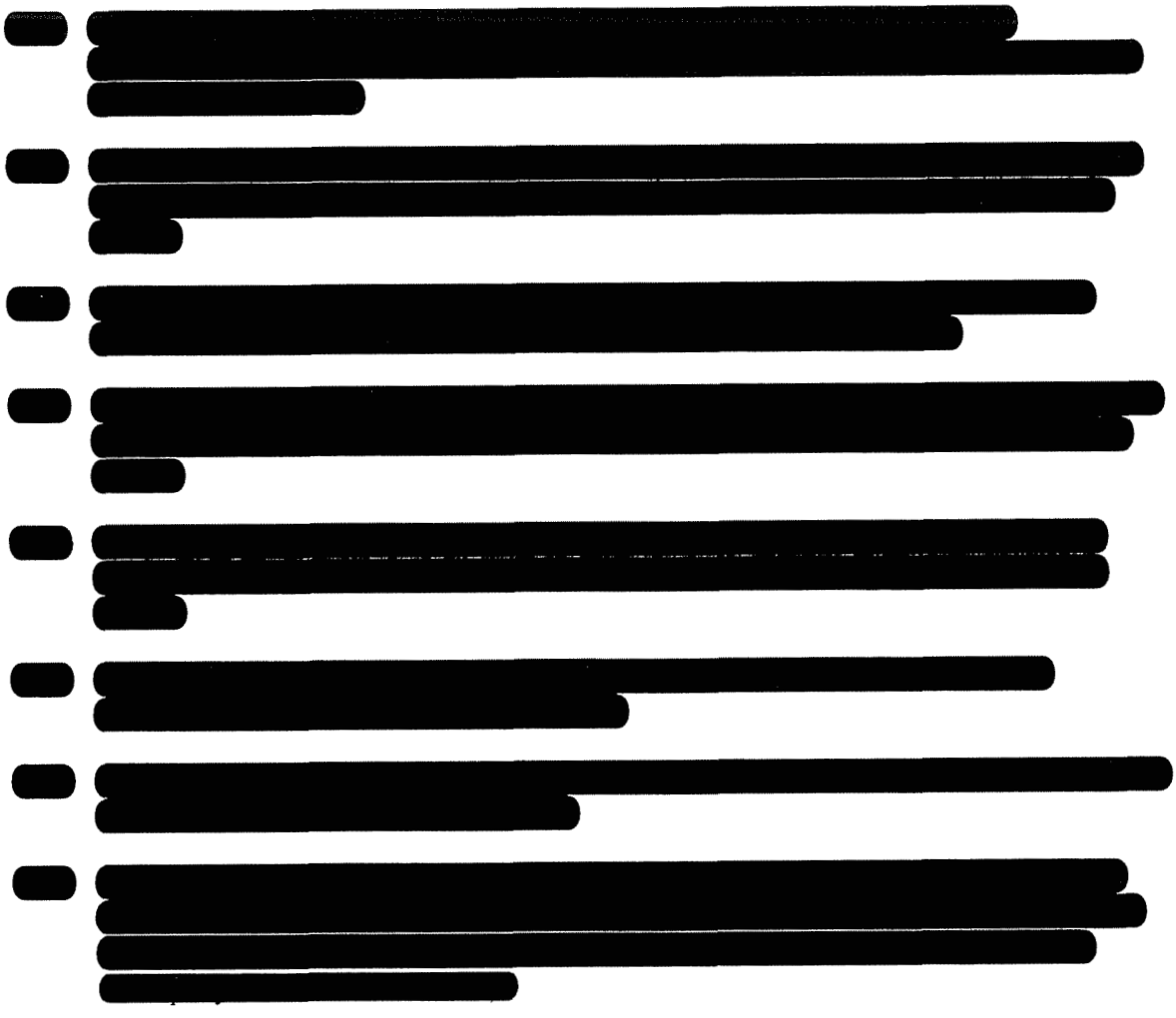
Insurance Policies

[redacted]

[redacted]

[redacted]

[redacted]



Section 3.19
Trading

1. The Company purchases coal and natural gas for its own use and for the use of customers, but not for trading purposes.

2. The Company has exceeded its Stop Loss Limit for 2011, but has received a waiver from Parent of this situation.

3. KU and LG&E may purchase, sell or transfer NOx and SOx allowance credits in the ordinary course of business but they do not actively trade such allowances.

Section 3.22
Credit Support Arrangements

[redacted]

[redacted]

[redacted]

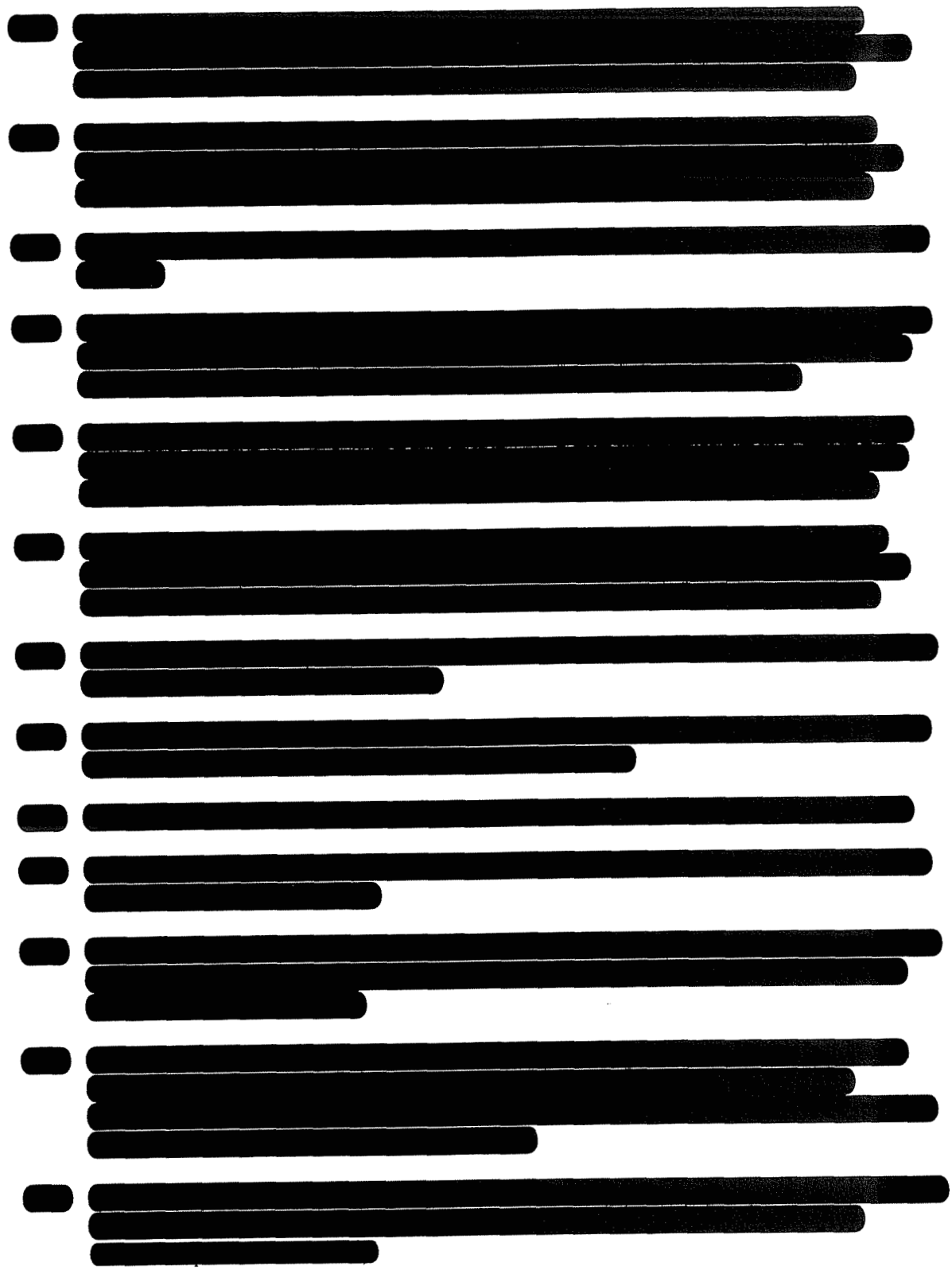
Letters of Credit Issued Under E.ON North America Inc. Facility

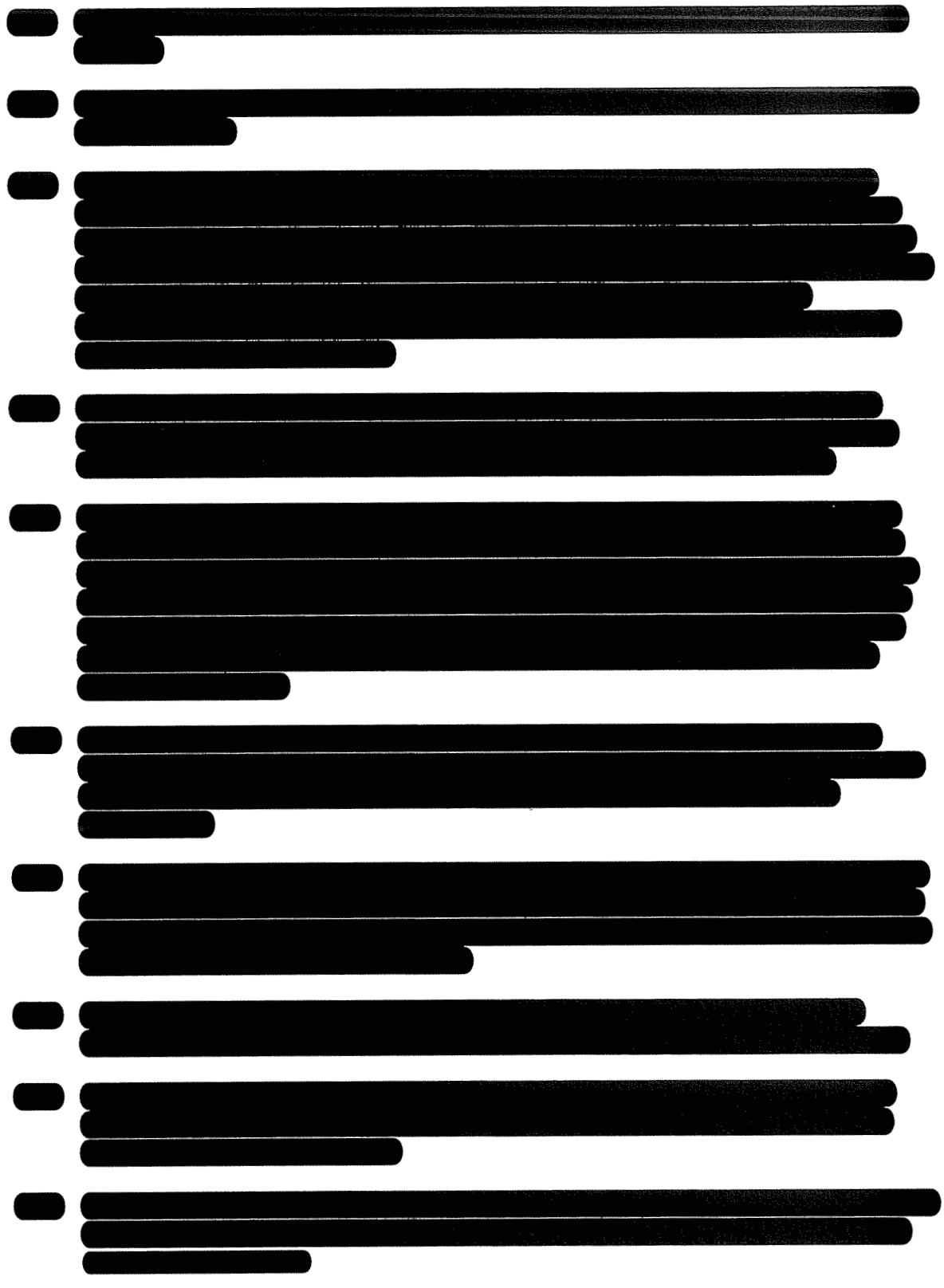
[redacted]

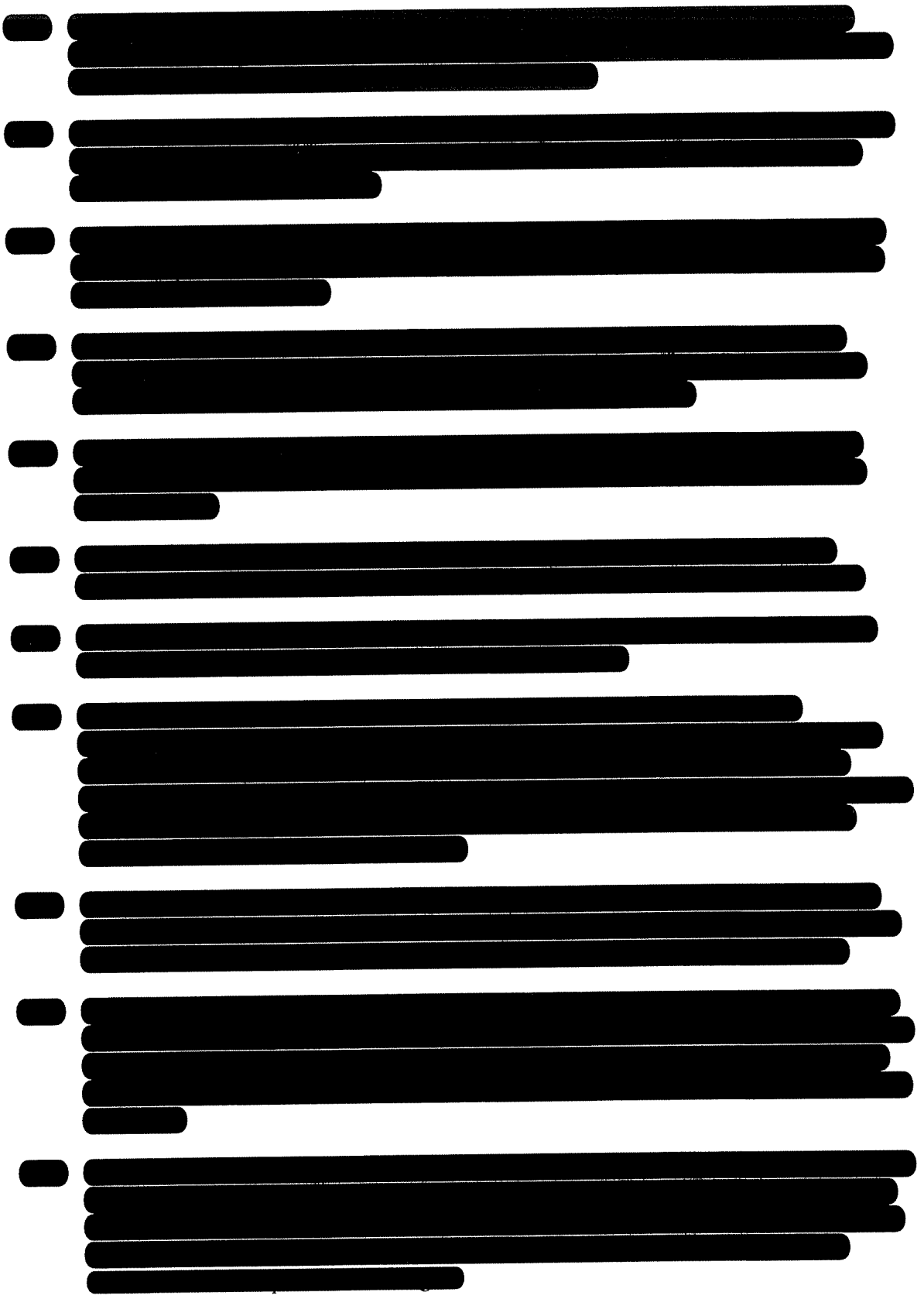
Section 3.25
WKE Matters

WKE Unwind Transaction Documents:

[redacted]







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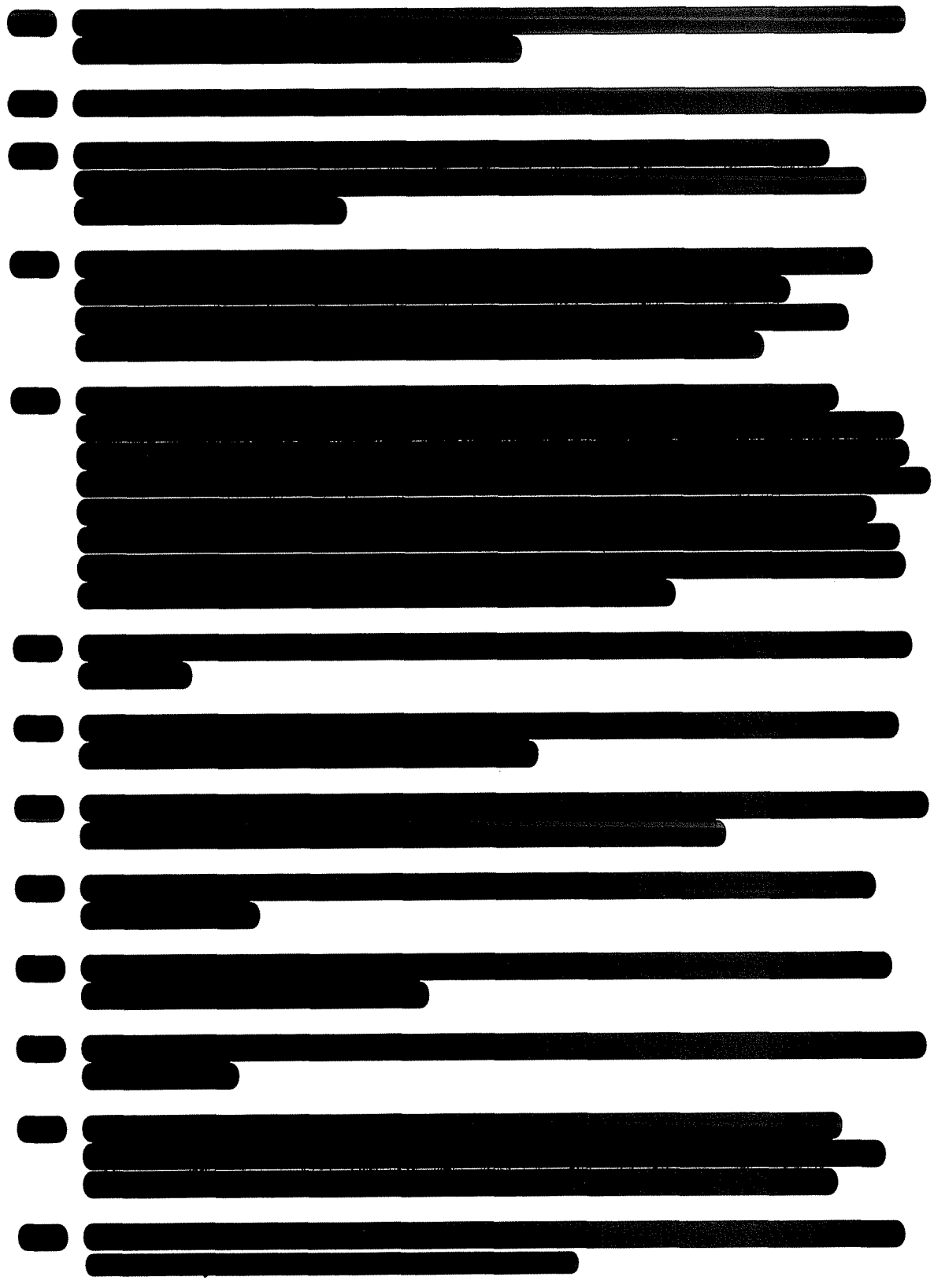
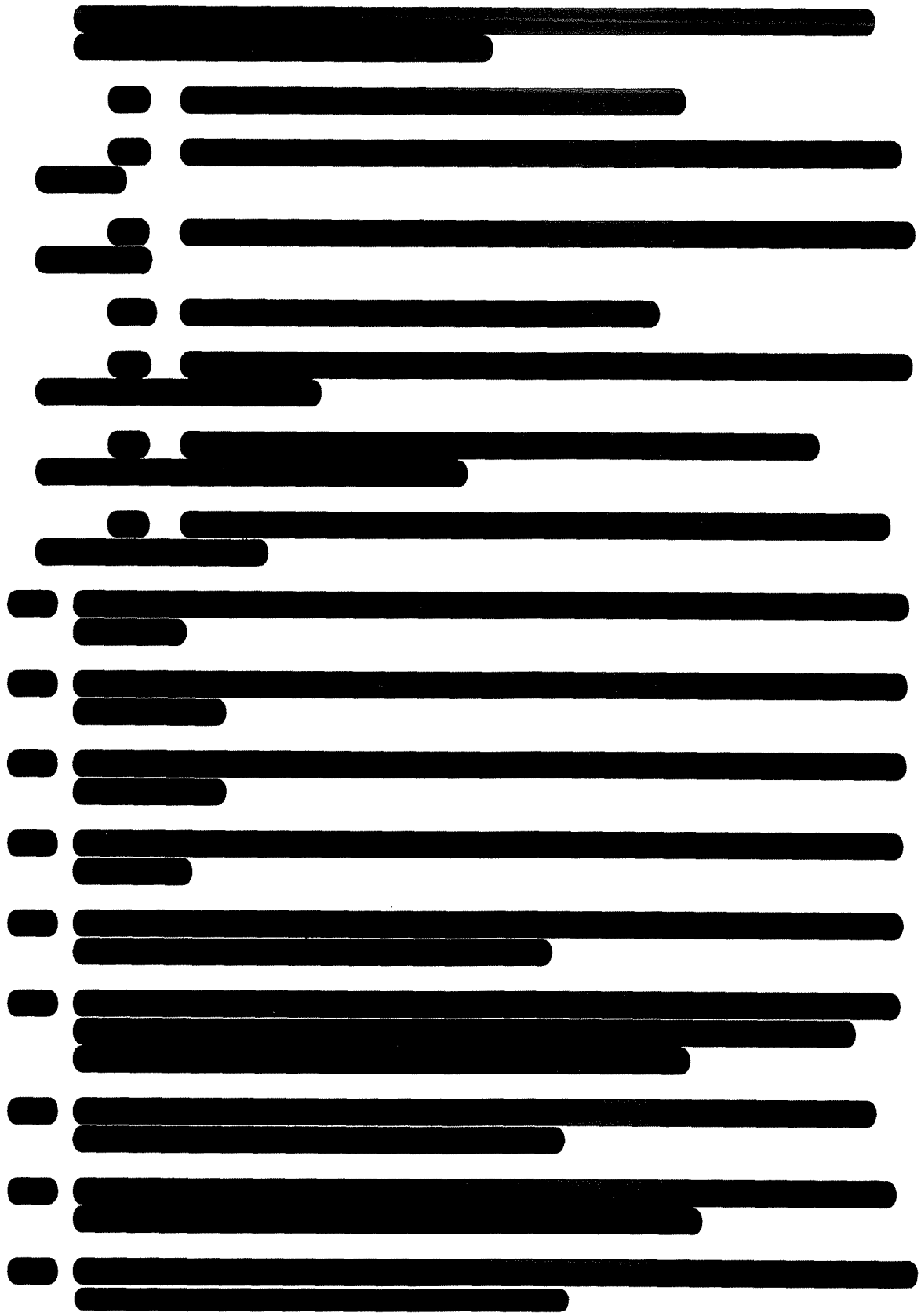


[redacted]

BREC Financing Agreements

[redacted]



[redacted]

City Agreements

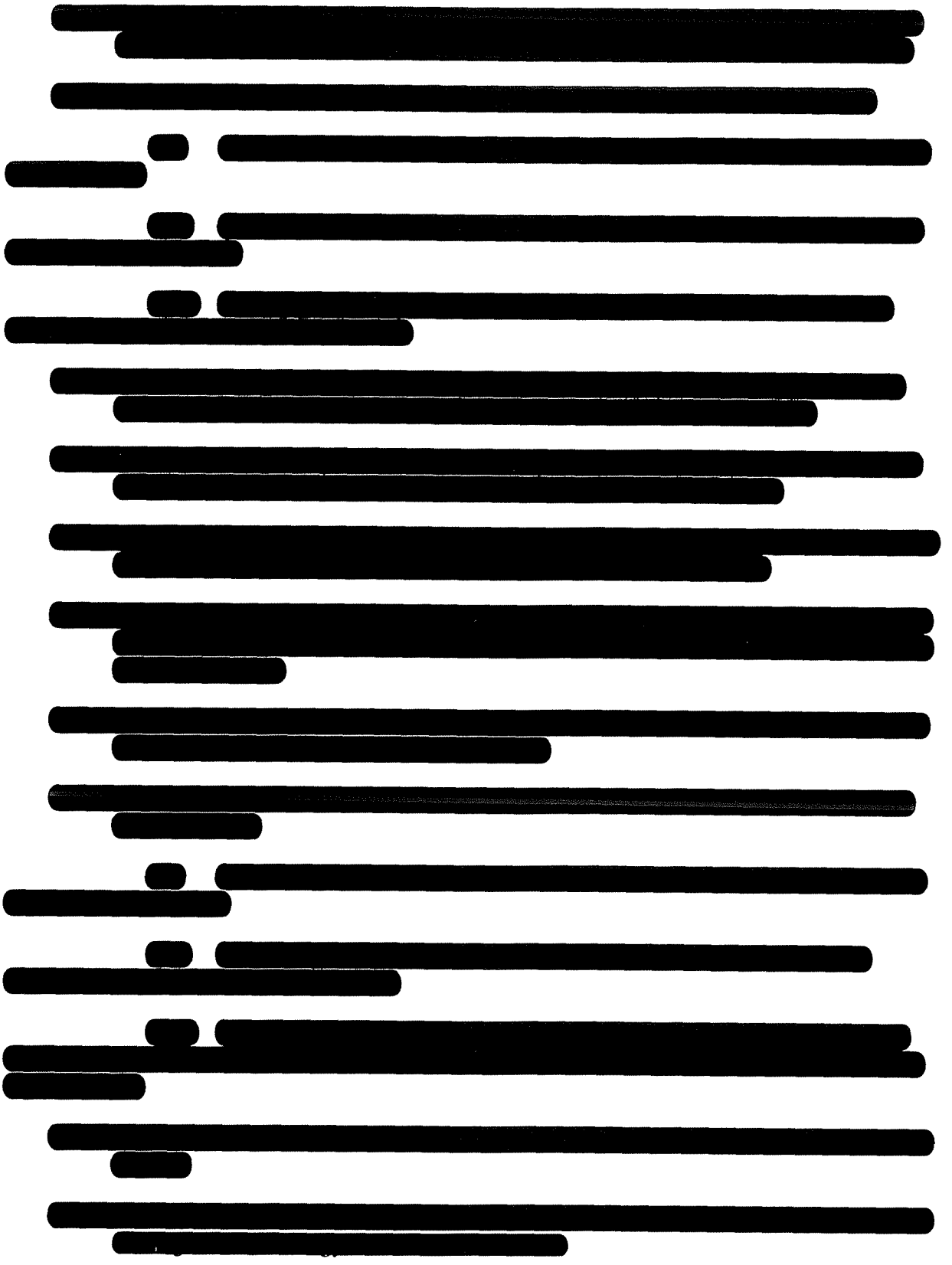
[redacted]

[redacted]

Smelter Agreements

[redacted]

[redacted]



[redacted]

Closing Certificates

BREC:

[redacted]

WKEC:

[redacted]

LEM:

[redacted]

The Company:

[redacted]

Trustee:

[redacted]

Kenergy:

[redacted]

Member Cooperatives:

[redacted]

Alcan:

[redacted]

Century:

[redacted]

[redacted]

Legal Opinions

[redacted]

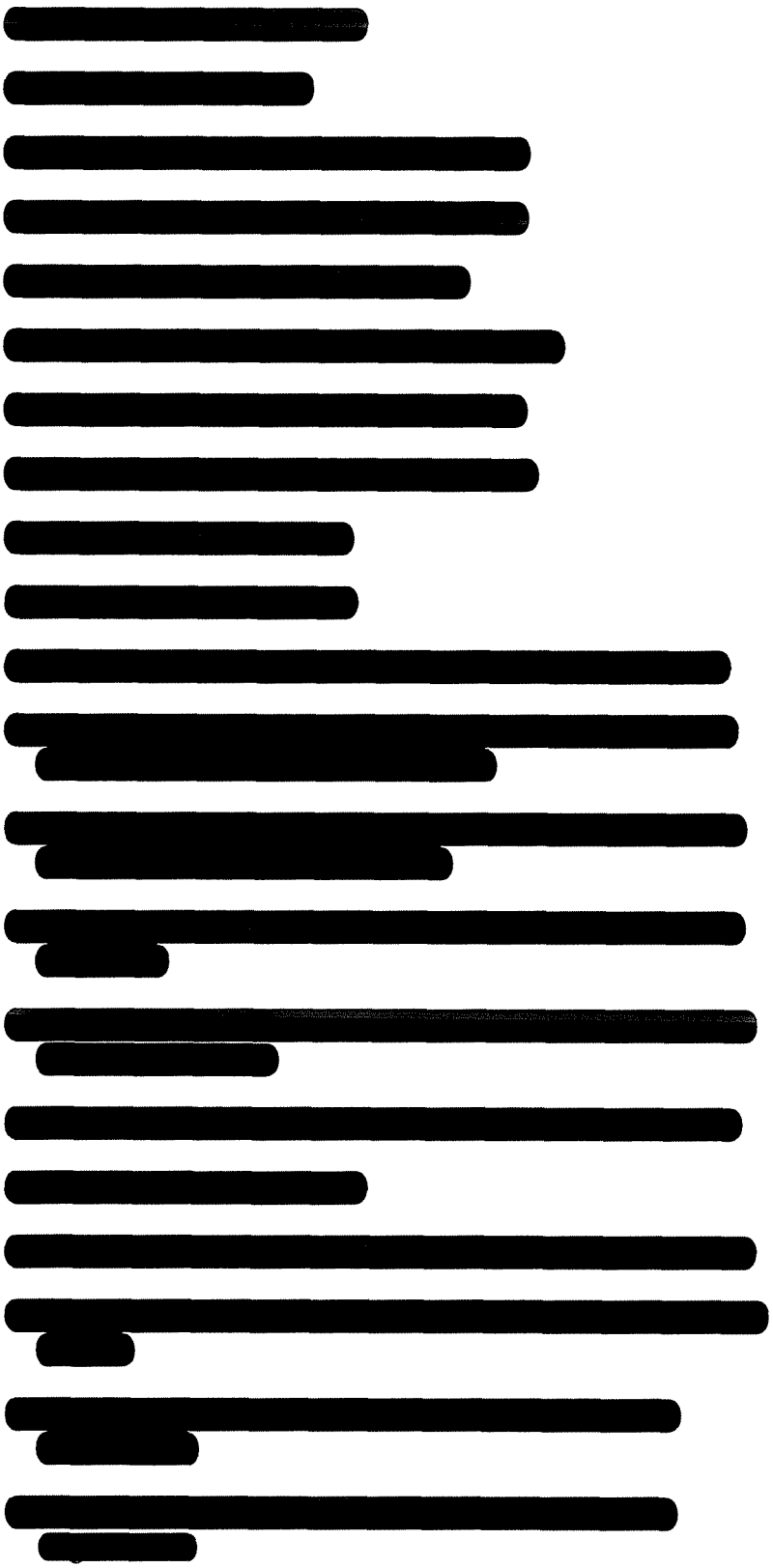
CONFIDENTIAL

[redacted]

Closing Memorandums

[redacted]

[redacted]



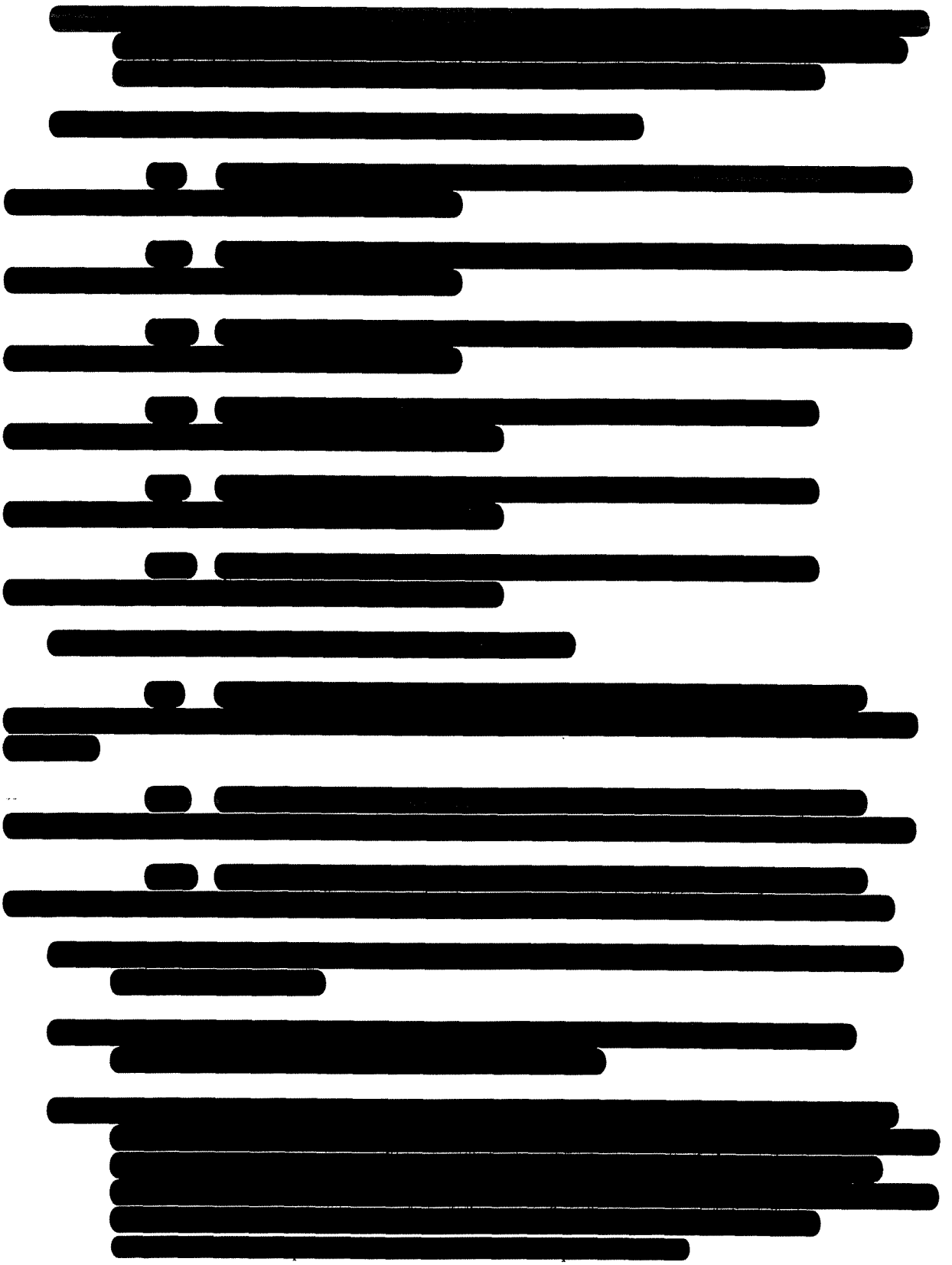
[redacted]

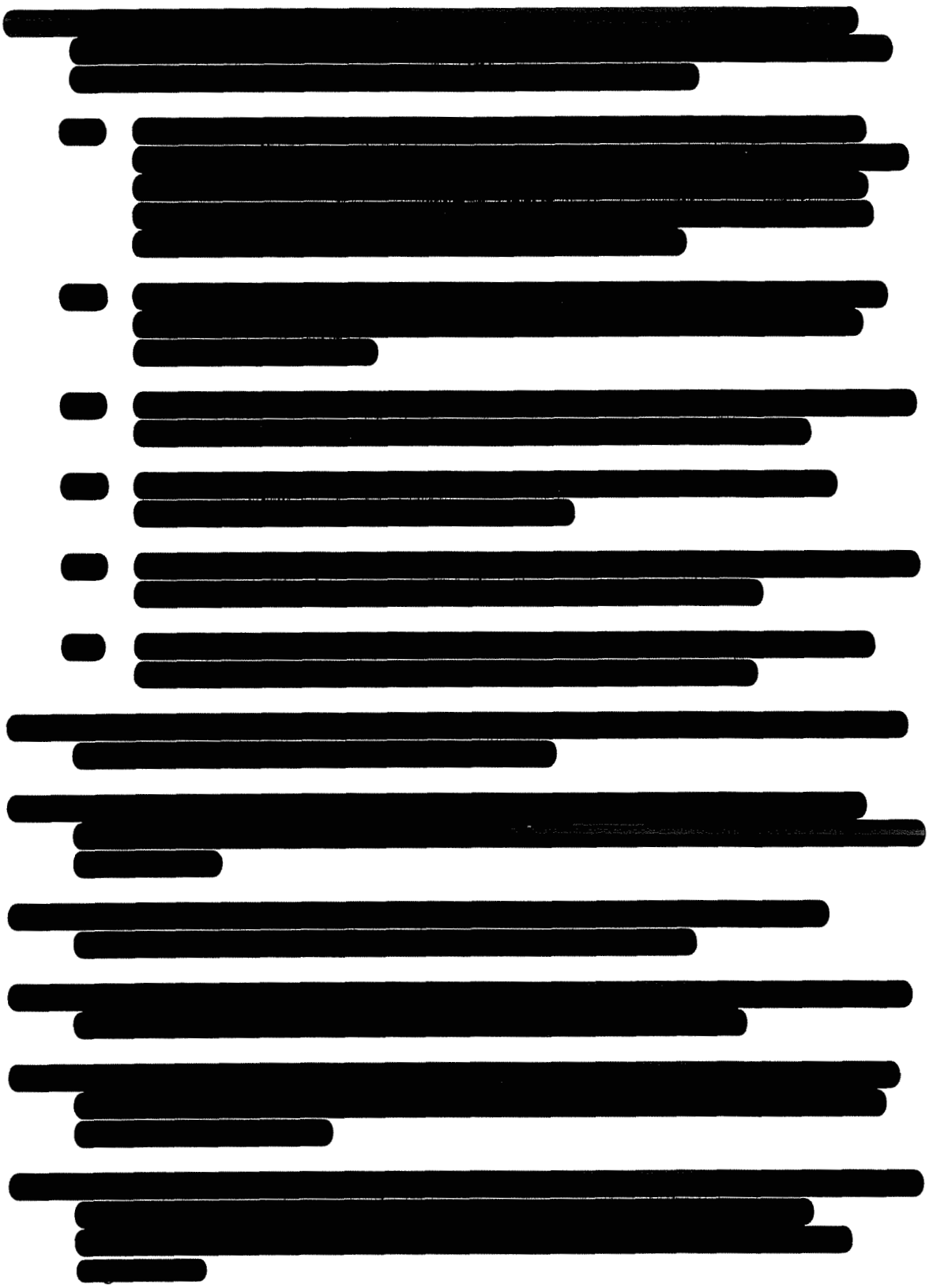
Other Closing Documents

[redacted]

[redacted]

[redacted]





[redacted]

Knowledge persons

237. Victor A. Staffieri

238. Paul W. Thompson

239. Dr. Frank Possmeier

240. Alan Bevan

Indemnification Claims:

241. See Section 3.10, Items 19 and 20 of this Company Disclosure Schedule.

[redacted]

[redacted]

[redacted]

7. KPSC Storm Report. LG&E and KU have commenced and may continue certain storm programs, of various types, in conjunction with a KPSC storm report presenting recommendations to relevant Kentucky utilities. Efforts included

enhanced inspection, tracking, customer communications and other procedures, as well as commencing certain construction enhancements.

[redacted]

13. ITO and RC Matters. LG&E's and KU's current contract with Southwest Power Pool, Inc. to serve as Independent Transmission Operator, is currently scheduled to terminate effective September 1, 2010. The Company has applied to the FERC to allow the termination of its ITO arrangements with SPP, perform the bulk of the functions internally and assign certain functions to the Tennessee Valley Authority, its current Reliability Coordinator and may proceed in this matter.

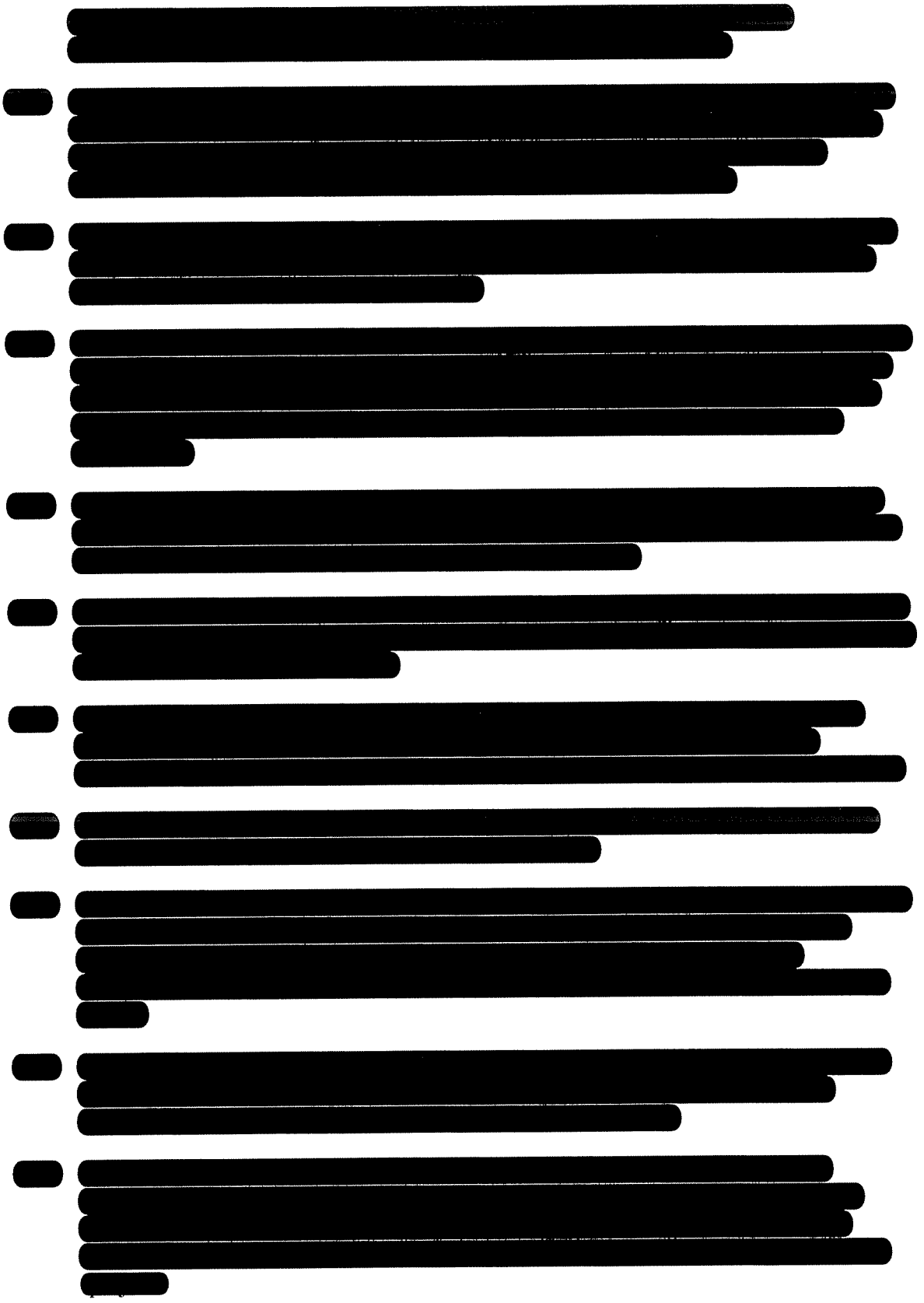
14. The contracts identified in Section 3.3 above may be modified, amended or terminated in order to comply with Section 5.7 of the Agreement at or in advance of Closing.

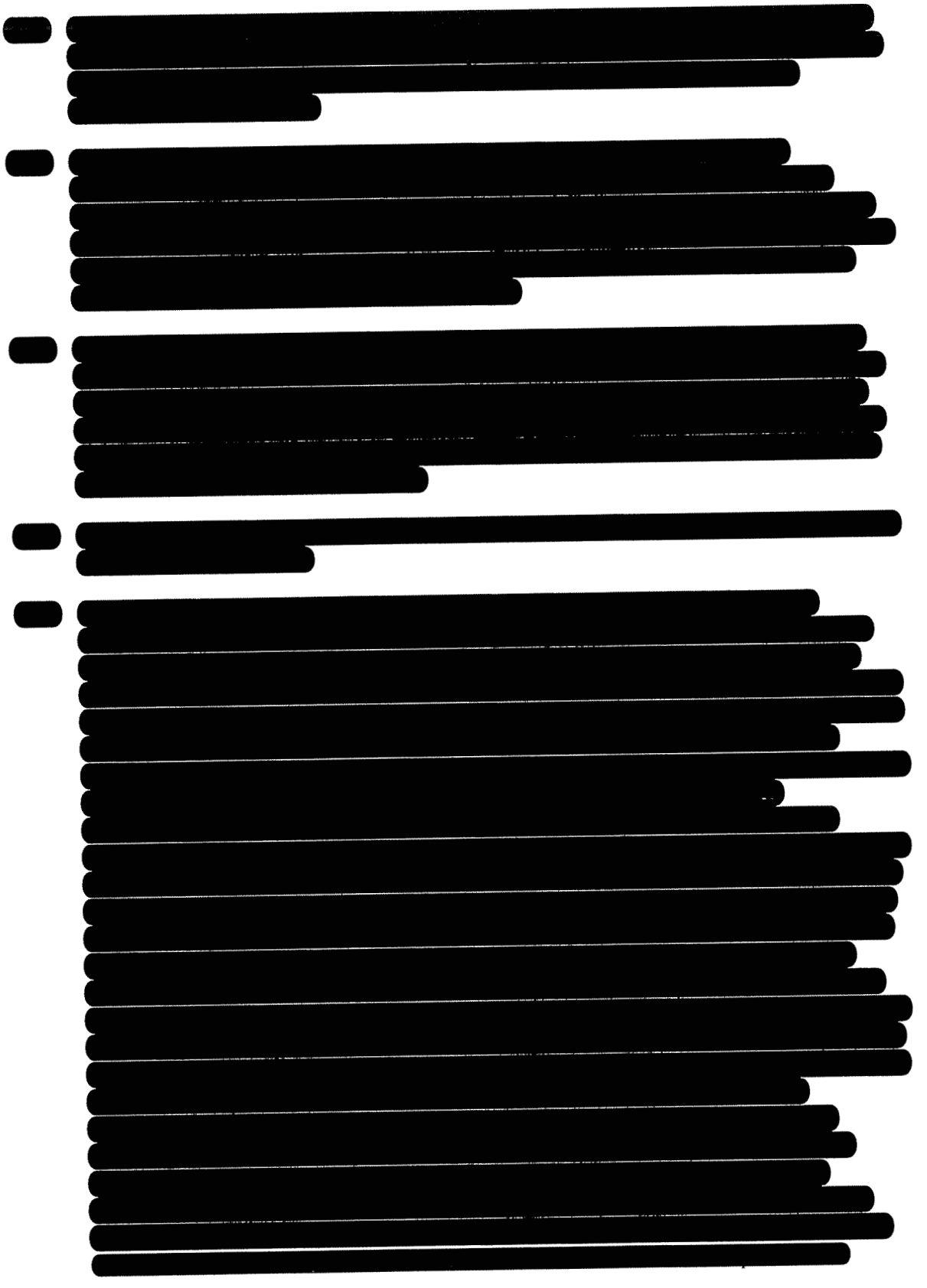
[redacted]

[redacted]

19. Virginia Rate Case. In June 2009, KU filed an application with the VSCC requesting an increase in electric base rates for its Virginia jurisdictional customers. During December 2009, KU and the VSCC staff agreed to a stipulation and settlement authorizing an annual base rate revenues increase of $11 million and a return on rate base of 7.846% based on a 10.5% return on common equity. In March 2010, the VSCC approved the stipulation, with rates to become effective in April 2010. In connection with the stipulation, KU expects to refund approximately $1 million to Virginia customers relating to certain interim rates received in excess of the final increase amounts.

[redacted]





Section 5.1(d)
Capital Expenditures

Period	Amount (in thousands)
1st Quarter, 2010	$150,446
2nd Quarter, 2010	$154,244
3rd Quarter, 2010	$145,925
4th Quarter, 2010	$157,946
1st Quarter, 2011	$156,851
2nd Quarter, 2011	$163,565
3rd Quarter, 2011	$157,427
4th Quarter, 2011	$172,937

Section 5.6(a)
Employee Benefits

[redacted]

2. Items 16 to 27 of Schedule 3.12(a) are hereby incorporated by reference Employment Agreements and Change in Control Agreements

3. Items 29 to 37 of Schedule 3.12(a) are hereby incorporated by reference Retention and Severance Agreements

Section 5.6(c)
Employee Benefits

[redacted]

Section 5.6(f)
Employee Benefits

1. Items 1 through 17 of Section 3.12(e) of this Company Disclosure Schedule are hereby incorporated by reference.

Section 5.6(h)
Employee Benefits

- [redacted]
- [redacted]
- [redacted]

Section 5.7(a)
Intercompany Items

Seller shall have the ability to amend Affiliate Indebtedness agreements to more favorable terms for the Company and its Subsidiaries.

Section 5.7(b)
Intercompany Items

None.

Section 5.8(c)
Company Names

1. Louisville Gas and Electric Company
2. LG&E
3. Kentucky Utilities Company
4. KU
5. Old Dominion Power Company (KU's d/b/a in its Virginia territory)
6. ODP
7. LG&E Natural
8. LG&E Gas
9. KU Energy
10. KU Capital
11. KUCC
12. WKE
13. WKEC
14. Ultrasystems
15. Ultrapower
16. Hadson

Exhibit 3.6(b) to the Company Disclosure Schedule

Name of Company	Jurisdiction of Incorporation/ Organization	Authorized Capital Stock	Number of Shares (Units) of Capital Stock Issued and Outstanding	Record Holder
E.ON U.S. LLC	Kentucky	10,000,000 units	1001 units	E.ON US Investments Corp.
Louisville Gas and Electric Company	Kentucky	1,720,000 shares of preferred stock; $25 par value 6,750,000 shares of preferred stock; no par value 75,000,000 shares of common stock; no par value	21,294,223 shares of common stock	E.ON U.S. LLC
Kentucky Utilities Company	Kentucky and Virginia	5,300,000 shares of cumulative preferred stock; no par value 2,000,000 shares of preferred stock; no par value 80,000,000 shares of common stock; no par value	37,817,878 shares of common stock	E.ON U.S. LLC
Lexington Utilities Company	Kentucky	1,000 shares of common stock; no par value	100 shares	Kentucky Utilities Company
E.ON U.S. Foundation Inc.	Kentucky	None	None	E.ON U.S. LLC as sole member
LG&E Energy Marketing Inc.	Oklahoma	25,000 shares of common stock; $1.00 par value	600 shares	wholly-owned by E.ON U.S. LLC
E.ON U.S. Services Inc.	Kentucky	1,000 shares of common stock; no par value	100 shares	E.ON U.S. LLC
E.ON U.S. Capital Corp	Kentucky	2,000 shares of common stock; no par value	1001 shares	E.ON U.S. LLC
LG&E Home Services Inc.	Kentucky	1,000 shares of common stock; no par value	100 shares	E.ON U.S. Capital Corp

Name of Company	Jurisdiction of Incorporation/ Organization	Authorized Capital Stock	Number of Shares (Units) of Capital Stock Issued and Outstanding	Record Holder
LG&E International Inc.	Delaware	1,000 shares of common stock; $0.01 par value	100 shares	E.ON U.S. Capital Corp
Western Kentucky Energy Corp.	Kentucky	1,000 shares of common stock; no par value	100 shares	E.ON U.S. Capital Corp.
FCD LLC	Kentucky	1,000 units	1 unit	Western Kentucky Energy Corp.
LG&E Power Inc.	Delaware	2,000 shares of common stock; $0.01 par value	1,750 shares	E.ON U.S. Capital Corp.
LG&E Power Operations Inc.	California	100,000 shares of common stock; no par value	2,500 shares	LG&E Power Inc.
LG&E Power Development Inc.	California	100,000 shares of common stock; no par value	100 shares	LG&E power Inc.
LG&E Energy Inc.	Kentucky	1,000 shares of common stock; no par value	100 shares	E.ON U.S. Capital Corp.
E.ON U.S. Hydro I LLC	Kentucky	1,000 units	1 unit	E.ON U.S. Capital Corp.
LG&E Power Argentina I, Inc.	Delaware	1,000 common stock; $0.01 par value	100 shares	LG&E International Inc.
LG&E Power Argentina II, Inc.	Delaware	1,000 common stock; $0.01 par value	100 shares	LG&E International Inc.
LG&E Power Argentina III LLC	Kentucky	1,000 units	100 units	LG&E International Inc.

E.ON U.S. LLC and Subsidiaries

Consolidated Financial Statements

As of and for the Years Ended
December 31, 2009 and 2008

E.ON U.S. LLC and Subsidiaries
Consolidated Financial Statements
As of and for the Years Ended
December 31, 2009 and 2008

Table of Contents

E.ON U.S. LLC and Subsidiaries
Consolidated Financial Statements
As of and for the Years Ended
December 31, 2009 and 2008

Index of Abbreviations

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BART	Best Available Retrofit Technology
Big Rivers	Big Rivers Electric Corporation
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
Capital Corp.	E.ON U.S. Capital Corp.
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Centro	Distribuidora de Gas Del Centro S.A.
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Company	E.ON U.S. LLC and Subsidiaries
CT	Combustion Turbine
Cuyana	Distribuidora de Gas Cuyana S.A.
DOE	U.S. Department of Energy
DSM	Demand Side Management
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON Spain	E.ON Espana S.L.
E.ON U.S.	E.ON U.S. LLC
E.ON U.S. Services	E.ON U.S. Services Inc.
ECR	Environmental Cost Recovery
EKPC	East Kentucky Power Cooperative
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
GAAP	Generally Accepted Accounting Principles
GAC	Group Annuity Contract
GHG	Greenhouse Gas
GSC	Gas Supply Clause
IBEW	International Brotherhood of Electrical Workers
ICSID	International Council for the Settlement of Investment Disputes
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
Kwh	Kilowatt hours
LEM	LG&E Energy Marketing Inc.
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offered Rate
MISO	Midwest Independent Transmission System Operator

Index of Abbreviations (Cont.)

MMBtu	Million British thermal units
Moody's	Moody's Investor Services, Inc.
Mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NGHH	Natural Gas-Henry Hub
NOV	Notice of Violation
NOx	Nitrogen Oxide
OCI	Other Comprehensive Income (Loss) or Accumulated Other Comprehensive Income (Loss)
OMU	Owensboro Municipal Utilities
OVEC	Ohio Valley Electric Corporation
PUHCA	Public Utility Holding Company Act
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
RSG	Revenue Sufficiency Guarantee
S&P	Standard and Poor's Rating Service
SCR	Selective Catalytic Reduction
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
Trimble County	LG&E's Trimble County plant
USWA	United Steelworkers of America
VDT	Value Delivery Team
VEBA	Voluntary Employee Beneficiary Association
Virginia Commission	Virginia State Corporation Commission
WKE	Western Kentucky Energy Corp. and its Affiliates

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Operations
(Millions of $)

	Years Ended December 31	
	2009	2008
Operating revenues:		
Electric utility	$2,145	$2,221
Gas utility	354	452
Non-utility	2	2
Total revenues	2,501	2,675
Operating expenses:		
Fuel and power purchased	949	1,053
Gas supply expenses	237	349
Utility operation and maintenance	607	533
Non-utility operation and maintenance	26	30
Depreciation, accretion and amortization (Note 1)	271	265
Total operating expenses	2,090	2,230
Loss on impairment of goodwill (Note 2)	(1,493)	(1,806)
Operating loss	(1,082)	(1,361)
Equity in earnings of unconsolidated venture	-	29
Mark-to-market income (expense) (Note 6)	18	(37)
Other income (deductions)	5	17
Interest expense - affiliated companies	(155)	(138)
Interest expense	(21)	(46)
Loss from continuing operations, before income taxes	(1,235)	(1,536)
Income tax expense (Note 10)	82	78
Loss from continuing operations	(1,317)	(1,614)
Discontinued operations (Note 3):		
Loss from discontinued operations before tax	(222)	(287)
Income tax benefit from discontinued operations	71	114
Loss from discontinued operations before noncontrolling interest	(151)	(173)
Loss on disposal of discontinued operations before tax	(114)	-
Income tax benefit from loss on disposal of discontinued operations	45	-
Loss on disposal of discontinued operations	(69)	-
Net loss	(1,537)	(1,787)
Noncontrolling interest - income from discontinued operations	(5)	(8)
Net loss attributable to member	$(1,542)	$(1,795)

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Comprehensive Loss (Note 15)
(Millions of $)

	Years Ended December 31	
	2009	2008
Net loss	$(1,537)	$(1,787)
Other comprehensive income (loss):		
Defined-benefit pension and postretirement plans	29	(77)
Gains (losses) on derivative instruments	5	(2)
Foreign currency translation adjustment (Note 3)	(8)	(9)
Income tax (expense) benefit related to items of other comprehensive income	(11)	33
Comprehensive loss	(1,522)	(1,842)
Noncontrolling interest - income from discontinued operations	(5)	(8)
Other comprehensive income (loss) allocable to noncontrolling interest:		
Foreign currency translation adjustment (Note 3)	4	4
Income tax expense related to items of other comprehensive income	(1)	(1)
Comprehensive loss attributable to member	$(1,524)	$(1,847)

Consolidated Statements of Retained (Deficit) Earnings
(Millions of $)

	Years Ended December 31	
	2009	2008
Balance January 1	$(1,172)	$691
Net loss attributable to member	(1,542)	(1,795)
Cash dividends declared on common stock	(49)	(68)
Balance December 31	$(2,763)	$(1,172)

Consolidated Statements of Noncontrolling Interest
(Millions of $)

	Years Ended December 31	
	2009	2008
Balance January 1	$32	$34
Noncontrolling interest - income from discontinued operations	5	8
Distributions to noncontrolling interests - discontinued operations	(2)	(7)
Foreign currency translation adjustment	(3)	(3)
Balance December 31	$32	$32

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

E.ON U.S. LLC and Subsidiaries
Consolidated Balance Sheets
(Millions of $)

	December 31	
	2009	2008
Assets:		
Current assets:		
Cash and cash equivalents (Note 1)	$7	$15
Restricted cash (Note 1)	1	12
Accounts receivable:		
Customer - less reserve of $2 in 2009 and $4 in 2008 (Note 1)	286	331
Other - less reserve of $2 in 2009 and $1 in 2008	34	37
Materials and supplies (Note 1):		
Fuel (predominantly coal)	158	123
Gas stored underground	56	112
Other materials and supplies	72	68
Deferred income taxes (Note 10)	10	25
Assets of discontinued operations (Note 3)	90	920
Regulatory assets (Note 5)	46	75
Prepayments and other current assets	35	31
Total current assets	795	1,749
Utility plant, at original cost (Note 1):		
Electric	8,226	7,789
Gas	640	599
Common	226	190
Total utility plant, at original cost	9,092	8,578
Less: reserve for depreciation	3,546	3,414
Total utility plant, net	5,546	5,164
Construction in progress	1,599	1,551
Net utility plant	7,145	6,715
Other property and investments:		
Investment in unconsolidated venture (Note 1)	21	31
Other	5	11
Total other property and investments	26	42
Regulatory assets – pension and postretirement benefits (Notes 5 and 9)	309	387
Regulatory assets - other (Note 5)	242	153
Goodwill (Notes 1 and 2)	837	2,330
Other long-term assets	75	78
Total deferred debits and other assets	1,463	2,948
Total assets	$9,429	$11,454

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

E.ON U.S. LLC and Subsidiaries
Consolidated Balance Sheets (Continued)
(Millions of $)

	December 31	
	2009	2008
Liabilities and equity:		
Current liabilities:		
Current portion of long-term debt (Note 11)	$349	$349
Current portion of long-term debt - affiliated company (Notes 4 and 11)	358	255
Notes payable - affiliated company (Notes 4 and 12)	851	299
Accounts payable	221	298
Accounts payable - affiliated companies (Note 4)	43	57
Customer deposits	44	43
Liabilities of discontinued operations (Note 3)	7	1,006
Regulatory liabilities (Note 5)	41	40
Derivative liability	76	-
Other current liabilities	117	111
Total current liabilities	2,107	2,458
Long-term debt - affiliated companies (Notes 4 and 11)	3,063	2,766
Long-term debt (Note 11)	416	416
Total long-term debt	3,479	3,182
Deferred income taxes (Note 10)	87	435
Investment tax credit (Note 10)	152	130
Accumulated provision for pensions and related benefits (Note 9)	540	591
Asset retirement obligations (Note 5)	66	63
Regulatory liability - accumulated cost of removal (Note 5)	587	580
Regulatory liability - other (Note 5)	76	97
Derivative liability (Note 6)	28	55
Other long-term liabilities	83	66
Total deferred credits and other liabilities	1,619	2,017
Equity	2,224	3,797
Total liabilities and equity	$9,429	$11,454

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Cash Flows
(Millions of $)

	Years Ended December 31	
	2009	2008
Cash flows from operating activities:		
Net loss	$(1,537)	$(1,787)
Items not requiring cash currently:		
Depreciation, accretion and amortization	271	265
Deferred income taxes - net (Note 10)	46	(14)
Investment tax credit - net (Note 10)	(3)	(4)
Provision for pensions	83	41
Loss on impairment of goodwill (Note 2)	1,493	1,806
Undistributed earnings of unconsolidated ventures	11	1
Loss from discontinued operations – net of tax (Note 3)	225	181
(Gains) losses on interest-rate swaps	(33)	48
Other	(3)	(2)
Changes in certain net current assets and liabilities:		
Accounts receivable	73	1
Materials and supplies	31	(69)
Accounts payable	(64)	60
Accrued taxes and interest	(76)	(4)
Prepayments and other	(2)	(17)
Changes in other deferred credits	(2)	10
Change in storm restoration regulatory asset	(101)	(26)
Changes in other regulatory assets and liabilities	(12)	(10)
Changes in deferred income tax liabilities	11	12
Pension and postretirement funding	(51)	(18)
Net operating cash flows from discontinued operations	(580)	(69)
Other	16	(15)
Net cash flows (used) provided by operating activities	(204)	390
Cash flows from investing activities:		
Proceeds from sales of property	3	9
Construction expenditures	(703)	(931)
Construction expenditures - discontinued operations	(23)	(28)
Change in non-hedging derivative liability	7	(8)
Decrease in restricted cash	10	1
Net cash flows used by investing activities	(706)	(957)

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
(Millions of $)

	Years Ended December 31	
	2009	2008
Cash flows from financing activities:		
Issuance of long-term debt (Note 11)	-	78
Retirement of long-term debt (Note 11)	-	(67)
Acquisition of outstanding bonds	-	(339)
Reissuance of reacquired bonds	-	159
Borrowings from affiliates (Notes 4 and 12)	2,090	2,637
Repayment of borrowings from affiliates (Notes 4 and 12)	(1,137)	(1,825)
Distributions to noncontrolling interests - discontinued operations	(2)	(7)
Payment of common dividends	(49)	(68)
Net cash flows provided by financing activities	902	568
Change in cash and cash equivalents	(8)	1
Beginning cash and cash equivalents	15	14
Ending cash and cash equivalents	$7	$15
Supplemental disclosures of cash flow information:		
Cash paid (received) during the year for:		
Income taxes	$(8)	$61
Interest on borrowed money - external	12	29
Interest on borrowed money - affiliates	149	134

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Capitalization
(Millions of $)

	December 31	
	2009	2008
Equity:		
Membership units, without par value -		
Authorized 10,000,000 units, outstanding		
1,001 units	$774	$774
Additional paid-in capital	4,224	4,224
Accumulated other comprehensive loss (Note 15)	(43)	(61)
Retained deficit	(2,763)	(1,172)
Total member's equity	2,192	3,765
Noncontrolling interest	32	32
Total equity	2,224	3,797
Long-term debt (Note 11):		
Louisville Gas and Electric Company:		
Pollution control series -		
Jefferson Co. 2001 Series A, due September 1, 2026, variable %	23	23
Trimble Co. 2001 Series A, due September 1, 2026, variable %	28	28
Jefferson Co. 2000 Series A, due May 1, 2027, 5.375%	25	25
Jefferson Co. 2001 Series A, due September 1, 2027, variable %	10	10
Jefferson Co. 2001 Series B, due November 1, 2027, variable %	35	35
Trimble Co. 2001 Series B, due November 1, 2027, variable %	35	35
Trimble Co. 2000 Series A, due August 1, 2030, variable %	83	83
Trimble Co. 2002 Series A, due October 1, 2032, variable %	42	42
Louisville Metro 2007 Series A, due June 1, 2033, 5.625%	31	31
Louisville Metro 2007 Series B, due June 1, 2033, variable %	35	35
Trimble Co. 2007 Series A, due June 1, 2033, 4.60%	60	60
Louisville Metro 2003 Series A, due October 1, 2033, variable %	128	128
Louisville Metro 2005 Series A, due February 1, 2035, 5.75%	40	40
Total LG&E bonds including reacquired bonds	575	575
Less reacquired bonds	163	163
Total LG&E bonds	412	412
Due to affiliates -		
Fidelia, due January 16, 2012, 4.33%, unsecured	25	25
Fidelia, due April 30, 2013, 4.55%, unsecured	100	100
Fidelia, due August 15, 2013, 5.31%, unsecured	100	100
Fidelia, due November 23, 2015, 6.48%, unsecured	50	50
Fidelia, due July 25, 2018, 6.21%, unsecured	25	25
Fidelia, due November 26, 2022, 5.72%, unsecured	47	47
Fidelia, due April 13, 2031, 5.93%, unsecured	68	68
Fidelia, due April 13, 2037, 5.98%, unsecured	70	70
Total LG&E due to affiliates	485	485
Total LG&E debt outstanding	897	897

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Capitalization (Continued)
(Millions of $)

	December 31	
	2009	2008
Long-term debt - cont. (Note 11):		
Kentucky Utilities Company:		
Pollution control series -		
Mercer Co. 2000 Series A, due May 1, 2023, variable %	13	13
Carroll Co. 2007 Series A, due February 1, 2026, 5.75%	18	18
Carroll Co. 2002 Series A, due February 1, 2032, variable %	21	21
Carroll Co. 2002 Series B, due February 1, 2032, variable %	2	2
Mercer Co. 2002 Series A, due February 1, 2032, variable %	8	8
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %	2	2
Carroll Co. 2008 Series A, due February 1, 2032, variable %	78	78
Carroll Co. 2002 Series C, due October 1, 2032, variable %	96	96
Carroll Co. 2004 Series A, due October 1, 2034, variable %	50	50
Carroll Co. 2006 Series B, due October 1, 2034, variable %	54	54
Trimble Co. 2007 Series A, due March 1, 2037, 6.00%	9	9
Total KU bonds	351	351
Due to affiliates -		
Fidelia, due November 24, 2010, 4.24%, unsecured	33	33
Fidelia, due January 16, 2012, 4.39%, unsecured	50	50
Fidelia, due April 30, 2013, 4.55%, unsecured	100	100
Fidelia, due August 15, 2013, 5.31%, unsecured	75	75
Fidelia, due December 19, 2014, 5.45%, unsecured	100	100
Fidelia, due July 8, 2015, 4.735%, unsecured	50	50
Fidelia, due December 21, 2015, 5.36%, unsecured	75	75
Fidelia, due October 25, 2016, 5.675%, unsecured	50	50
Fidelia, due April 24, 2017, 5.28%, unsecured	50	-
Fidelia, due June 20, 2017, 5.98%, unsecured	50	50
Fidelia, due July 25, 2018, 6.16%, unsecured	50	50
Fidelia, due August 27, 2018, 5.645%, unsecured	50	50
Fidelia, due December 17, 2018, 7.035%, unsecured	75	75
Fidelia, due July 29, 2019, 4.81%, unsecured	50	-
Fidelia, due October 25, 2019, 5.71%, unsecured	70	70
Fidelia, due November 25, 2019, 4.445%, unsecured	50	-
Fidelia, due February 7, 2022, 5.69%, unsecured	53	53
Fidelia, due May 22, 2023, 5.85%, unsecured	75	75
Fidelia, due September 14, 2028, 5.96%, unsecured	100	100
Fidelia, due June 23, 2036, 6.33%, unsecured	50	50
Fidelia, due March 30, 2037, 5.86%, unsecured	75	75
Total KU due to affiliates	1,331	1,181
Total KU debt outstanding	1,682	1,532

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Capitalization (Continued)
(Millions of $)

	December 31	
	2009	2008
Long-term debt - cont. (Note 11):		
E.ON U.S. Capital Corp.:		
Medium term notes, due November 1, 2011, 7.47%	2	2
Total Capital Corp. debt outstanding	2	2
E.ON U.S. LLC:		
Due to affiliates -		
Fidelia, due January 6, 2009, 3.98%, unsecured	-	50
Fidelia, due February 17, 2009, variable, unsecured	-	80
Fidelia, due November 26, 2009, variable, unsecured	-	50
Fidelia, due December 20, 2009, 4.07%, unsecured	-	75
Fidelia, due April 30, 2010, 4.64%, unsecured	150	150
Fidelia, due June 28, 2010, variable, unsecured	100	100
Fidelia, due October 15, 2010, 7.01%, unsecured	75	75
Fidelia, due January 6, 2011, 7.784%, unsecured	50	-
Fidelia, due July 5, 2011, variable, unsecured	300	300
Fidelia, due April 24, 2012, variable, unsecured	50	-
Fidelia, due November 19, 2012, variable, unsecured	75	75
Fidelia, due November 26, 2012, variable, unsecured	50	-
Fidelia, due December 19, 2012, 5.52%, unsecured	100	100
Fidelia, due December 21, 2012, variable, unsecured	100	-
Fidelia, due January 15, 2014, 6.044%, unsecured	75	-
Fidelia, due June 20, 2014, variable, unsecured	50	50
Fidelia, due June 23, 2014, variable, unsecured	50	-
Fidelia, due October 27, 2014, variable, unsecured	50	-
E.ON North America, due October 27, 2014, 4.63%, unsecured	50	50
Fidelia, due March 25, 2015, variable, unsecured	75	75
Fidelia, due February 17, 2016, variable, unsecured	80	-
Fidelia, due December 20, 2016, variable, unsecured	50	50
Fidelia, due April 25, 2017, 5.71%, unsecured	75	75
Total E.ON U.S. LLC debt outstanding	1,605	1,355
Total outstanding	4,186	3,786
Less current portion of long-term debt	707	604
Long-term debt	3,479	3,182
Total capitalization	$6,410	$7,583

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

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation. E.ON U.S. is an indirect wholly-owned subsidiary of E.ON AG, a German corporation. The consolidated financial statements include the following companies: E.ON U.S., LG&E, KU, LEM, E.ON U.S. Services and Capital Corp., and their wholly owned subsidiaries. E.ON U.S.'s utility operations are comprised of LG&E and KU. E.ON AG and E.ON U.S. are registered as holding companies under PUHCA 2005 and were formerly registered holding companies under PUHCA 1935.

LG&E and KU are regulated public utilities engaged in the generation, transmission, distribution and sale of electric energy. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name, and it serves customers in Tennessee under the KU name.

Capital Corp. has been the primary holding company for the Company's non-utility businesses. Its businesses included:

- *WKE and affiliates.* WKE had a 25-year lease of and operated the generating facilities of Big Rivers, a power generation cooperative in western Kentucky, and a coal-fired facility owned by Henderson Municipal Power and Light, which is owned by the City of Henderson, Kentucky. The Company classified WKE as discontinued operations, and it terminated the WKE lease and disposed of the operations in July 2009. See Note 3, Discontinued Operations.

- *Argentine Gas Distribution.* Through its Argentine Gas Distribution operations, Capital Corp. owned interests in entities which distribute natural gas to approximately one million customers in Argentina through two distribution companies (Centro and Cuyana). The Company classified its Argentine Gas Distribution operations as discontinued operations effective December 31, 2009, and it sold the operations on January 1, 2010. See Note 3, Discontinued Operations.

E.ON U.S. Services provides services to affiliated entities, including E.ON U.S., LG&E, KU, Capital Corp. and LEM, at cost, as permitted under PUHCA 2005.

Consolidation. The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated. Investments in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies, are accounted for by the equity method. The Company consolidates its investment in Centro and uses noncontrolling interests to reflect the portion of Centro not owned by the Company.

Goodwill. Testing of goodwill for impairment is carried out annually in the fourth quarter of each year or if changes in circumstances indicate that the value may be impaired, as required by the FASB ASC. This testing indicated an impairment of $1.493 billion in 2009 and $1.806 billion in 2008. See Note 2, Goodwill Impairment.

Regulatory Accounting. LG&E and KU are subject to the regulated operations guidance of the FASB ASC, under which regulatory assets are created based on expected recovery from customers in future rates to defer costs that would otherwise be charged to expense. Likewise, regulatory liabilities are created based on expected return to customers in future rates to defer credits that would otherwise be reflected as income, or, in the case of

costs of removal, are created to match long-term future obligations arising from the current use of assets. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each item as prescribed by the FERC, the Kentucky Commission, the Virginia Commission, or the Tennessee Regulatory Authority. See Note 5, Utility Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Cash and Cash Equivalents. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) are held in trust pending expenditure for qualifying assets.

Allowance for Doubtful Accounts. The allowance for doubtful accounts included in customer accounts receivable is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter. The allowance for doubtful accounts included in other accounts receivable is composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

Materials and Supplies. Fuel, natural gas stored underground and other materials and supplies inventories are accounted for using the average-cost method. Emission allowances are included in other materials and supplies. At December 31, 2009 and 2008, the emission allowances inventory totaled $1 million and less than $1 million, respectively.

Investment in Unconsolidated Venture. KU owns 20% of the common stock of EEI, which owns and operates a 1,162-Mw generating station in southern Illinois. EEI, through a power marketer affiliated with its majority owner, sells its output to third parties. KU's investment in EEI is accounted for under the equity method of accounting and, as of December 31, 2009 and 2008, totaled $21 million and $31 million, respectively. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment.

Utility Plant. Utility plant for LG&E and KU is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits, and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates in Kentucky. LG&E and KU have not recorded any significant allowances for funds used during construction.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost is charged to the reserve for depreciation. When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Depreciation and Amortization. Utility depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided for LG&E equaled 3.1% of average depreciable plant in 2009 and 2008. Of the amount provided for depreciation at LG&E at December 31, 2009, approximately 0.6% electric, 0.5% gas and 0.1% common were related to the retirement, removal and disposal costs of long lived assets. Of the amount provided for depreciation at LG&E at December 31, 2008, approximately 0.4% electric, 0.9% gas and 0.1% common were related to the retirement, removal and disposal costs of long lived assets. The amounts provided for KU equaled 2.6% of average depreciable plant in 2009 and 3.0% in 2008. Of the amounts provided for depreciation at KU at December 31, 2009, and 2008, approximately 0.4% and 0.5%, respectively, were related to the retirement, removal and disposal costs of long lived assets.

Unamortized Debt Expense. Debt expense is capitalized and amortized using the straight-line method, which approximates the effective-interest method, over the lives of the related bond issues.

Income Taxes. In accordance with the income taxes guidance in the FASB ASC, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are many transactions for which the ultimate tax outcome is uncertain. The income taxes guidance of the FASB ASC prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Uncertain tax positions are analyzed periodically and adjustments are made when events occur to warrant a change. See Note 10, Income Taxes.

Deferred Income Taxes. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

Investment Tax Credits. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. KU and LG&E received an investment tax credit related to the construction of a new base load coal fired unit, TC2. See Note 10, Income Taxes.

Investment tax credits prior to 2006 resulted from provisions of the tax law that permitted a reduction of the Company's tax liability based on credits for certain construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Utility revenues are recorded based on service rendered to customers through month-end. LG&E and KU accrue estimates for unbilled revenues from each meter reading date to the end of the accounting period based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. The unbilled revenue estimates included in accounts receivable for both LG&E and KU at December 31, 2009 and 2008, were approximately $140 million and $133 million, respectively.

Fuel and Gas Costs. The cost of fuel for electric generation is charged to expense as used, and the cost of natural gas supply is charged to expense as delivered to the distribution system. LG&E operates under a Kentucky Commission-approved performance-based ratemaking mechanism related to natural gas procurement activity. See Note 5, Utility Rates and Regulatory Matters, for a description of the FAC and GSC.

Management's Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accrued liabilities, including legal and environmental, are recorded when they are probable and estimable. Actual results could differ from those estimates.

Reclassifications. Certain reclassification entries have been made to the previous years' financial statements to conform to the 2009 presentation. These reclassifications consist mainly of those necessary to present the Company's Argentine Gas Distribution businesses as discontinued operations. In addition, cash from operations

was decreased by $15 million and cash flows from investing increased by $15 million. See Note 3, Discontinued Operations.

Recent Accounting Pronouncements.

Hierarchy of Generally Accepted Accounting Principles

The guidance related to the hierarchy of generally accepted accounting principles was issued in June 2009, and is effective for interim and annual periods ending after September 15, 2009. The guidance establishes the FASB ASC as the single source of authoritative nongovernmental U.S. generally accepted accounting principles. It had no effect on the Company's results of operations, financial position or liquidity; however, references to authoritative accounting literature have changed with the adoption.

Subsequent Events

The guidance related to subsequent events was issued in May 2009, and is effective for interim and annual periods ending after June 15, 2009. This guidance requires disclosure of the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date they were available to be issued. The adoption of this guidance had no impact on the Company's results of operations, financial position or liquidity; however, additional disclosures were required with the adoption. See Note 17, Subsequent Events, for additional disclosures.

Employers' Disclosures about Postretirement Benefit Plan Assets

The guidance related to employers' disclosures about postretirement benefit plan assets was issued in December 2008, and is effective as of December 31, 2009. This guidance requires additional disclosures related to pension and other postretirement benefit plan assets. Additional disclosures include the investment allocation decision-making process, the fair value of each major category of plan assets as well as the inputs and valuation techniques used to measure fair value and significant concentrations of risk within the plan assets. The adoption had no impact on the Company's results of operations, financial position or liquidity; however, additional disclosures were required with the adoption. See Note 7, Fair Value Measurements, and Note 9, Pension and Other Postretirement Benefit Plans, for additional disclosures.

Disclosures about Derivative Instruments and Hedging Activities

The guidance related to disclosures about derivative instruments and hedging activities was issued in March 2008, and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this guidance is to enhance the current disclosure framework. The adoption had no impact on the Company's results of operations, financial position and liquidity; however, additional disclosures relating to derivatives were required with the adoption effective January 1, 2009. See Note 6, Financial Instruments, for additional disclosures.

Noncontrolling Interests in Consolidated Financial Statements

The guidance related to noncontrolling interests in consolidated financial statements was issued in December 2007, and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this guidance is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company adopted this guidance effective January 1, 2009.

Fair Value Measurements

The guidance related to fair value measurements was issued in September 2006 and, except as described below, was effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This guidance does not expand the application of fair value accounting to new circumstances.

In February 2008, guidance on fair value measurements and disclosures delayed the effective date for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. All other amendments have been evaluated and have no impact on the Company's financial statements.

The Company adopted this guidance effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and it had no impact on the results of operations, financial position or liquidity, however, additional disclosures relating to its financial derivatives and cash collateral on derivatives, as required, are now provided. Fair value accounting for all nonrecurring fair value measurements of nonfinancial assets and liabilities was adopted effective January 1, 2009, and it had no impact on the results of operations, financial position or liquidity. In addition, no additional disclosures were required related to adopting this guidance.

The guidance related to determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly was issued in April 2009, and is effective for interim and annual periods ending after June 15, 2009. This update provides additional guidance on determining fair values when there is no active market or where the price inputs being used represent distressed sales. The adoption had no impact on the Company's results of operations, financial position, or liquidity.

In August 2009, the FASB issued guidance related to fair-value measurement disclosures, which is effective for the first reporting period beginning after issuance. The guidance provides amendments to clarify and reduce ambiguity in valuation techniques, adjustments and measurement criteria for liabilities measured at fair value. The adoption had no impact on the Company's results of operations, financial position or liquidity.

In January 2010, the FASB issued guidance related to fair value measurement disclosures requiring separate disclosure of amounts of significant transfers in and out of level 1 and level 2 fair value measurements and separate information about purchases, sales, issuances and settlements within level 3 measurements. This guidance is effective for the first reporting period beginning after issuance except for disclosures about the roll-forward of activity in level 3 fair value measurements. This guidance will have no impact on the Company's results of operations, financial position or liquidity; however, additional disclosures will be provided as required.

Note 2 - Goodwill Impairment

The following table shows goodwill as of and for the years ended December 31, 2009 and 2008. Goodwill is attributable to the Company's regulated utilities, LG&E and KU.

	Cost	Accumulated Impairment	Net
Balance at January 1, 2008	$ 4,136	$ -	$ 4,136
Impairment loss	-	(1,806)	(1,806)
Balance at December 31, 2008	4,136	(1,806)	2,330
Impairment loss	-	(1,493)	(1,493)
Balance at December 31, 2009	$ 4,136	$ 3,299	$ 837

The Company performs its required annual goodwill impairment test in the fourth quarter of each year. Impairment tests are performed between the annual tests when the Company determines that a triggering event that would more likely than not reduce the fair value of a reporting unit below its carrying value has occurred. The goodwill impairment test is comprised of a two-step process. In step 1, the Company identifies a potential impairment by comparing the estimated fair value of the regulated utilities (the goodwill reporting unit) to their carrying value, including goodwill, on the measurement date. If the fair value is less than the carrying value, then step 2 is performed to measure the amount of impairment loss. The step 2 calculation compares the implied fair value of the goodwill to the carrying value of the goodwill. The implied fair value of goodwill is equal to the excess of the regulated utilities' estimated fair value over the fair values of its identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to that excess (but not in excess of the carrying value).

The determination of the fair value of the regulated utilities and its assets and liabilities is performed as of the measurement date using observable market data before and after the measurement date (if that subsequent information is relevant to the fair value on the measurement date). For the 2009 annual impairment test, the estimated fair value of the regulated utilities was based on a combination of the income approach, which estimates the fair value of the reporting unit based on discounted future cash flows, and the market approach, which estimates the fair value of the reporting unit based on market comparables. The discounted cash flows for LG&E and KU were based on discrete financial forecasts developed by management for planning purposes and consistent with those given to E.ON AG. Cash flows beyond the discrete forecasts were estimated using a terminal-value calculation, which incorporated historical and forecasted financial trends for each of LG&E and KU and considered long-term earnings growth rates for publicly-traded peer companies. The level 3 income-approach valuations included a cash flow discount rate of 6.3% (6.3% in 2008) and a terminal-value growth rate of 1.1% (1.1% in 2008). In addition, subsequent to 2009 but prior to the issuance of the 2009 financial statements, discussions were held with interested parties for the possible sale of the Company, including the regulated utilities. Data from this process was used for evaluating the carrying value of goodwill as of December 31, 2009.

Based on information represented by bids received from interested parties, the Company completed a goodwill impairment analysis as of December 31, 2009. Step 1 of the impairment test indicated a possible impairment, so the Company completed step 2. The implied fair value of goodwill in the step 2 calculation was determined in the same manner utilized to estimate the amount of goodwill recognized in a business combination. The Company concluded that the fair values of LG&E and KU assets and liabilities equaled their book values, due to the regulatory environment in which they operate. The Kentucky and Virginia Commissions allow LG&E and KU to earn returns on the book values of their regulated asset bases at rates the Commissions determine to be fair and reasonable. Since there is no current prospect for deregulation, the Company assumed LG&E and KU will remain in a regulated environment for the foreseeable future. As a result of the impairment analysis described above, the Company recorded a 2009 goodwill impairment charge of $1.493 billion.

During 2008, the Company completed its annual goodwill impairment test during the fourth quarter, following the approach described above (except bid data from a possible sale transaction was not available and thus not

utilized). Based on the 2008 assessment, the Company recorded a goodwill impairment charge of $1.806 billion.

The primary factors contributing to the goodwill impairment charges were the significant economic downturn, which caused a decline in the volume of projected sales of electricity to commercial customers, and an increase in the implied discount rate due to higher risk premiums. In addition, in 2009 a lower control premium was assumed, based on observable market data.

Note 3 - Discontinued Operations

WKE Lease

Through WKE and its subsidiaries, the Company had a 25-year lease on and operated the generating facilities of BREC, a power-generating cooperative in western Kentucky, and a coal-fired generating facility owned by the City of Henderson, Kentucky.

In March 2007, the Company entered into a termination agreement with BREC to terminate the lease and the operational agreements for nine coal-fired power plants and one oil-fired electricity-generating facility in western Kentucky. The transaction closed in July 2009. Assets and liabilities remaining after the completion of the transaction have been reclassified to continuing operations in the balance sheet at December 31, 2009. In 2009 the Company recorded a pretax loss of $114 million and made payments totaling approximately $627 million as part of the transaction. The Company will continue to make payments related to the transaction through the end of 2010 (and under certain circumstances to the end of 2011). The estimated cost of these payments were accrued at December 31, 2009. See also Note 7, Fair Value Measurements, Note 10, Income Taxes, and the Guarantees section in Note 13, Commitments and Contingencies, for further discussion of these or of additional elements of the WKEC lease termination transaction.

The tables below provide selected financial information for the WKE discontinued operations as of December 31, and for the years then ended (in millions of $):

	2009	2008
Revenues	$128	$300
Income (loss) before taxes	(222)	(309)
Income tax (expense) benefit	79	120
Net income (loss)	$(143)	$(189)
Assets:		
Current assets	$-	$153
Property, plant and equipment	-	202
Lease intangible	-	117
Deferred income taxes	-	317
Other	-	15
Total assets	$-	$804
Liabilities:		
Sales contract liability	$-	$908
Other	-	81
Total liabilities	$-	$989

Argentine Gas Distribution

At December 31, 2009 and 2008, the Company owned interests in two gas distribution companies in Argentina: 45.9% of Centro and 14.4% of Cuyana. These two entities serve a combined customer base of approximately one million customers. The Centro investment was consolidated due to the Company's majority ownership in the holding company of Centro. The Cuyana investment was accounted for using the equity method due to the ownership influence the Company exerts on the businesses.

In November 2009, subsidiaries of the Company entered into agreements to sell their direct and indirect interests in Centro and Cuyana, to E.ON Spain and a subsidiary, both affiliates of E.ON AG. On January 1, 2010, the parties completed the transfer of the interests for a sale price of $35 million. In December 2009, the Company recorded an impairment loss of $12.4 million before income taxes. The impairment loss represents the difference between the carrying values of the Company's interests in Centro and Cuyana and the sales price. The Company classified the assets, liabilities and results of operations of the Argentine gas distribution companies, including the impairment loss, as discontinued operations for all periods presented effective December 31, 2009. In connection with the reorganization transaction, E.ON Spain will also assume rights and obligations relating to claims and liabilities associated with the former Argentine businesses or indemnify the Company with respect to such matters.

The Company recognizes translation charges in other comprehensive income. These charges relate to the translation of the functional-currency financial statements of the Argentine investments into the Company's reporting currency. The translation at December 31, 2009, was performed using an exchange rate of 3.800 Argentine pesos to one U.S. dollar for assets and liabilities and an average exchange rate of 3.733 Argentine pesos to one U.S. dollar for income-statement amounts. The translation at December 31, 2008, was performed using an exchange rate of 3.454 Argentine pesos to one U.S. dollar for assets and liabilities and an average exchange rate of 3.158 Argentine pesos to one U.S. dollar for income-statement amounts. The pretax amounts recorded in accumulated OCI at December 31, 2009 and 2008, totaled $13 million and $17 million, respectively.

Argentine law requires that every Argentine company retain 5% of its Argentine GAAP net income until total legal reserves equal 20% of the value of the Argentine company's common stock and additional paid in capital. Legal reserves held in Argentina for the Argentine companies in which Capital Corp. had direct or indirect ownership interests equaled approximately $10 million and $11 million as of December 31, 2009 and 2008, respectively. These amounts satisfied the legal requirements at December 31, 2009 and 2008.

The tables below provide selected financial information for the Argentine gas distribution discontinued operations as of December 31, and for the years then ended (in millions of $):

	2009	2008
Revenues	$60	$69
Income before taxes	-	22
Income tax expense	(8)	(6)
Noncontrolling interest	(5)	(8)
Net (loss) income	$(13)	$8
Assets:		
Current assets	$25	$27
Property, plant and equipment	52	37
Investments in unconsolidated ventures	7	14
Deferred income taxes	6	38
Total assets	$90	$116
Liabilities:		
Other liabilities	$7	$17

Note 4 – Related Party Transactions

The Company had the following balances with E.ON AG and its affiliates as of December 31, (in millions of $):

	2009	2008
Accounts payable	$43	$57
Notes payable	851	299
Long-term debt	3,421	3,021
Dividends paid	49	68

The Company also recorded interest expense to E.ON and its affiliates of $155 million and $138 million in 2009 and 2008, respectively. See Note 10, Income Taxes, Note 11, Long-Term Debt, and Note 12, Notes Payable.

Note 5 - Utility Rates and Regulatory Matters

LG&E and KU are subject to the jurisdiction of the Kentucky Commission and the FERC, and KU is further subject to the jurisdiction of the Virginia Commission and the Tennessee Regulatory Authority, in virtually all matters related to electric and gas utility regulation, and as such, their accounting is subject to the regulated-operations guidance of the FASB ASC. Given their position in the marketplace and the status of regulation in Kentucky and Virginia, there are no plans or intentions to discontinue the application of the regulated operations guidance of the FASB ASC.

2010 Kentucky Electric and Gas Rate Cases. In January 2010, LG&E filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or $95 million annually, and its gas base rates of approximately 8%, or $23 million annually, including an 11.5% return on equity for electric and gas. At the same time, KU also filed an application with the Kentucky Commission requesting an increase in base electric rates of approximately 12%, or $135 million annually, including an 11.5% return on equity. LG&E and KU have requested the increases based on the twelve month test year ended October 31, 2009, to become effective on and after March 1, 2010. The requested rates have been suspended until August 1, 2010, at which time they may be put into effect, subject to refund if the Kentucky Commission has not issued an order in

the proceeding. The parties are currently exchanging data requests in the proceedings and a hearing date has been scheduled for June 2010. An order in the proceedings may occur during the third or fourth quarters of 2010.

2008 Electric and Gas Rate Cases. In July 2008, LG&E filed an application with the Kentucky Commission requesting increases in base electric and gas rates. At the same time, KU also filed an application with the Kentucky Commission requesting an increase in base electric rates. In January 2009, LG&E, the AG, the KIUC and all other parties to the rate cases filed a settlement agreement with the Kentucky Commission, under which LG&E's base gas rates increased by $22 million annually, and base electric rates decreased by $13 million annually. At the same time, KU, the AG, the KIUC and all other parties to the rate case filed a settlement agreement with the Kentucky Commission, under which KU's base electric rates decreased by $9 million annually. Orders approving the settlement agreements were received in February 2009. The new rates were implemented effective February 6, 2009, at which time the merger surcredit terminated.

In conjunction with the filing of the application for changes in base rates, the VDT surcredit terminated. The VDT surcredit resulted from a 2001 initiative to share savings of $25 million and $10 million for LG&E and KU, respectively, from the VDT initiative with customers over five years. In February 2006, LG&E, KU and all parties to the proceeding reached a unanimous settlement agreement on the future ratemaking treatment of the VDT surcredit, which was approved by the Kentucky Commission in March 2006, at an annual rate of $9 million and $4 million for LG&E and KU, respectively. Under the terms of the settlement agreement, the VDT surcredit continued at its current level until such time as LG&E filed for a change in electric or natural gas base rates or KU filed for a change in electric base rates. In accordance with the Order, the VDT surcredit terminated in August 2008, the first billing month after the July 2008 filing for a change in base rates.

In December 2007, LG&E and KU submitted their plans to allow the merger surcredit to terminate as scheduled on June 30, 2008. The merger surcredit originated as part of the LG&E Energy merger with KU Energy Corporation in 1998. In June 2008, the Kentucky Commission issued an Order approving a unanimous settlement agreement reached with all parties to the case which provided for a reduction in the merger surcredit to approximately $12 million ($6 million each for LG&E and KU) for a 7-month period beginning July 2008, termination of the merger surcredit when new base rates went into effect on or after January 31, 2009, and that the merger surcredit be continued at an annual rate of $24 million ($12 million each for LG&E and KU) thereafter should LG&E and KU not file for a change in base rates. In accordance with the Order, the merger surcredit was terminated effective February 6, 2009, with the implementation of new base rates.

Virginia Rate Case. In June 2009, KU filed an application with the Virginia Commission requesting an increase in electric base rates for its Virginia jurisdictional customers in an amount of $12 million annually or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based upon a return on equity of 12%. During December 2009, KU and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing base rate revenue increases of $11 million annually and a return on rate base of 7.846% based on a 10.5% return on common equity. A public hearing was held during January 2010. As permitted, pursuant to a Virginia Commission order, KU elected to implement the proposed rates effective November 1, 2009 on an interim basis. In March 2010, the Virginia Commission issued an Order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, KU will refund certain amounts collected since November 2009, consisting of interim increased rates in excess of the ultimate approved rates. These refunds aggregate approximately $1 million and are anticipated to occur during the second quarter of 2010. See Note 17, Subsequent Events.

FERC Wholesale Rate Case. In September 2008, KU filed an application with the FERC for increases in base electric rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from current, all-in stated unit charge rates to

an unbundled formula rate. In May 2009, as a result of settlement negotiations, KU submitted an unopposed motion informing the FERC of the filing of a settlement agreement and agreed-upon seven-year service agreements with the municipal customers. The unopposed motion requested interim rate structures containing terms corresponding to the overall settlement principles, to be effective from May 1, 2009, until FERC approval of the settlement agreement. The settlement and service agreements provide for unbundled formula rates which are subject to annual adjustment and approval processes. In May 2009, the FERC issued an Order approving the interim settlement with respect to rates effective May 1, 2009 representing increases of approximately 3% from prior charges and a return on equity of 11%. Additionally, during May 2009, KU filed the first annual adjustment to the formula rates to incorporate 2008 data, which adjusted formula rates became effective on July 1, 2009 and were approved by the FERC during September 2009.

Separately, the parties were not able to reach agreement on the issue of whether KU must allocate to the municipal customers a portion of renewable resources it may be required to procure on behalf of its retail ratepayers. In August 2009, the FERC accepted the issue for briefing and the parties completed briefing submissions during 2009. An order by the FERC on this matter may occur during 2010. KU is not currently able to predict the outcome of this proceeding, including whether its wholesale customers may or may not be entitled to certain rights or benefits relating to renewable energy, and the financial or operational effects, if any, of such outcomes.

Regulatory Assets and Liabilities. The following regulatory assets and liabilities were included in the consolidated balance sheets as of December 31, (in millions of $):

	2009	2008
Current regulatory assets:		
GSC	$3	$28
ECR	35	24
FAC	1	15
Net MISO exit	3	-
Other	4	8
Total current regulatory assets	$46	$75
Non-current regulatory assets:		
Storm restoration	$126	$26
ARO	60	57
Unamortized loss on bonds	34	36
Net MISO exit	13	31
Other	9	3
Subtotals	242	153
Pension and postretirement benefits	309	387
Total non-current regulatory assets	$551	$540
Current regulatory liabilities:		
GSC	$34	$30
DSM	7	10
Total current regulatory liabilities	$41	$40
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	$587	$580
Deferred income taxes – net	50	61
Postretirement benefits	9	10
Other	17	26
Total non-current regulatory liabilities	$663	$677

LG&E does not currently earn a rate of return on the ECR, FAC, GSC and gas performance-based ratemaking (included in "GSC" above) regulatory assets which are separate recovery mechanisms with recovery within twelve months. KU does not currently earn a rate of return on the ECR and FAC regulatory assets and the Virginia levelized fuel factor included in other regulatory assets, which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. LG&E and KU will recover these assets through pension expense included in the calculation of base rates with the Kentucky Commission and KU will seek recovery of this asset in future proceedings with the Virginia Commission. No return is currently earned on the ARO asset. When an asset with an ARO is retired, the related ARO regulatory asset will be offset against the associated ARO regulatory liability, ARO asset and ARO liability. A return is earned on the unamortized loss on bonds, and these costs are recovered through amortization over the life of the debt. LG&E currently earns a rate of return on the balance of Mill Creek Ash Pond costs included in other regulatory assets, as well as recovery of these costs. LG&E and KU are seeking recovery of the Storm restoration regulatory asset and adjustments to the amortization of the CMRG and KCCS contributions, included in other regulatory assets, in their current base rate cases. LG&E and KU recover through the calculation of base rates, the amortization of the net MISO exit regulatory asset in Kentucky incurred through April 30, 2008. KU recently received approval to recover the Virginia portion of this asset, as incurred through December 31, 2008, over a five-year period and, due to the formula nature of its FERC rate structure, the FERC jurisdictional portion of the regulatory asset will be included in the annual updates to the rate formula. LG&E also recovers through the calculation of base rates other regulatory assets including the costs of an EKPC FERC transmission settlement agreement and rate case expenses. KU recovers through the calculation of base rates, the amortization of the remaining regulatory assets, including other regulatory assets comprised of deferred storm costs, the costs of an EKPC FERC transmission settlement agreement and Kentucky rate case expenses. Other regulatory liabilities include DSM, FERC jurisdictional supplies inventory and MISO administrative charges collected via base rates from May 2008 through February 5, 2009. The MISO regulatory liability will be netted against the remaining costs of withdrawing from the MISO, per a Kentucky Commission Order, in the current base rate case.

ARO. A summary of LG&E's and KU's net ARO assets, regulatory assets, ARO liabilities, regulatory liabilities and cost of removal established under the asset retirement and environmental obligations guidance of the FASB ASC, follows:

	ARO Net Assets	ARO Liabilities	Regulatory Assets	Regulatory Liabilities
As of December 31, 2007	$9	$(60)	$48	$(2)
ARO accretion	-	(3)	4	-
ARO depreciation	-	-	5	(5)
As of December 31, 2008	9	(63)	57	(7)
ARO accretion	-	(5)	4	-
ARO depreciation	-	-	1	-
ARO settlements	-	1	(2)	-
Removal cost incurred	-	1	-	-
As of December 31, 2009	$9	$(66)	$60	$(7)

Pursuant to regulatory treatment prescribed under the regulated operations guidance of the FASB ASC, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of $4 million ($2 million each for LG&E and KU) in 2009 and 2008 for the ARO accretion and depreciation expense.

LG&E's and KU's AROs are primarily related to the final retirement of assets associated with generating units. LG&E's also include natural gas wells. For assets associated with AROs, the removal cost accrued through depreciation under regulatory accounting is established as a regulatory liability pursuant to regulatory treatment prescribed under the regulated operations guidance of the FASB ASC. For the year ended December 31, 2008, removal costs incurred were less than $1 million. For the years ended December 31, 2009 and 2008, LG&E and KU each recorded less than $1 million of depreciation expense related to the cost of removal of ARO related assets. An offsetting regulatory liability was established pursuant to regulatory treatment prescribed under the regulated operations guidance of the FASB ASC.

LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under the asset retirement and environmental obligations guidance of the FASB ASC, no material asset retirement obligations are recorded for transmission and distribution assets.

PUHCA. E.ON AG, the Company's ultimate parent, is a registered holding company under PUHCA 2005. E.ON AG, E.ON U.S., LG&E, KU, and certain of its non-utility subsidiaries are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. E.ON U.S. believes that it has adequate authority, including financing authority, under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

GSC. LG&E's natural gas rates contain a GSC, whereby increases or decreases in the cost of natural gas supply are reflected in LG&E's rates, subject to approval by the Kentucky Commission. The GSC procedure prescribed by Order of the Kentucky Commission provides for quarterly rate adjustments to reflect the expected cost of natural gas supply in that quarter. In addition, the GSC contains a mechanism whereby any over- or under-recoveries of natural gas supply cost from prior quarters is to be refunded to or recovered from customers through the adjustment factor determined for subsequent quarters.

LG&E's GSC was modified in 1997 to incorporate a natural gas procurement incentive mechanism. Since November 1, 1997, LG&E has operated under this Performance Based Ratemaking ("PBR") mechanism related to its natural gas procurement activities. LG&E's rates are adjusted annually to recover (or refund) its portion of the expense (or savings) incurred during each PBR year (12 months ending October 31). During the PBR years ending in 2009 and 2008, LG&E achieved $7 million and $11 million in savings, respectively. In 2009 and 2008, of the total savings amount, LG&E's portion was approximately $2 million and $3 million, respectively, and the customers' portion was approximately $5 million and $8 million, respectively. Pursuant to the extension of LG&E's natural gas supply cost PBR mechanism effective November 1, 2001, the sharing mechanism under the PBR requires savings (and expenses) to be shared 25% with shareholders and 75% with customers up to 4.5% of the benchmarked natural gas costs. Savings (and expenses) in excess of 4.5% of the benchmarked natural gas costs are shared 50% with shareholders and 50% with customers. The current natural gas supply cost PBR mechanism was extended through 2010 without further modification. In December 2009, LG&E filed with the Kentucky Commission for an extension of LG&E's natural gas supply cost PBR mechanism through 2015 with certain modifications.

MISO. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, related to proceedings that had been underway since July 2003, LG&E and KU withdrew from the MISO effective September 1, 2006. Since the exit from the MISO, LG&E and KU have been operating under a FERC-approved open access-transmission tariff. LG&E and KU now contract with the Tennessee Valley Authority to

act as their transmission Reliability Coordinator and Southwest Power Pool, Inc. to function as their Independent Transmission Organization, pursuant to FERC requirements.

LG&E and KU and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the utilities following their withdrawal. In October 2006, LG&E and KU paid $13 million and $20 million, respectively, to the MISO and made related FERC compliance filings. The utilities' payments of these exit fees were with reservation of their rights to contest the amount, or components thereof, following a continuing review of the fee's calculation and supporting documentation. LG&E and KU and the MISO resolved their dispute regarding the calculations of the exit fees and, in November 2007, filed applications with the FERC for approval of recalculation agreements. In March 2008, the FERC approved the parties' recalculations of the exit fees, and the approved agreements provided LG&E and KU with an immediate recovery of less than $1 million each and an estimated $2 million and $3 million, respectively, over the next seven years for credits realized from other payments the MISO will receive, plus interest.

In accordance with Kentucky Commission Orders approving the MISO exit, LG&E and KU have established regulatory assets for the MISO exit fee, net of former MISO administrative charges collected via base rates through the base rate case test year ended April 30, 2008. The net MISO exit fee is subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which were collected via base rates until February 6, 2009. The approved 2008 base rate case settlement provided for MISO administrative charges collected through base rates from May 1, 2008 to February 6, 2009, and any future adjustments to the MISO exit fee, to be established as a regulatory liability until the amounts can be amortized in future base rate cases. This regulatory liability balance as of October 31, 2009, has been included in the base rate case application filed on January 29, 2010. MISO exit fee credit amounts subsequent to October 31, 2009, will continue to accumulate as a regulatory liability until they can be amortized in future base rate cases.

In November 2008, the FERC issued Orders in industry-wide proceedings relating to MISO RSG calculation and resettlement procedures. RSG charges are amounts assessed to various participants active in the MISO trading market which generally seek to compensate for uneconomic generation dispatch due to regional transmission or power market operational considerations, with some customer classes eligible for payments, while others may bear charges. The FERC Orders approved two requests for significantly altered formulas and principles, each of which the FERC applied differently to calculate RSG charges for various historical and future periods. Based upon the 2008 FERC Orders, LG&E and KU established reserves during the fourth quarter of 2008 of $2 million and less than $1 million, respectively, relating to potential RSG resettlement costs for the period ended December 31, 2008. However, in May 2009, after a portion of the resettlement payments had been made, the FERC issued an Order on the requests for rehearing on one November 2008 Order which changed the effective date and reduced almost all of the previously accrued RSG resettlement costs. Therefore, these costs were reversed and receivables were established for amounts already paid of $1 million and less than $1 million for LG&E and KU, respectively, which the MISO began refunding back to LG&E and KU in June 2009, and which were fully collected by September 2009. In June 2009, the FERC issued an Order in the rate mismatch RSG proceeding, stating it will not require resettlements of the rate mismatch calculation from April 1, 2005 to November 4, 2007. Accruals had previously been recorded in 2008 for the rate mismatch issue for the time period April 25, 2006 to August 9, 2007, but no accruals had been recorded for the time period November 5, 2007 to November 9, 2008 based on the prior Order. Accordingly, the accruals for the former time period were reversed and accruals for the latter time period were recorded in June 2009, with a net effect of less than $1 million and $1 million of expense for LG&E and KU, respectively, substantially all of which was paid by September 2009.

In August 2009, the FERC determined that the MISO had failed to demonstrate that its proposed exemptions to real-time RSG charges were just and reasonable. In November 2009, the MISO made a compliance filing

incorporating the rulings of the FERC orders and a related task-force, with a primary open issue being whether certain of the tariff changes are applied prospectively only or retroactively to approximately January 6, 2009. The conclusion of the RSG matter, including the retroactivity decision, may result in refunds to the utilities, but the utilities cannot predict the ultimate outcome of this matter, nor the financial impact, at this time.

In November 2009, LG&E and KU filed an application with the FERC to approve certain independent transmission operator arrangements to be effective upon the expiration of their current contract with Southwest Power Pool, Inc. in September 2010. The application seeks authority for LG&E and KU to function after such date as the administrators of their own open access transmission tariffs for most purposes. The Tennessee Valley Authority, which currently acts as Reliability Coordinator, would also assume certain additional duties. A number of parties have intervened and filed comments in the matter and initial stages of data response proceedings have occurred. The application is subject to continuing FERC proceedings, including further submissions or filings by, intervenors or FERC staff, prior to a ruling by the FERC. During January 2010, the Kentucky Commission issued an Order generally authorizing relevant state regulatory aspects of the proposed arrangements.

Unamortized Loss on Bonds. The costs of early extinguishment of debt, including call premiums, legal and other expenses, and any unamortized balance of debt expense are amortized using the straight-line method, which approximates the effective interest method, over the life of either the replacement debt (in the case of refinancing) or the original life of the extinguished debt.

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

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges. In November 2009, January 2009 and May/June 2008, the Kentucky Commission issued Orders approving the charges and credits billed through the FAC for the six-month periods ending April 2009, April 2008, and October 2007, respectively. In January 2009, the Kentucky Commission initiated a routine examination of the FAC for the two-year period November 1, 2006 through October 31, 2008. The Kentucky Commission issued an Order in June 2009, approving the charges and credits billed through the FAC during the review periods.

KU also employs a FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any over- or under-recovery of fuel expenses from the prior year. At December 31, 2009 and 2008, KU had a regulatory liability of less than $1 million and a regulatory asset of $2 million, respectively.

In February 2009, KU filed an application with the Virginia Commission seeking approval of a 29% increase in its fuel cost factor beginning with service rendered in April 2009. In February 2009, the Virginia Commission issued an Order allowing the requested change to become effective on an interim basis. The Virginia Staff testimony filed in April 2009, recommended a slight decrease in the factor filed by KU. KU indicated the Virginia Staff proposal was acceptable. A hearing was held in May 2009, with general resolution of remaining issues. In May 2009, the Virginia Commission issued an Order approving the revised fuel factor, representing an increase of 24%, effective May 2009.

In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor applicable during the billing period, April 2008 through March 2009. The Virginia Commission allowed the new rates to be in effect for the April 2008 customer billings. In April 2008, the Virginia Commission Staff recommended a change to the fuel factor KU filed in its application, to which KU has agreed. Following a public hearing and an Order in May 2008, the recommended change became effective in June 2008, resulting in a decrease of 0.482 cents/kwh from the factor in effect for the April 2007 through March 2008 period.

ECR. Kentucky law permits LG&E and KU to recover the costs of complying with the Federal Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

The Kentucky Commission requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. In December 2009, an Order was issued approving the charges and credits billed through the ECR during the two-year period ending April 2009, an increase in the jurisdictional revenue requirement, a base rate roll-in and a revised rate of return on capital. In July 2009, an Order was issued approving the charges and credits billed through the ECR during the six-month period ending October 2008, as well as approving billing adjustments for under-recovered costs and the rate of return on capital. In August 2008, an Order was issued approving the charges and credits billed through the ECR during the six-month periods ending April 2008 and October 2007, and the rate of return on capital. In March 2008, an Order was issued approving the charges and credits billed through the ECR during the six-month and two-year periods ending October 2006 and April 2007, respectively, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

In January 2010, the Kentucky Commission initiated a six-month review of LG&E's and KU's environmental surcharges for the billing period ending October 2009. The proceeding will progress throughout the first half of 2010.

In June 2009, LG&E and KU filed an application for a new ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades and operations and maintenance costs at their generating facilities. During 2009, LG&E and KU reached a unanimous settlement with all parties to the case and the Kentucky Commission issued an Order approving LG&E's and KU's application. Recovery on customer bills through the monthly ECR surcharge for these projects began with the February 2010 billing cycle.

In February 2009, the Kentucky Commission approved a settlement agreement in the rate case which provides for an authorized return on equity applicable to the ECR mechanism of 10.63% effective with the February 2009 expense month filing, which represents a slight increase over the previously authorized 10.50%.

In October 2007, KU met with the Kentucky Commission and other interested parties to discuss the status of the Ghent Unit 2 SCR construction. KU informed the Kentucky Commission that construction of the Ghent Unit 2 SCR was not going to commence before the CCN expired in December 2007, due to a change in the economics for the project. The CCN expired in December 2007, and KU has delayed construction of the Ghent Unit 2 SCR.

Storm Restoration. In January 2009, a significant ice storm passed through LG&E's and KU's service territories causing approximately 205,000 and 199,000 customer outages, respectively, followed closely by a severe wind storm in February 2009, causing approximately 37,000 and 44,000 customer outages, respectively. LG&E and KU filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $45 million and $62 million, respectively, in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an Order allowing LG&E and KU to establish regulatory assets of up to $45 million and $62 million, respectively, based on their actual costs for storm damages and service restoration due to the January and February 2009 storms. In September 2009, LG&E and KU established regulatory assets of $44 million and $57 million, respectively, for actual costs incurred, and LG&E and KU are seeking recovery of these assets in their current base rate cases.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service territories causing significant outages and system damage. In October 2008, LG&E and KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, for approximately $24 million and $3 million, respectively, of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing LG&E and KU to establish regulatory assets of up to $24 million and $3 million, respectively, based on their actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, LG&E and KU established regulatory assets of $24 million and $2 million, respectively, for actual costs incurred, and LG&E and KU are seeking recovery of these assets in their current base rate cases.

Mill Creek Ash Pond Costs. In June 2005, the Kentucky Commission issued an Order approving LG&E's establishment of a regulatory asset for $6 million in costs related to the removal of ash from the Mill Creek ash pond, and authorized amortization over four years beginning in May 2006.

FERC Jurisdictional Pension Costs. Other regulatory assets include pension costs of $3 million incurred by KU and allocated to its FERC jurisdictional ratepayers. KU will seek recovery of this asset in the next FERC rate proceeding.

Rate Case Expenses. LG&E and KU incurred $1 million each in expenses related to the development and support of the 2008 Kentucky base rate case. The Kentucky Commission approved the establishment of regulatory assets for these expenses and authorized amortization over three years beginning in March 2009.

CMRG and KCCS Contributions. In July 2008, LG&E and KU, along with Duke Energy Kentucky, Inc. and Kentucky Power Company, filed an application with the Kentucky Commission requesting approval to establish regulatory assets related to contributions to the CMRG for the development of technologies for reducing carbon dioxide emissions and the KCCS to study the feasibility of geologic storage of carbon dioxide. The filing companies proposed that these contributions be treated as regulatory assets to be deferred until recovery is provided in the next base rate case of each company, at which time the regulatory assets will be amortized over the life of each project: four years with respect to the KCCS and ten years with respect to the CMRG. LG&E and KU jointly agreed to provide less than $2 million over two years to the KCCS and up to $2 million over ten years to the CMRG. In October 2008, an Order approving the establishment of the requested regulatory assets was received and LG&E and KU are seeking rate recovery in their 2010 base rate cases.

Deferred Storm Costs. Based on an Order from the Kentucky Commission in June 2004, KU reclassified from maintenance expense to a regulatory asset, $4 million related to costs not reimbursed from the 2003 ice storm. These costs were amortized through June 2009. KU earned a return of these amortized costs, which were included in jurisdictional operating expenses.

Pension and Postretirement Benefits. LG&E and KU account for pension and postretirement benefits in accordance with the compensation – retirement benefits guidance of the FASB ASC. This guidance requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or liability in the balance sheet and to recognize through other comprehensive income the changes in the funded status in the year in which the changes occur. Under the regulated operations guidance of the FASB ASC, LG&E and KU can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky and Virginia is based on the compensation – retirement benefits guidance of the FASB ASC. Regulators have been clear and consistent with their historical treatment of such rate recovery, therefore, the Companies have recorded a regulatory asset or liability representing the change in funded status of the pension and postretirement plans that is expected to be recovered. The regulatory asset or liability will be adjusted annually as prior service cost and actuarial gains and losses are recognized in net periodic benefit cost.

Accumulated Cost of Removal of Utility Plant. As of December 31, 2009 and 2008, LG&E has segregated the cost of removal, previously embedded in accumulated depreciation, of $256 million and $251 million, respectively, in accordance with FERC Order No. 631. As of December 31, 2009 and 2008, KU has segregated the cost of removal, previously embedded in accumulated depreciation, of $331 and $329 million, respectively, in accordance with the same Order. This cost of removal component is for assets that do not have a legal ARO under the asset retirement and environmental obligations guidance of the FASB ASC. For reporting purposes in the balance sheets, LG&E and KU have presented this cost of removal as a regulatory liability pursuant to the regulated operations guidance of the FASB ASC.

Deferred Income Taxes – Net. These regulatory assets and liabilities represent the future revenue impact from the reversal of deferred income taxes required for unamortized investment tax credits, the allowance for funds used during construction and deferred taxes provided at rates in excess of currently enacted rates.

DSM. The rates of LG&E and KU contain a DSM provision which includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows LG&E and KU to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

In July 2007, LG&E and KU filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. LG&E and KU filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

Other Regulatory Matters

Kentucky Commission Report on Storms. In November 2009, the Kentucky Commission issued a report following review and analysis of the effects and utility response to the September 2008 wind storm and the January 2009 ice storm and possible utility industry preventative measures relating thereto. The report suggested a number of proposed or recommended preventative or response measures, including consideration of selective hardening of facilities, altered vegetation management programs, enhanced customer outage

communications and similar measures. In March 2010, LG&E and KU filed a joint response reporting on their actions with respect to such recommendations. The response indicated implementation or completion of substantially all of the recommendations, including, among other matters, on-going reviews of system hardening and vegetation management procedures, certain test or pilot programs in such areas, and fielding of enhanced operational and customer outage-related systems.

Wind Power Agreements. In August 2009, LG&E and KU filed a notice of intent with the Kentucky Commission indicating their intent to file an application for approval of wind power purchase contracts and cost recovery mechanisms. The contracts were executed in August 2009, and are contingent upon LG&E and KU receiving acceptable regulatory approvals. Pursuant to the proposed 20-year contracts, LG&E and KU would jointly purchase respective assigned portions of the output of two Illinois wind farms totaling an aggregate 109.5 Mw. In September 2009, the Companies filed an application and supporting testimony with the Kentucky Commission. In October 2009, the Kentucky Commission issued an Order denying the Companies' request to establish a surcharge for recovery of the costs of purchasing wind power. The Kentucky Commission stated that such recovery constitutes a general rate adjustment and is subject to the regulations of a base rate case. The Kentucky Commission Order currently provides for the request for approval of the wind power agreements to proceed independently from the request to recover the costs thereof via surcharges. In November 2009, LG&E and KU filed for rehearing of the Kentucky Commission's Order and requested that the matters of approval of the contract and recovery of the costs thereof remain the subject of the same proceeding. During December 2009, the Kentucky Commission issued data requests on this matter. On March 24, 2010, LG&E and KU delivered notices of termination under provisions of the wind power contracts permitting termination if certain conditions precedent were not accomplished by a fixed date. The Companies also filed a motion with the Kentucky Commission noting the termination of the contracts and seeking withdrawal of their application in the related regulatory proceeding.

Trimble County Asset Transfer and Depreciation. LG&E and KU are currently constructing a new base-load, coal fired unit, TC2, which will be jointly owned by the Companies, together with the IMEA and the IMPA. In July 2009, the utilities notified the Kentucky Commission of the proposed sale from LG&E to KU of certain ownership interests in certain existing Trimble County generating station assets which are anticipated to provide joint or common use in support of the jointly-owned TC2 generating unit under construction at the station. The undivided ownership interests being sold are intended to provide KU an ownership interest in these common assets that is proportional to its interest in TC2 and the assets' role in supporting both TC1 and TC2. In December 2009, LG&E and KU completed the sale transaction at a price of $48 million, representing the current net book value of the assets, multiplied by the proportional interest being sold.

In August 2009, in a separate proceeding, LG&E and KU jointly filed an application with the Kentucky Commission to approve new depreciation rates for applicable TC2-related generating, pollution control and other plant equipment and assets. The filing requests common depreciation rates for the applicable jointly-owned TC2-related assets, rather than applying differing depreciation rates in place with respect to LG&E's and KU's separately-owned base-load generating assets. During December 2009, the Kentucky Commission extended the data discovery process through January 2010 and authorized LG&E and KU on an interim basis to begin using the depreciation rates for TC2 as proposed in the application. In March 2010, final authorization approving the proposed rates was received.

TC2 CCN Application and Transmission Matters. An application for a CCN for construction of TC2 was approved by the Kentucky Commission in November 2005. CCNs for two transmission lines associated with TC2 were issued by the Kentucky Commission in September 2005 and May 2006. All regulatory approvals and rights of way for one transmission line have been obtained.

The CCN for the remaining line has been challenged by certain property owners in Hardin County, Kentucky.

In August 2006, LG&E and KU obtained a successful dismissal of the challenge at the Franklin County Circuit Court, which ruling was reversed by the Kentucky Court of Appeals in December 2007, and the proceeding reinstated. A motion for discretionary review of that reversal was filed by LG&E and KU with the Kentucky Supreme Court and was granted in April 2009. That proceeding, which seeks reinstatement of the Circuit Court dismissal of the CCN challenge, has been fully briefed and oral argument occurred during March 2010. A ruling on the matter could occur by mid 2010.

Completion of the transmission lines are also subject to standard construction permit, environmental authorization and real property or easement acquisition procedures and certain Hardin County landowners have raised challenges to the transmission line in some of these forums as well.

During 2008, KU obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals and received a temporary stay preventing KU from accessing their properties. In April 2009, that appellate court denied KU's motion to lift the stay and issued an Order retaining the stay until a decision on the merits of the appeal. Efforts to seek reconsideration of that ruling, or to obtain intermediate review of the ruling by the Kentucky Supreme Court, were unsuccessful, and the stay remains in effect. The underlying appeal on KU's right to condemn remains pending before the Court of Appeals and oral argument on the matter is scheduled to occur during late March 2010.

Settlement discussions with the Hardin County property owners involved in the appeals of the condemnation proceedings have been unsuccessful to date. During the fourth quarter of 2008, LG&E and KU entered into settlements with certain Meade County landowners and obtained dismissals of prior litigation they had brought challenging the same transmission line.

As a result of the aforementioned unresolved litigation delays encountered in obtaining access to certain properties in Hardin County, KU has obtained easements to allow construction of temporary transmission facilities bypassing those properties while the litigated issues are resolved. In September 2009, the Kentucky Commission issued an Order stating that a CCN was necessary for two segments of the proposed temporary facilities. In December 2009, the Kentucky Commission granted the CCNs for the relevant segments and the property owners have filed various motions to intervene, stay and appeal certain elements of the Kentucky Commission's recent orders. In January 2010, in respect of two of such proceedings, the Franklin County circuit court issued Orders denying the property owners' request for a stay of construction and upholding the prior Kentucky Commission denial of their intervenor status. In parallel with, and consistent with the relevant proceedings and their status, KU is conducting appropriate real estate acquisition and construction activities with respect to these temporary transmission facilities.

In a separate proceeding, certain Hardin County landowners have also challenged the same transmission line in federal district court in Louisville, Kentucky. In that action, the landowners claim that the U.S. Army failed to comply with certain National Historic Preservation Act requirements relating to easements for the line through Fort Knox. LG&E and KU are cooperating with the U.S. Army in its defense in this case and in October 2009, the federal court granted the defendants' motion for summary judgment and dismissed the plaintiffs' claims. During November 2009, the petitioners filed submissions for review of the decision with the 6th Circuit Court of Appeals.

LG&E and KU are not currently able to predict the ultimate outcome and possible effects, if any, on the construction schedule relating to the transmission line approval, land acquisition and permitting proceedings.

Arena. In August 2006, LG&E filed an application with the Kentucky Commission requesting approval for the sale of property to the Louisville Arena Authority which was granted in a September 2006 Order. In November

2006, LG&E completed certain agreements pursuant to its August 2006 Memorandum of Understanding with the Louisville Arena Authority regarding the proposed construction of an arena in downtown Louisville. LG&E entered into a relocation agreement with the Louisville Arena Authority providing for the reimbursement to LG&E of the costs to be incurred in relocating certain LG&E facilities related to the arena transaction of approximately $63 million. As of December 31, 2009, approximately $62 million of the total costs have been received. The relocation work was substantially completed during 2009, with follow up work continuing in 2010 and 2011. The parties further entered into a property sale contract providing for LG&E's sale of a downtown site to the Louisville Arena Authority which was completed for $9 million in September 2008.

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave customers the ability to choose their electric supplier and capped electric rates through December 2010. KU subsequently received a legislative exemption from the customer choice requirements of this law. In April 2007, however, the Virginia General Assembly amended the Virginia Electric Utility Restructuring Act, thereby terminating this competitive market and commencing re-regulation of utility rates. The new act ended the cap on rates at the end of 2008. Pursuant to this legislation, the Virginia Commission adopted regulations revising the rules governing utility rate increase applications. As of January 2009, a hybrid model of regulation is being applied in Virginia. Under this model, utility rates are reviewed every two years. KU's exemption from the requirements of the Virginia Electric Utility Restructuring Act in 1999, however, discharges KU from the requirements of the new hybrid model of regulation. In lieu of submitting an annual information filing, KU has the option of requesting a change in base rates to recover prudently incurred costs by filing a traditional base rate case. KU is also subject to other utility regulations in Virginia, including, but not limited to, the recovery of prudently incurred fuel costs through an annual fuel factor charge and the submission of integrated resource plans.

Market-Based Rate Authority. In July 2006, the FERC issued an Order in LG&E's and KU's market-based rate proceedings accepting their further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, LG&E and KU received permission to sell power at market-based rates at the interface of control areas in which it may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E and KU of power at market-based rates in the LG&E/KU and Big Rivers Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for LG&E's and KU's power sales at control area interfaces. In December 2008, the FERC issued Order No. 697-B potentially placing additional restrictions on certain power sales involving areas where market power is deemed to exist. As a condition of receiving and retaining market-based rate authority, LG&E and KU must comply with applicable affiliate restrictions set forth in the FERC regulation. During September 2008, LG&E and KU submitted a regular tri-annual update filing under market-based rate regulations.

In June 2009, the FERC issued Order No. 697-C which generally clarified certain interpretations relating to power sales and purchases at control area interfaces or into control areas involving market power. In July 2009, the FERC issued an order approving LG&E's and KU's September 2008 application for market-based rate authority. During July 2009, affiliates of LG&E and KU completed a transaction terminating certain prior generation and power marketing activities in the Big Rivers Electric Corporation control area, which termination should ultimately allow a filing to request a determination that LG&E and KU no longer are deemed to have market power in such control area.

LG&E and KU conduct certain of their wholesale power sales activities in accordance with existing market-based rate authority principles and interpretations. Future FERC proceedings relating to Orders 697 or market-based rate authority could alter the amount of sales made at market-based versus cost-based rates. LG&E's and

KU's sales under market-based rate authority totaled $27 million and less than $1 million, respectively, for the year ended December 31, 2009.

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various Regional Reliability Organizations ("RROs") by the North American Electric Reliability Corporation ("NERC"), which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. LG&E and KU are members of the SERC Reliability Corporation ("SERC"), which acts as LG&E's and KU's RRO. During May 2008, the SERC and LG&E and KU agreed to a settlement involving penalties totaling less than $1 million for each utility related to LG&E's and KU's February 2008 self-report concerning possible violations of certain existing mitigation plans relating to reliability standards. During December 2009, the SERC and LG&E and KU agreed to a settlement involving penalties totaling less than $1 million for each utility concerning a June 2008 self-report by LG&E and KU relating to three other standards and an October 2008 self-report relating to an additional standard. During December 2009, LG&E and KU submitted a self-report relating to an additional standard, the resolution of which the Companies do not anticipate will result in material penalties or remedial actions. Mandatory reliability standard settlements commonly include other non-penalty elements, including compliance steps and mitigation plans. Settlements with the SERC proceed to NERC and FERC review before becoming final. While LG&E and KU believe they are in compliance with the mandatory reliability standards, they cannot predict the outcome of other analyses, including on-going SERC or other reviews described above.

Integrated Resource Planning. Integrated resource planning ("IRP") regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2008, LG&E and KU filed their 2008 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. The Kentucky Commission issued a staff report and Order closing this proceeding in December 2009. Pursuant to the Virginia Commission's December 2008 Order, KU filed its IRP in July 2009. The filing consisted of the 2008 Joint IRP filed by KU and LG&E with the Kentucky Commission along with additional data. The Virginia Commission has not established a procedural schedule for this proceeding.

EPAct 2005. The EPAct 2005 was enacted in August 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; granting enhanced civil penalty authority to the FERC; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing the Public Utility Holding Company Act of 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252 standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254 standards within one year after the enactment of EPAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252 and Section 1254 standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E and KU developed real-time pricing

pilots for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilots program proposed by LG&E and KU for implementation within approximately eight months, for their large commercial and industrial customers. The tariff was filed in October 2008, with an effective date of December 1, 2008. LG&E and KU file annual reports on the program within 90 days of each plan year-end for the 3-year pilot period.

Pursuant to a LG&E 2004 rate case settlement agreement, and as referred to in the Kentucky Commission EPAct 2005 Administrative Order, LG&E made its responsive pricing and smart metering pilot program filing, which addresses real-time pricing for residential and general service customers, in March 2007. In July 2007, the Kentucky Commission approved the application as filed, for 100 residential customers and a sampling of other customers, and authorized LG&E to establish the responsive pricing and smart metering pilot program, recovery of non-specific customer costs through the DSM billing mechanism and the filing of annual reports by April 1, 2009, 2010 and 2011. LG&E must also file an evaluation of the program by July 1, 2011.

Hydro Upgrade. In October 2005, LG&E received from the FERC a new license to upgrade, operate and maintain the Ohio Falls Hydroelectric Project. The license is for a period of 40 years, effective November 2005. LG&E began refurbishing the facility to add approximately 20 Mw of generating capacity in 2004, and plans to spend approximately $55 million from 2010 to 2012.

Green Energy Riders. In February 2007, LG&E and KU filed a Joint Application and Testimony for Proposed Green Energy Riders. In May 2007, a Kentucky Commission Order was issued authorizing LG&E and KU to establish Small and Large Green Energy Riders, allowing customers to contribute funds to be used for the purchase of renewable energy credits. During November 2009, LG&E and KU filed an application to both continue and modify the existing Green Energy Programs and requested a Kentucky Commission Order by March 2010.

Home Energy Assistance Program. In July 2007, LG&E and KU filed an application with the Kentucky Commission for the establishment of a Home Energy Assistance program. During September 2007, the Kentucky Commission approved the five-year program as filed, effective in October 2007. The program terminates in September 2012, and is funded through a $0.10 per month meter charge. Effective February 6, 2009, as a result of the settlement agreement in the 2008 base rate case, the program is funded through a $0.15 per month meter charge.

Collection Cycle Revision. As part of its base rate case filed on July 29, 2008, LG&E proposed to change the due date for customer bill payments from 15 days to 10 days to align its collection cycle with KU. In addition, KU proposed to include a late payment charge if payment is not received within 15 days from the bill issuance date to align with LG&E. The settlement agreement approved in the rate case in February 2009, changed the due date for customer bill payments to 12 days after bill issuance for both LG&E and KU, and permitted KU's implementation of a late payment charge if payment is not received within 15 days from the bill issuance date.

Depreciation Study. In December 2007, LG&E and KU filed a depreciation study with the Kentucky Commission as required by a previous Order. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. The approved settlement agreement in the rate case established new depreciation rates effective February 2009. KU also filed the depreciation study with the Virginia Commission which approved the implementation of the new depreciation rates effective February 2009.

Brownfield Development Rider Tariff. In March 2008, LG&E and KU received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet

certain usage and location requirements, including taking new service at a brownfield site, as certified by the appropriate Kentucky state agency. The rider permits special contracts with such customers which provide for a series of declining partial rate discounts over an initial five-year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant brownfield sites.

Interconnection and Net Metering Guidelines. In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case presented proposed interconnection guidelines to the Kentucky Commission in October 2008. In a January 2009 Order, the Kentucky Commission issued the Interconnection and Net Metering Guidelines – Kentucky that were developed by all parties to the proceeding. LG&E and KU do not expect any financial or other impact as a result of this Order. In April 2009, LG&E and KU filed revised net metering tariffs and application forms pursuant to the Kentucky Commission's Order. The Kentucky Commission issued an Order in April 2009, which suspended for five months all net metering tariffs filed by the jurisdictional electric utilities. This suspension was intended to allow sufficient time for review of the filed tariffs by the Kentucky Commission Staff and intervening parties. In June 2009, the Kentucky Commission Staff held an informal conference with the parties to discuss issues related to the net metering tariffs filed by LG&E and KU. Following this conference, the intervenors and LG&E and KU resolved all issues and LG&E and KU filed revised net metering tariffs with the Kentucky Commission. In August 2009, the Kentucky Commission issued an Order approving the revised tariffs.

EISA 2007 Standards. In November 2008, the Kentucky Commission initiated an administrative proceeding to consider new standards as a result of the Energy Independence and Security Act of 2007 ("EISA 2007"), part of which amends the Public Utility Regulatory Policies Act of 1978 ("PURPA"). There are four new PURPA standards and one non-PURPA standard applicable to electric utilities. The proceeding also considers two new PURPA standards applicable to natural gas utilities. EISA 2007 requires state regulatory commissions and nonregulated utilities to begin consideration of the rate design and smart grid investments no later than December 19, 2008, and to complete the consideration by December 19, 2009. The Kentucky Commission established a procedural schedule that allowed for data discovery and testimony through July 2009. A public hearing has not been scheduled in this matter. In October 2009, the Kentucky Commission held an informal conference for the purpose of discussing issues related to the standard regarding the consideration of Smart Grid investments.

Note 6 - Financial Instruments

The cost and estimated fair values of the Company's non-trading financial instruments as of December 31, 2009 and 2008 follow (in millions of $):

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (including current portion):				
Affiliated companies	3,421	3,553	3,021	2,925
External	765	764	765	744
Interest rate swaps (liability)	28	28	55	55

The fair values for external long-term debt reflect prices quoted by dealers. The fair values for debt due to affiliates are determined using an internal valuation model that discounts the future cash flows of each loan at

current market rates. The current market values are determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in the Company's credit ratings and default risk. The fair values of the swaps reflect price quotes from dealers, consistent with the fair value measurements and disclosures guidance of the FASB ASC. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

The Company is subject to the risk of fluctuating interest rates in the normal course of business. The Company's policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At December 31, 2009, a 100-basis-point change in the benchmark rate on the Company's variable-rate debt, not hedged by an interest rate swap, would impact pre-tax interest expense by $23 million annually.

Interest Rate Swaps. LG&E uses over-the-counter interest rate swaps to limit exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature.

The fair value of the interest rate swaps is determined by a quote from the counterparty. This value is verified monthly by LG&E using a model that calculates the present value of future payments under the swap utilizing current swap market rates obtained from another dealer active in the swap market and validated by market transactions. Market liquidity is considered, however the valuation does not require an adjustment for market liquidity as the market is very active for swaps such as LG&E utilizes. LG&E considered the impact of counterparty credit risk by evaluating credit ratings and financial information. All counterparties had strong investment grade ratings at December 31, 2009. LG&E did not have any credit exposure to the swap counterparties, as it was in a liability position at December 31, 2009, therefore, the market valuation required no adjustment for counterparty credit risk. In addition, LG&E and certain counterparties have agreed to post margin if the credit exposure exceeds certain thresholds. Cash collateral for interest rate swaps is included in long-term assets in the accompanying balance sheets.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $179 million as of December 31, 2009 and 2008. Under these swap agreements, LG&E paid fixed rates averaging 4.52% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 0.20% and 1.27% at December 31, 2009 and 2008, respectively. One swap hedging LG&E's $83 million Trimble County 2000 Series A bond has been designated as a cash flow hedge and continues to be highly effective. One swap with a notional value of $32 million was terminated by the counterparty in December 2008. See Note 11, Long-Term Debt. The remaining interest rate swaps designated to hedge the same bond became ineffective during 2008 as a result of the impact of downgrades of the bond insurers of the underlying debt.

The interest rate swaps are accounted for on a mark-to-market basis in accordance with the derivatives and hedging guidance of the FASB ASC. Financial instruments designated as effective cash flow hedges have resulting gains and losses recorded within other comprehensive income and member's equity. See Note 15, Accumulated Other Comprehensive Income. The ineffective portion of financial instruments designated as cash flow hedges is recorded to earnings monthly as is the entire change in the market value of the ineffective swaps.

The table below shows the pretax amount and income statement location of other gains and losses from interest-rate swaps for the years ended December 31, 2009 and 2008 (in millions of $):

	Notes	Amount 2009	2008
Change in market value of ineffective swaps	(1)	$21	$(36)
Change in the ineffective portion of swaps deemed highly effective	(2)	1	(8)
Totals		$22	$(44)

Notes:

(1) Included in mark-to-market income (expense).

(2) Included in interest expense.

Amounts recorded in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount amortized from other comprehensive income to income in the years ended December 31, 2009 and 2008, was less than $1 million. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit, used as collateral for one of the interest rate swaps, is included in long-term assets in the accompanying balance sheets. The deposit equaled $17 million and $22 million at December 31, 2009 and 2008, respectively. The amount of the deposit required is tied to the market value of the swap.

A decline of 100 basis points in the current market interest rates would reduce the fair value of LG&E's interest rate swaps by approximately $28 million. Such a change could affect other comprehensive income if the hedge is effective, or the income statement if the hedge is ineffective.

Energy Trading and Risk Management Activities. The Company conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to manage price risk and are accounted for as non-hedging derivatives on a mark-to-market basis in accordance with the derivatives and hedging guidance of the FASB ASC.

Energy trading and risk management contracts are valued using prices based on active trades from the Intercontinental Exchange Inc. In the absence of a traded price, midpoints of the best bids and offers are the primary determinants of valuation. When sufficient trading activity is unavailable, other inputs include prices quoted by brokers or observable inputs other than quoted prices, such as one-sided bids or offers as of the balance sheet date. Quotes are verified quarterly using an independent pricing source of actual transactions. Quotes for combined off-peak and weekend timeframes are allocated between the two timeframes based on their historical proportional ratios to the integrated cost. No other adjustments are made to the forward prices. No changes to valuation techniques for energy trading and risk management activities occurred during 2009 or 2008. Changes in market pricing, interest rate and volatility assumptions were made during both years.

The Company maintains credit policies intended to minimize credit risk in wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties prior to entering into transactions with them and continuing to evaluate their creditworthiness once transactions have been initiated. To further mitigate credit risk, the Company seeks to enter into netting agreements or require cash deposits, letter of credit and parental company guarantees as security from counterparties. The Company uses S&P, Moody's and

definitive qualitative and quantitative data to assess the financial strength of counterparties on an on-going basis. If no external rating exists, the Company assigns an internally generated rating for which it sets appropriate risk parameters. As risk management contracts are valued based on changes in market prices of the related commodities, credit exposures are revalued and monitored on a daily basis. At December 31, 2009, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. The Company has reserved against counterparty credit risk based on the counterparty's credit rating and applying historical default rates within varying credit ratings over time provided by S&P's or Moody's. At December 31, 2009 and 2008, credit reserves related to energy trading and risk management contracts were less than $1 million.

The net volume of electricity based financial derivatives outstanding at December 31, 2009 and 2008, was 631,200 Mwhs and 292,000 Mwhs, respectively. All the volume outstanding at December 31, 2009, will settle in 2010.

The Company manages the price volatility of its forecasted electric wholesale sales by selling market-traded electric forward contracts and swaps. Hedge accounting treatment has not been elected for these transactions, and therefore realized and unrealized gains and losses are included in the statements of income in electric utility revenues. The Company recorded realized gains of $11 million and unrealized losses of $2 million during the twelve months ended December 31, 2009, and realized and unrealized gains of $4 million and $2 million, respectively, during the twelve months ended December 31, 2008.

The Company does not net collateral against derivative instruments.

Certain of the Company's derivative instruments contain provisions that require the Company to provide immediate and on-going collateralization on derivative instruments in net liability positions based upon the Company's credit ratings from each of the major credit rating agencies. At December 31, 2009, there are no energy trading and risk management contracts with credit risk related contingent features that are in a liability position, and no collateral posted in the normal course of business. If the credit risk related contingent features underlying these agreements were triggered on December 31, 2009, due to a one notch downgrade in the Company's credit rating, there would be no effect on the energy trading and risk management contracts or collateral required as a result of these contracts.

See Note 3, Discontinued Operations, for a discussion of the WKE sales contract derivative.

Note 7 - Fair Value Measurements

The Company adopted the fair value guidance in the FASB ASC in two phases. Effective January 1, 2008, the Company adopted it for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis, and January 1, 2009, the Company adopted it for all non-financial instruments accounted for at fair value on a non-recurring basis. The FASB ASC guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB ASC guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

- Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company measures the assets and liabilities listed in the table below at fair value. The Company classifies its derivative cash collateral balances within level 1 based on the funds being held in liquid accounts. The Company classifies its liability for the E.ON share performance plan within level 2 because it is valued using a model that considers the quoted market price of E.ON's common shares traded on the Frankfurt Stock Exchange as well as other relevant economic measure. See Note 16, Share Performance Plan. The Company classifies its derivative contracts within level 2 because it values them using prices actively quoted for proposed or executed transactions, quoted by brokers or observable inputs other than quoted prices.

Prior to its termination in 2009, the Company classified its liability for WKE's long-term sales contract within level 3. The contracts were with an electric cooperative and two aluminum smelters. The valuation was done on a monthly basis using market prices from Platts' on-line pricing service for the current and forward four years and a forecast for the outer years where market prices are not available. The outer year pricing was extrapolated from an annual forecast from the Energy Information Administration for NGHH pricing based on historical ratios of around-the-clock electricity prices to NGHH prices. See Note 3, Discontinued Operations.

The Company has an obligation through the end of 2010 (and under certain circumstances to the end of 2011) to pay one of the aluminum smelters the difference between the electricity prices charged by WKE under the old long-term sales contract and the electricity prices charged by its current electricity supplier. The Company also classifies this liability within level 3. The valuation is calculated on a quarterly basis using monthly Northern East Central Area Reliability ("NECAR")/Cinergy Hub forward prices by peak-type. See Note 3, Discontinued Operations.

Assets and liabilities measured at fair value as of December 31, 2009, are summarized below (in millions of $):

	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets:				
Interest-rate swap cash collateral	$17	$-	$-	$17
Electricity derivative cash collateral	2	-	-	2
Electricity derivative contracts	-	2	-	2
Total assets	$19	$2	$-	$21
Liabilities:				
Interest-rate swaps	$-	$28	$-	$28
Electricity derivative contracts	-	2	-	2
Smelter contract - discontinued operations	-	-	75	75
E.ON share performance plan	-	2	-	2
Total liabilities	$-	$32	$75	$107

At December 31, 2009, interest-rate swap cash collateral was included in accounts receivable and other long-term assets in the accompanying balance sheet, and the electricity derivative contract asset was included in prepayments and other current assets. Interest-rate swaps were included in other current liabilities and derivative liability (noncurrent) in the accompanying balance sheet, and the electricity derivative contract liability was included in derivative liability (current). The smelter-contract liability was included in derivative liability (noncurrent), and the liability for the E.ON share performance plan was included in other long-term liabilities.

Assets and liabilities measured at fair value as of December 31, 2008, are summarized below (in millions of $):

	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets:				
Interest-rate swap cash collateral	$22	$-	$-	$22
Electricity derivative cash collateral	1	-	-	1
Electricity derivative contracts	-	3	-	3
Total assets	$23	$3	$-	$26
Liabilities:				
Interest-rate swaps	$-	$56	$-	$56
Long-term sales contract - discontinued operations	-	-	908	908
E.ON share performance plan	-	2	-	2
Total liabilities	$-	$58	$908	$966

At December 31, 2008, interest-rate swap cash collateral and electricity derivative cash collateral were included in restricted cash (noncurrent) in the accompanying balance sheet, and the electricity derivative contract asset was included in prepayments and other current assets. Interest-rate swaps were included in other current liabilities and derivative liability (noncurrent) in the accompanying balance sheet. The long-term sales contract liability was included in liabilities of discontinued operations, and the liability for the E.ON share performance plan was included in other long-term liabilities.

The following table presents the changes in net liabilities measured at fair value using significant unobservable inputs (level 3) as defined in FASB ASC for the twelve months ended December 31 (in millions of $):

	2009	2008
Balance at beginning of year	$908	$832
Realized losses included in earnings	5	-
Unrealized losses included in earnings	108	581
Unrealized gains included in earnings	(1,026)	(505)
Issuances	106	-
Settlements	(26)	-
Balance at end of year	$75	$908

Note 8 - Concentrations of Credit and Other Risks

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

LG&E's customer receivables and gas and electric revenues arise from deliveries of natural gas to approximately 321,000 customers and electricity to approximately 396,000 customers in Louisville and adjacent areas in Kentucky. KU's customer receivables and revenues arise from deliveries of electricity to approximately 515,000 customers in over 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and five customers in Tennessee. For the year ended December 31, 2009, 72% of LG&E's revenues were derived from electric operations and 28% from gas operations, and for the year ended December 31, 2008, 69% of LG&E's revenues were derived from electric operations and 31% from gas operations. All of KU's revenues were derived from electric operations in both years. During 2009, LG&E's 10 largest electric and gas customers accounted for less than 15% and less than 10% of total volumes, respectively. During 2009, KU's 10 largest customers accounted for less than 15% of electric volumes.

Effective November 2008, LG&E and employees represented by the IBEW Local 2100 signed a three-year collective bargaining agreement. This agreement provides for negotiated increases or changes to wages, benefits or other provisions. The employees represented by this bargaining agreement comprise approximately 67% of LG&E's workforce at December 31, 2009.

Effective August 4, 2009, KU and its employees represented by the IBEW Local 2100 entered into a three-year collective bargaining agreement. The agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. KU and employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement in August 2008. This agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. The employees represented by these two bargaining units comprise approximately 15% of KU's workforce at December 31, 2009.

Note 9 - Pension and Other Postretirement Benefit Plans

Pension Plans and Other Postretirement Benefits. E.ON U.S. employees benefit from both funded and unfunded non-contributory defined benefit pension plans and other postretirement benefit plans that together cover employees hired by December 31, 2005. Employees hired after this date participate in the Retirement Income Account ("RIA"), a defined contribution plan. The Company makes an annual lump sum contribution to the RIA, based on years of service and a percentage of covered compensation. The health care plans are contributory with participants' contributions adjusted annually. E.ON U.S. uses December 31 as the measurement date for its plans.

Obligations and Funded Status. The following tables provide a reconciliation of the changes in the defined benefit plans' obligations and fair value of assets over the two-year period ending December 31, 2009, and the funded status for the plans as of December 31, (in millions of $):

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Change in benefit obligation				
Benefit obligation at beginning of year	$1,013	$924	$185	$184
WKE's obligation previously in discontinued operations	33	-	7	-
Service cost	22	19	4	4
Interest cost	63	60	11	11
Plan amendments	-	-	1	3
Curtailment (gain) or loss	1	-	(3)	-
Settlement loss	2	-	-	-

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Benefits paid, net of retiree contributions	(62)	(49)	(12)	(13)
Actuarial (gain) or loss	13	59	6	(4)
Benefit obligation at end of year	$1,085	$1,013	$199	$185
Change in plan assets				
Fair value of plan assets at beginning of year	$577	$814	$24	$26
WKE's fair value of plan assets previously in discontinued operations	21	-	1	-
Actual return (loss) on plan assets	126	(190)	5	(5)
Employer contributions	35	4	19	16
Benefits paid, net of retiree contributions	(62)	(49)	(12)	(13)
Administrative expenses	(1)	(2)	-	-
Fair value of plan assets at end of year	$696	$577	$37	$24
Funded status at end of year	$(389)	$(436)	$(162)	$(161)

Amounts Recognized in the Statement of Financial Position. The following tables provide the amounts recognized in the balance sheet and information for plans with benefit obligations in excess of plan assets as of December 31, (in millions of $):

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Accrued benefit liability – current	$(7)	$(2)	$(4)	$(3)
Accrued benefit liability – non-current	(382)	(434)	(158)	(157)
Amounts recognized in regulatory assets and liabilities:				
Transition obligation	$-	$-	$5	$7
Prior service cost	37	43	8	10
Accumulated loss (gain)	256	327	(6)	(10)
Total regulatory assets and liabilities	$293	$370	$7	$7
Amounts recognized in accumulated OCI:				
Prior service (cost) credits	$(21)	$(25)	$1	$(2)
Accumulated loss	(59)	(82)	(1)	-
Total accumulated OCI (Note 15)	$(80)	$(107)	$-	$(2)
Additional year-end information for plans with benefit obligations in excess of plan assets:				
Benefit obligation	$1,085	$1,013	$199	$185
Accumulated benefit obligation	919	852	-	-
Fair value of plan assets	696	577	37	24

The amounts recognized in regulatory assets and liabilities for the years ended December 31 are composed of the following (in millions of $):

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Prior service cost arising during period	$-	$-	$-	$3
Net (gain) loss arising during period	(49)	248	3	1
Amortization of prior service cost	(7)	(7)	(2)	(2)
Amortization of transitional obligation	-	-	(2)	(2)
Amortization of (loss) gain	(21)	(2)	1	-
Total amounts recognized in regulatory assets and liabilities	$(77)	$239	$-	$-

The amounts recognized in accumulated OCI for the years ended December 31 are composed of the following (in millions of $):

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Prior service cost arising during period	$-	$-	$-	$1
Prior service cost recognized due to curtailment	(2)	-	(1)	-
Settlement recognition of net loss	(2)	-	-	-
Net (gain) loss arising during period	(17)	76	(1)	3
Amortization of prior service cost	(2)	(3)	-	-
Amortization of loss	(4)	-	-	-
Total amounts recognized in accumulated OCI	$(27)	$73	$(2)	$4

For a discussion of the pension and postretirement regulatory assets and liabilities, see Note 5, Utility Rates and Regulatory Matters.

Components of Net Periodic Benefit Costs. The following table provides the components of net periodic benefit cost for the plans for the twelve months ended December 31, (in millions of $):

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Service cost	$20	$19	$4	$4
Interest cost	62	60	11	11
Expected return on plan assets	(47)	(65)	(2)	(2)
Amortization of prior service cost	9	9	3	2
Amortization of transition obligation	-	-	2	-
Amortization of actuarial loss (gain)	27	3	(1)	2
Net periodic benefit cost	$71	$26	$17	$17

The estimated amounts that will be amortized from regulatory assets and liabilities and accumulated OCI into net periodic benefit cost in 2010 follow (in millions of $):

	Pension Benefits	Other Postretirement Benefits
Regulatory assets and liabilities:		
Net actuarial loss	$16	$-
Prior service cost	6	2
Transition obligation	-	2
Total regulatory assets and liabilities amortized during 2010	$22	$4
Accumulated OCI:		
Net actuarial loss	$5	$-
Prior service cost	3	-
Total accumulated OCI amortized during 2010	$8	$-

The weighted-average assumptions used in the measurement of the Company's pension benefit obligations as of December 31 are shown in the following table:

	2009	2008
Discount rate - LG&E union plan	6.08%	6.33%
Discount rate - WKE union plan	5.00%	6.43%
Discount rate - nonunion plan	6.13%	6.25%
Discount rate - SERP plan	5.79%	6.38%
Discount rate - officer SERP plan	6.14%	6.36%
Discount rate - restoration plan	6.31%	6.29%
Rate of compensation increase	5.25%	5.25%

The discount rates were determined by the December 28, 2009, Mercer Pension Discount Yield Curve. These discount rates were then lowered by 8 basis points for the average change in 4 bond indices, Citigroup High Grade Credit Index AAA/AA 10+ years, Barclays Capital U.S. Long Credit AA, Merrill Lynch U.S. Corporate AA-AAA rated 10+ years and Merrill Lynch U.S. Corporate AA rated 15+ years, for the period from December 28, 2009, to December 31, 2009.

The assumptions used in the measurement of the Company's net periodic benefit cost are shown in the following table:

	2009	2008
Discount rate	6.25%	6.66%
Expected long-term rate of return on plan assets	8.25%	8.25%
Rate of compensation increase	5.25%	5.25%

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset

allocation to develop the expected long-term rate of return on assets assumption per the portfolio. The Company has determined that the 2010 expected long-term rate of return on assets assumption should be 7.75%.

The following describes the effects on pension benefits by changing the major actuarial assumptions discussed above:

- A 1% change in the assumed discount rate could have an approximate $121 million positive or negative impact on the 2009 accumulated benefit obligation and an approximate $158 million positive or negative impact on the 2009 projected benefit obligation.

- A 25-basis point change in the expected rate of return on assets would have an approximate $2 million positive or negative impact on 2009 pension expense.

Assumed Health Care Cost Trend Rates. For measurement purposes, an 8% annual increase in the per capita cost of covered health care benefits was assumed for 2009. The rate was assumed to decrease gradually to 4.5% by 2029 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have resulted in an increase or decrease of less than $1 million on the 2009 total of service and interest costs components and an increase or decrease of less than $7 million in year-end 2009 postretirement benefit obligations.

Expected Future Benefit Payments and Medicare Subsidy Receipts. The following table provides the amount of expected future benefit payments, which reflect expected future service and the estimated gross amount of Medicare subsidy receipts (in millions of $):

	Pension Benefits	Other Postretirement Benefits	Medicare Subsidy Receipts
2010	$54	$14	$(1)
2011	49	15	-
2012	50	15	(1)
2013	51	16	-
2014	53	16	(1)
2015 - 2019	322	86	(3)

Plan Assets. The following table shows the pension plans' weighted-average asset allocations by asset category at December 31:

	Target Range	2009	2008
Equity securities	45% - 75%	59%	55%
Debt securities	30% - 50%	40%	43%
Other	0% - 10%	1%	2%
Totals		100%	100%

The investment policy of the pension plans was developed in conjunction with financial consultants, investment advisors and legal counsel. The goal of the investment policy is to preserve the capital of the fund and

maximize investment earnings. The return objective is to exceed the benchmark return for the policy index comprised of the following: Russell 3000 Index, the MSCI-EAFE Index, Barclays Capital Aggregate and Barclays Capital U.S. Long Government Credit Bond Index in proportions equal to the targeted asset allocation.

Evaluation of performance focuses on a long-term investment time horizon of at least three to five years or a complete market cycle. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

To minimize the risk of large losses in a single asset class, no more than 5% of the portfolio will be invested in the securities of any one issuer with the exclusion of the U.S. government and its agencies. The equity portion of the fund is diversified among the market's various subsections to diversify risk, maximize returns and avoid undue exposure to any single economic sector, industry group or individual security. The equity subsectors include, but are not limited to, growth, value, small capitalization and international.

In addition, the overall fixed income portfolio may have an average weighted duration, or interest rate sensitivity which is within +/- 20% of the duration of the overall fixed income benchmark. Foreign bonds in the aggregate shall not exceed 10% of the total fund. The portfolio may include a limited investment of up to 20% in below investment grade securities provided that the overall average portfolio quality remains "AA" or better. The below investment grade investments include, but are not limited to, medium-term notes, corporate debt, non-dollar and emerging market debt and asset backed securities. The cash investments should be in securities that are either short maturities (not to exceed 180 days) or readily marketable with modest risk.

Derivative securities are permitted only to improve the portfolio's risk/return profile, to modify the portfolio's duration or to reduce transaction costs and must be used in conjunction with underlying physical assets in the portfolio. Derivative securities that involve speculation, leverage, interest rate anticipation, or any undue risk whatsoever are not deemed appropriate investments.

The investment objective for the postretirement benefit plan is to provide current income consistent with stability of principal and liquidity while maintaining a stable net asset value of $1.00 per share. The postretirement funds are invested in a prime cash money market fund that invests primarily in a portfolio of short-term, high-quality fixed income securities issued by banks, corporations and the U.S. government. The 401(h) plan provides for postretirement benefits for covered individuals and is invested within the pension trust.

The Company classifies plan assets that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by the fair value measurements and disclosures guidance of the FASB ASC. See Note 7, Fair Value Measurements. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodologies used to measure plan assets at fair value is provided below:

Money Market Fund: These investments are public investment vehicles valued using $1 for the net asset value. The money market funds are classified within level 2 of the valuation hierarchy.

Common/Collective Trusts: Valued based on the beginning-of-year value of the plans' interests in the trusts plus actual contributions and allocated investment income (loss) less actual distributions and allocated administrative expenses. Quoted market prices are used to value investments in the trusts, with the exception of the GAC. The fair value of certain other investments for which quoted market prices are not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The common/collective trusts are classified within level 2 of the valuation hierarchy.

The preceding methods described may produce fair values that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other plan market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There were no changes in the plans' valuation methodologies during 2009.

The following table sets forth, by level within the fair value hierarchy, the plans' assets at fair value as of December 31, 2009:

(millions)	Level 2
Money Market Fund	$ 6
Common/Collective Trusts	678
Total investments at fair value	$ 684

There are no assets classified as level 1 or level 3.

The GAC is an immediate participation guarantee contract. In accordance with the plan accounting guidance of the FASB ASC, the cost incurred to purchase the GAC prior to March 20, 1992, is permitted to be carried at contract value, since it is a contract with an insurance company and therefore is excluded from the table above. The cost incurred to fund the GAC after March 20, 1992, is carried at contract value in accordance with the plan accounting guidance of the FASB ASC, since it is a contract that incorporates mortality and morbidity risk. Contract value represents cost plus interest income less distributions for benefits and administrative expenses.

Contributions. The Company made a discretionary contribution to the pension plans of $33 million in 2009. Total contributions in 2009 equaled $35 million. The amount of future contributions to the pension plan will depend upon the actual return on plan assets and other factors, but the Company funds its pension obligations in a manner consistent with the Pension Protection Act of 2006. The Company made contributions totaling $41 million in January 2010.

The Company made contributions to its other postretirement benefit plans of $18 million in 2009 and $16 million in 2008. In 2010, the Company plans on making voluntary contributions to fund VEBA trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Pension Legislation. The Pension Protection Act of 2006 was enacted in August 2006. New rules regarding funding of defined benefit plans are generally effective for plan years beginning in 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate full funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains a number of provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. The Company's plans met the minimum funding requirements as defined by the Pension Protection Act of 2006 for years ended December 31, 2009 and 2008.

Thrift Savings Plans. The Company has thrift savings plans under section 401(k) of the Internal Revenue Code. Under these plans, eligible employees may defer and contribute to the plans a portion of current compensation in order to provide future retirement benefits. The Company makes contributions to the plans by

matching a portion of the employee's contributions. The costs of this matching were approximately $9 million and $10 million for 2009 and 2008, respectively.

The Company also makes contributions to retirement income accounts within its thrift savings plans for certain employees not covered by its noncontributory defined benefit pension plans. These employees consist mainly of those hired after December 31, 2005. The Company makes these contributions based on years of service and the employees' wage and salary levels, and it makes them in addition to the matching contributions discussed above. The amounts contributed by the Company under this arrangement equaled $1 million in 2009 and less than $1 million in 2008.

Note 10 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. While 2006 and later years are open under the federal statute of limitations, Revenue Agent Reports for 2006-2007 have been received from the IRS, effectively closing these years to additional audit adjustments. Adjustments made by the IRS for the 2006 year were recorded in the 2008 financial statements. Tax years 2007 and 2008 were examined under an IRS pilot program named Compliance Assurance Process ("CAP"). This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed. Adjustments for 2007, agreed to in January 2009, were comprised of $5 million of depreciable temporary differences which were recorded in 2009. Areas remaining under examination for 2008 include bonus depreciation and the Company's application for a change in repair deductions. No net adverse impact is expected from these remaining areas.

The following table shows reductions of unrecognized tax benefits for the twelve months ended December 31, (in millions of $). There were no material additions in unrecognized tax benefits during either year.

	2009	2008
Balance at beginning of year	$8	$10
Reductions due to expiration of statute of limitations	(7)	(2)
Balance at end of year	$1	$8

Possible amounts of uncertain tax positions that may decrease within the next twelve months total $1 million and are based on the expiration of statutes during 2010. Of this amount, $1 million relates primarily to state income tax. If recognized, the $1 million of unrecognized tax benefits would reduce the effective tax rate.

Interest and penalties, if any, are recorded as operating expenses on the income statement and accrued expenses on the balance sheet. Interest expense related to unrecognized tax benefits of less than $1 million was accrued for 2009 and 2008, based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. No penalties have been accrued by the Company through December 31, 2009.

Components of income tax expense are shown in the table below for the year ended December 31, (in millions of $):

	2009	2008
Current	$39	$96
Deferred	46	(14)
Amortization of investment tax credit	(3)	(4)
Total income tax expense	$82	$78

In June 2006, LG&E and KU filed a joint application with the DOE requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, LG&E and KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit. This tax credit will be amortized following the plant being placed in service. The amortization will reduce income tax expense over the life of the related property. Based on eligible construction expenditures incurred, the Company recorded investment tax credits of $25 million and $33 million in 2009 and 2008, respectively. Including the 2009 credit, the maximum $125 million allowed for the project will be met. In addition, a full depreciation basis adjustment is required for this credit and will be reflected in tax expense over the life of the related projects.

In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program. During 2008 and 2009, the plaintiffs submitted amended complaints alleging additional claims for relief. In October 2009, the plaintiffs filed a motion for a preliminary injunction seeking temporary implementation of certain elements of the requested relief. The Company is not currently a party to this proceeding and is not able to predict the ultimate outcome of this matter.

Components of net deferred tax liabilities included in the balance sheets are shown below as of December 31, (in millions of $):

	2009	2008
Deferred tax liabilities:		
Depreciation and other plant-related items	$694	$660
Accruals and other assets	91	40
Investments and other financial assets	14	15
Total deferred tax liabilities	799	715
Deferred tax assets:		
Net operating loss carryforward	390	-
Advanced coal and other tax credit carryforwards	163	132
Pensions and similar obligations	93	95
Accruals and other liabilities	38	29
Income taxes due to customers	28	28
Investment tax credit	10	12
Investments and other financial assets	7	9
	729	305
Valuation allowance	(7)	-
Total deferred tax assets	722	305
Net deferred income tax liability (current and noncurrent)	$77	$410
Balance-sheet classification:		
Current assets	$10	$25
Noncurrent liabilities	87	435
Net deferred income tax liability (current and noncurrent)	$77	$410

Based on the Company's net deferred tax liability position, past performance history of subsidiaries and expectations of similar performance in the future, and the extensive realization period for net operating loss carryforwards, future taxable income of the Company will more likely than not be sufficient to realize fully the deferred tax assets associated with the net operating losses. The net operating loss carryforwards start to expire in 2024. Alternative minimum tax credits of $17 million do not expire, wind credits of $11 million start to expire in 2017, investment tax credits of $125 million start to expire in 2026 and other general business credits start to expire in 2018. A full valuation allowance has been provided for certain capital loss carryforwards that expire in 2014.

As discussed in Note 3, Discontinued Operations, the Company incurred losses in connection with the termination of the WKE lease. As a result, federal tax loss carryforwards were $336 million and state tax net operating loss carryforwards were $54 million as of December 31, 2009. There were no federal or state tax loss carryforwards as of December 31, 2008.

A reconciliation of differences between the statutory U.S. federal income tax rate and the Company's effective income tax rate as a percentage of income from continuing operations before income taxes follows:

	2009	2008
Statutory federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	(0.6)	(0.2)
Equity investments	0.2	0.6
Reduction of income tax reserve	0.3	0.2
Investment and other tax credits	0.3	0.3
Goodwill impairment	(42.3)	(41.2)
Other differences – net	0.5	0.2
Effective income tax rate	(6.6)%	(5.1)%

Note 11 - Long-Term Debt

Long-term debt and the current portion of long-term debt, summarized below, consists primarily of pollution control bonds issued by LG&E and KU, loans from an affiliated company, and medium-term notes issued by Capital Corp. Utility debt issuance expense is capitalized in regulatory assets and amortized over the lives of the related bond issues for LG&E and KU, consistent with regulatory practices. Non-utility issuance expense is amortized using the effective interest rate method. Interest rates and maturities in the table below are for the amounts outstanding at December 31, 2009 and 2008, and include the impact of interest rate swaps in place.

	Stated Interest Rates	Weighted Average Interest Rate	Maturities	Principal Amounts (In Millions Of Dollars)
2009:				
Current	Variable-7.01%	2.42%	2010-2034	$707
Noncurrent	Variable-7.78%	4.24%	2011-2037	3,479
2008:				
Current	Variable-4.07%	2.26%	2009-2034	$604
Noncurrent	Variable-7.47%	4.85%	2010-2037	3,182

Under the provisions for LG&E's and KU's variable-rate pollution control bonds classified as current portion of long-term debt, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt. The following bond series are subject to tender for purchase:

LG&E:
Jefferson Co. 2001 Series A, due September 1, 2026, variable %
Trimble Co. 2001 Series A, due September 1, 2026, variable %
Jefferson Co. 2001 Series B, due November 1, 2027, variable %
Trimble Co. 2001 Series B, due November 1, 2027, variable %

KU:
Mercer Co. 2000 Series A, due May 1, 2023, variable %
Carroll Co. 2002 Series A, due February 1, 2032, variable %
Carroll Co. 2002 Series B, due February 1, 2032, variable %
Carroll Co. 2008 Series A, due February 1, 2032, variable %
Mercer Co. 2002 Series A, due February 1, 2032, variable %
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %
Carroll Co. 2004 Series A, due October 1, 2034, variable %
Carroll Co. 2006 Series B, due October 1, 2034, variable %

The average annualized interest rates for these bonds during 2009 were 1.06% and 0.61% for LG&E and KU, respectively. The average annualized interest rates for these bonds during 2008 were 2.34% and 1.75% for LG&E and KU, respectively.

Redemptions and maturities of long-term debt in 2009 and 2008 are summarized below (in millions of $):

Year	Company	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2009	E.ON U.S.	Due to Fidelia	$50	3.98%	Unsecured	2009
2009	E.ON U.S.	Due to Fidelia	$80	Variable	Unsecured	2009
2009	E.ON U.S.	Due to Fidelia	$50	Variable	Unsecured	2009
2009	E.ON U.S.	Due to Fidelia	$75	4.07%	Unsecured	2009
2008	KU	Pollution control bonds	$13	Variable	Unsecured	2035
2008	KU	Pollution control bonds	$13	Variable	Unsecured	2035
2008	KU	Pollution control bonds	$17	Variable	Unsecured	2036
2008	KU	Pollution control bonds	$17	Variable	Unsecured	2036
2008	Cap. Corp.	Medium-term notes	$24	6.46%	Unsecured	2008

Issuances of long-term debt in 2009 and 2008 are summarized below (in millions of $):

Year	Company	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2009	E.ON U.S.	Due to Fidelia	$50	7.78%	Unsecured	2011
2009	E.ON U.S.	Due to Fidelia	$50	Variable	Unsecured	2012
2009	E.ON U.S.	Due to Fidelia	$50	Variable	Unsecured	2012
2009	E.ON U.S.	Due to Fidelia	$100	Variable	Unsecured	2012
2009	E.ON U.S.	Due to Fidelia	$75	6.04%	Unsecured	2014
2009	E.ON U.S.	Due to Fidelia	$50	Variable	Unsecured	2014
2009	E.ON U.S.	Due to Fidelia	$50	Variable	Unsecured	2014
2009	E.ON U.S.	Due to Fidelia	$80	Variable	Unsecured	2016
2009	KU	Due to Fidelia	$50	5.28%	Unsecured	2017
2009	KU	Due to Fidelia	$50	4.81%	Unsecured	2019
2009	KU	Due to Fidelia	$50	4.45%	Unsecured	2019
2008	E.ON U.S.	Due to Fidelia	$100	Variable	Unsecured	2010
2008	E.ON U.S.	Due to Fidelia	$75	7.01%	Unsecured	2010
2008	E.ON U.S.	Due to Fidelia	$75	Variable	Unsecured	2015
2008	LG&E	Due to Fidelia	$50	6.48%	Unsecured	2015
2008	LG&E	Due to Fidelia	$25	6.21%	Unsecured	2018
2008	KU	Due to Fidelia	$75	7.04%	Unsecured	2018
2008	KU	Due to Fidelia	$50	6.16%	Unsecured	2018
2008	KU	Due to Fidelia	$50	5.65%	Unsecured	2018
2008	KU	Due to Fidelia	$75	5.85%	Unsecured	2023
2008	KU	Pollution control bonds	$78	Variable	Unsecured	2032

Acquisitions of outstanding pollution-control bonds and reissuances and retirements of reacquired pollution-control bonds in 2008 are summarized below (in millions of $):

Transaction Description	Company	Principal Amount	Rate	Secured/ Unsecured	Maturity
Acquisition	LG&E	$25	Variable	Unsecured	2027
Acquisition	LG&E	$31	Variable	Unsecured	2033
Acquisition	LG&E	$35	Variable	Unsecured	2033
Acquisition	LG&E	$128	Variable	Unsecured	2033
Acquisition	LG&E	$40	Variable	Unsecured	2035
Acquisition	KU	$13	Variable	Unsecured	2023
Acquisition	KU	$50	Variable	Unsecured	2034
Acquisition	KU	$17	Variable	Unsecured	2036
Reissuance	LG&E	$25	5.38%	Unsecured	2027
Reissuance	LG&E	$31	5.63%	Unsecured	2033
Reissuance	LG&E	$40	5.75%	Unsecured	2035
Reissuance	KU	$13	Variable	Unsecured	2023
Reissuance	KU	$50	Variable	Unsecured	2034
Retirement	KU	$17	Variable	Unsecured	2036

There were no acquisitions of outstanding pollution-control bonds and or reissuances and retirements of reacquired pollution-control bonds in 2009.

The proceeds of the 2009 KU loans were used to fund capital expenditures. The proceeds of the 2009 E.ON U.S. loans were used to refinance maturing loans from Fidelia, fund capital contributions to KU, fund discontinued operations, and fund contributions to the Company's pension and postretirement plans.

The proceeds of the 2008 LG&E and KU loans were used to fund capital expenditures. The proceeds of the 2008 E.ON U.S. loans were used to fund LG&E's and KU's capital expenditures and to fund discontinued operations.

Pollution control series bonds are obligations of LG&E or KU issued in connection with tax-exempt pollution control revenue bonds by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E or KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. The loan agreement is an unsecured obligation of LG&E or KU.

Several of the LG&E and KU pollution control bonds are insured by monoline bond insurers whose ratings have been reduced due to exposures relating to insurance of sub-prime mortgages. At December 31, 2009, LG&E and KU had an aggregate $926 million of outstanding pollution control indebtedness ($163 million of which LG&E currently owns), of which $231 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. During 2008, interest rates increased, and LG&E and KU experienced "failed auctions" when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture. During 2009 and 2008, the average rate on LG&E's auction-rate bonds was 0.38% and 4.19%, respectively. The average rate on KU's auction-rate bonds was 0.44% and 4.50%, for 2009 and 2008, respectively. The instruments governing these auction rate bonds permit LG&E and KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently.

In June 2009, S&P downgraded the credit rating of Ambac from "A" to "BBB." As a result, S&P downgraded the ratings on certain bonds in June 2009. The S&P ratings of these bonds are now based on the rating of the Company rather than the rating of Ambac since the Company's rating is higher. The following table presents the bonds downgraded (in millions of $):

			Moody's		S&P	
	Notes	Principal	2009	2008	2009	2008
LG&E:						
Trimble County 2000 Series A	-	83	A2	A2	BBB+	A
Jefferson Co. 2001 Series A	-	10	A2	A2	BBB+	A
Trimble County 2002 Series A	-	42	A2	A2	BBB+	A
Louisville Metro 2007 Series B	-	35	A2	A2	BBB+	A
Trimble County 2007 Series A	-	60	A2	A2	BBB+	A
KU:						
Carroll County 2002 Series C	-	96	A2	A2	BBB+	A
Carroll County 2007 Series A	-	18	A2	A2	BBB+	A
Trimble County 2007 Series A	-	9	A2	A2	BBB+	A

In March and April 2008, LG&E converted the Louisville Metro 2005 Series A and, 2007 Series A and B bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In connection with the conversions, LG&E purchased the bonds from the remarketing agent. The Louisville Metro 2005 and 2007 Series A bonds were remarketed in November 2008, and the Company continues to hold the 2007 Series B bonds.

In May 2008, LG&E converted the Jefferson County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. In connection with the conversion, LG&E purchased the bonds from the remarketing agent. The bonds were remarketed in November 2008.

In July 2008, LG&E converted the Louisville Metro 2003 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. In connection with the conversion, LG&E purchased the bonds from the remarketing agent and continues to hold these bonds.

In November 2008, LG&E converted three pollution control bonds to a mode wherein the interest rate is fixed for an intermediate term, but not the full term of the bond. At the end of the intermediate term, the Company must remarket the bonds or buy them back. The terms of the November transactions are as follows (in millions of $):

Series	Principal	Interest Rate	End of Fixed-Rate Term
Jefferson County 2000 Series A	$25	5.375%	November 30, 2011
Louisville Metro 2007 Series A	31	5.625%	December 2, 2012
Louisville Metro 2005 Series A	40	5.750%	December 1, 2013

At the time of the conversion, the bond insurance policies that had been in place were terminated.

During 2008, KU converted several series of its pollution control bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In connection with these conversions, KU purchased some of the bonds from the remarketing agent. The bonds that were repurchased from the remarketing agent in 2008 were either defeased or remarketed during 2008.

As of December 31, 2009, KU had no remaining repurchased bonds. During 2008, KU refinanced and remarketed $63 million and refinanced $17 million of pollution control bonds that it had previously repurchased.

As of December 31, 2009, LG&E continued to hold repurchased bonds in the amount of $163 million. The Company will hold some or all of such repurchased bonds until a later date, at which time it may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps the Company has taken or may take to mitigate such uncertainty, such as additional conversion, subsequent restructuring or redemption and refinancing, could result in LG&E incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

All of LG&E's and KU's first mortgage bonds were released and terminated in April 2007 and February 2007, respectively. Only the tax-exempt pollution control revenue bonds issued by the counties remain. Under the provisions for certain of LG&E's and KU's variable-rate pollution control bonds, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for LG&E's bonds subject to tender during 2009 and 2008 was 1.06% and

2.34%, respectively. The average annualized interest rate for KU's bonds subject to tender during 2009 and 2008 was .61% and 1.75%, respectively.

Interest rate swaps are used to hedge LG&E's underlying variable-rate debt obligations. These swaps hedge specific debt issuances and, consistent with management's designation, are accorded hedge accounting treatment. The swaps exchange floating-rate interest payments for fixed rate interest payments to reduce the impact of interest rate changes on LG&E's pollution control bonds. As of December 31, 2009 and 2008, LG&E had swaps with an aggregate notional value of $179 million. See Note 6, Financial Instruments.

In October 2008, KU issued Carroll County 2008 Series A tax exempt bonds in the amount of $78 million. The new bonds mature on February 1, 2032, and bear interest at a variable rate. The new bonds refinance four existing bonds (Carroll County 2005 Series A and B - $13 million each and the Carroll County 2006 Series A and C - $17 million each), and include $18 million of new funding. The proceeds from the new funding were held in escrow until incurrence of qualifying expenditures.

In December 2008, KU converted the interest rate mode of the Carroll County 2006 Series B to a weekly mode from an auction mode. The bonds along with the Carroll County 2004 Series A, the Mercer County 2000 Series A, and the Carroll County 2008 Series A, were issued with the enhancement of a letter of credit. The bonds have been reclassified as current portion of long-term debt because investors can put the bonds back to KU on a weekly basis.

As of December 31, 2009, $3.4 billion of unsecured notes payable was outstanding to the Company's affiliate, Fidelia, with interest rates ranging from 4.24% to 7.78% and maturities ranging from 2010 to 2037.

The lenders under the medium-term notes for Capital Corp. are entitled to the benefits of a Support Agreement with E.ON U.S. The Support Agreement generally provides that E.ON U.S. will provide Capital Corp. with the necessary funds and financial support to meet its obligations under the medium-term notes.

All debt covenants at E.ON U.S. subsidiaries were satisfied at December 31, 2009.

Long-term debt maturities for E.ON U.S. are shown below:

	External	Affiliated	Totals
2010	$-	$358	$358
2011	2	350	352
2012	-	450	450
2013	-	375	375
2014	-	375	375
Thereafter	[a] 763	1,513	2,276
Totals	$765	$3,421	$4,186

Notes:

(a) Includes long-term debt of $349 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. Maturity dates for these bonds range from 2026 to 2034. The Company does not expect to pay these amounts in 2010.

Note 12 - Notes Payable

At December 31, 2009, E.ON U.S. had a line of credit with E.ON North America, an affiliate of E.ON, totaling $150 million. The line of credit is available for working capital needs. Unused capacity under the line totaled $37 million and $14 million at December 31, 2009 and 2008, respectively. The average interest rates on outstanding balances under this line of credit at December 31, 2009 and 2008, were 0.92% and 0.32%, respectively. In February 2010, this line was extended to February 2011. E.ON U.S. also had two short-term loans with Fidelia outstanding as of December 31, 2009 and 2008, totaling $163 million on each of those dates. The short-term loans were used to acquire repurchased bonds in the amount of $163 million remaining at LG&E. The average interest rates on these short-term loans at December 31, 2009 and 2008, were 1.47% and 3.48%, respectively.

In addition to the above revolving lines of credit, E.ON U.S. entered into a short-term loan in 2009 totaling $575 million with Fidelia. The loan matures in July 2010. The interest rate on the loan equals the three-month LIBOR rate plus 1.28%. The Company used the proceeds from the loan to make payments related to the termination agreement with BREC. See Note 3, Discontinued Operations.

At December 31, 2009 and 2008, LG&E maintained bilateral line-of-credit facilities, with unaffiliated financial institutions, totaling $125 million, which mature in June 2012. Unused capacity under the facilities totaled $125 million at December 31, 2009. The covenants under these revolving lines of credit require that (1) LG&E keep its debt-to-total-capitalization ratio under 70%, (2) E.ON must own directly or indirectly at least two-thirds of LG&E's voting stock, (3) LG&E maintain credit ratings of BBB- and Baa3 or better as determined by S&P and Moody's, and (4) LG&E cannot dispose of assets totaling more than 15% of total assets as of December 31, 2006.

At December 31, 2009 and 2008, KU maintained a line-of-credit facility, with an unaffiliated financial institution, totaling $35 million, which matures in June 2012. Unused capacity under the facility totaled $35 million at December 31, 2009. The covenants under this revolving line of credit require that (1) KU keep its debt-to-total-capitalization ratio under 70%, (2) E.ON must own directly or indirectly at least two-thirds of KU's voting stock, (3) KU maintain credit ratings of BBB- and Baa3 or better as determined by S&P and Moody's, and (4) KU cannot dispose of assets totaling more than 15% of total assets as of December 31, 2006.

In October 2008, KU closed on a $78 million bilateral line of credit which had a 364 day maturity. This facility was terminated in December 2008 and replaced by four new letter of credit facilities to allow issuance of letters of credit totaling $198 million to support tax-exempt bonds totaling $195 million of the $228 million of bonds that can be put back to KU. Should the holders elect to put the bonds back and they cannot be remarketed, the letter of credit would fund the investor's payment. The expiration date for the letters of credit has been extended to December 2010. The reimbursement agreements are identical and contain the following covenants:

- E.ON must own 75% of voting stock of KU directly or indirectly
- A limitation on disposing of assets aggregating more than 20% of total assets as of most recent quarter-end.

At December 31, 2009, KU had no remaining capacity for letters of credit under these facilities and was in compliance with these covenants.

All notes payable covenants at E.ON U.S. subsidiaries were satisfied at December 31, 2009.

Note 13 - Commitments and Contingencies

Operating Leases

The Company leases office space, office equipment, plant equipment, real estate, railcars, telecommunications, vehicles, and a helicopter, and accounts for these leases as operating leases. See also Note 3, Discontinued Operations, for a discussion of the Big Rivers operating lease. Lease expense equaled $16 million in 2009 and $15 million in 2008. Commitments under operating leases as of December 31, 2009, are presented below (in millions of $):

2010	$13
2011	10
2012	9
2013	7
2014	7
Thereafter	7
Totals	$53

LG&E and KU are participants in a sale and leaseback transaction involving their two jointly-owned CTs at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, LG&E and KU entered into a tax-efficient, 18-year lease of the CTs. LG&E and KU have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is the same as if LG&E and KU had retained their ownership interests. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

In case of default under the lease, LG&E and KU are obligated to pay to the lessor their share of certain fees or amounts. Primary events of default include loss or destruction of the CTs, failure to insure or maintain the CTs and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the CTs reverts jointly to LG&E and KU.

At December 31, 2009, the maximum aggregate amount of default fees or amounts was $8 million. Of this amount, LG&E would be responsible for approximately $3 million (38%) and KU would be responsible for approximately $5 million (62%). LG&E and KU have made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay any default fees or amounts that LG&E or KU may incur.

Letters of Credit

E.ON U.S. has provided a letter of credit securing off-balance sheet commitments totaling $8 million at December 31, 2009. The underlying obligation is a performance guarantee. LG&E has also issued letters of credit as of December 31, 2009, for off-balance sheet obligations totaling $4 million, and KU has issued a letter of credit as of the same date for off-balance sheet obligations of less than $1 million and for on-balance sheet obligations of $198 million to support outstanding bonds of $195 million.

Purchased Power

LG&E and KU have contracts for purchased power with OVEC, terminating in 2026, for various Mw capacities. LG&E and KU have investments of 5.63% and 2.5%, respectively, ownership in OVEC's common

stock, which is accounted for on the cost method of accounting. LG&E's and KU's shares of OVEC's output is 5.63%, and 2.5%, respectively, which approximates 179 Mw of generation capacity.

KU also has a purchased-power arrangement with OMU. Under the OMU agreement, which will be terminated by OMU in May 2010, KU purchases all of the output not required by OMU of an approximately 400-Mw coal-fired generating station. The amount of purchased power available to KU during 2010, which is expected to be approximately 5% of KU's total Kwh native load energy requirements, is dependent upon a number of factors including the OMU units' availability, maintenance schedules, fuel costs and OMU requirements. Payments are based on the total costs of the station allocated per terms of the OMU agreement. Included in the total costs is KU's proportionate share of debt service requirements on $207 million of OMU bonds outstanding at December 31, 2009. The debt service is allocated to KU based on its annual allocated share of capacity, which averaged approximately 44% in 2009. KU does not guarantee the OMU bonds, or any requirements therein, in the event of default by OMU.

Future obligations for power purchases are shown in the following table (in millions of $):

2010	$37
2011	32
2012	34
2013	36
2014	38
Thereafter	575
Totals	$752

Owensboro Contract Litigation

In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit which was removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involved interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. In July 2005, the court issued a summary judgment ruling upholding OMU's contractual right to terminate the OMU agreement in May 2010.

In September and October 2008, the court granted rulings on a number of summary judgment petitions in KU's favor. The summary judgment rulings resulted in the dismissal of all of OMU's remaining claims against KU. The trial on KU's counterclaim occurred during October and November 2008. During February 2009, the court issued orders on the matters covered at trial, including (i) awarding KU an aggregate $9 million relating to the cost of NOx allowances charged by OMU to KU and the price of back-up power purchased by OMU from KU, plus pre- and post-judgment interest, and (ii) denying KU's claim for damages based upon sub-par operations and availability of the OMU units. In April 2009, the court issued a ruling on various post-trial motions denying certain challenges to calculation elements of the $9 million award or of interest amounts associated therewith. In May 2009, KU and OMU executed a settlement agreement resolving the matter on a basis consistent with the court's prior rulings and KU has received the agreed settlement amounts.

Coal and Gas Purchase Commitments

The following table summarizes the Company's coal, natural gas, and natural gas transportation purchase commitments for periods after December 31, 2009 (in millions of $):

2010	$777
2011	637
2012	260
2013	224
2014	223
Thereafter	39
Total	$2,160

Obligations after 2014 are indexed to future market prices and are not included above since prices will be set in the future using the contracted methodology.

Construction Program

LG&E had $14 million of commitments in connection with its construction program at December 31, 2009, and KU had $62 million of commitments in connection with its construction program as of the same date.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. In March 2009, the parties completed an agreement resolving certain construction cost increases due to higher labor and per diem costs above an established baseline, and certain safety and compliance costs resulting from a change in law. LG&E's and KU's shares of additional costs from inception of the contract through the expected project completion in 2010 are estimated to be approximately $5 million and $30 million, respectively. During late 2009 and early 2010, KU and LG&E received a number of contractual notices from the TC2 construction contractor claiming force majeure status with respect to certain events which, if granted, may affect the rights of the parties under other contract terms relating to pricing, commercial operations date, liquidated damages or other provisions. The parties are continuing to discuss such matters.

TC2 Air Permit

The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division for Air Quality ("KDAQ") in November 2005. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order upholding the permit. The environmental groups petitioned the EPA to object to the state permit and subsequent permit revisions. In determinations made in September 2008 and June 2009, the EPA rejected most of the environmental groups' claims, but identified three permit deficiencies which the KDAQ addressed by revising the permit. In August 2009, the EPA issued an order denying the remaining claims with the exception of two additional deficiencies which the KDAQ was directed to address. The EPA determined that the proposed permit subsequently issued by the KDAQ satisfied the conditions of the EPA Order, although the agency recommended certain enhancements to the administrative record. In January 2010, the KDAQ issued a final permit revision incorporating the proposed changes to address the two EPA objections. In March 2010,

the Sierra Club submitted a petition the EPA to object to the permit revision. The Company believes that the final permit as revised should not have a material adverse effect on its financial condition or results of operations. However, until the right to challenge the final permit expires, the Company cannot predict the final outcome of this matter.

Thermostat Replacement

During January 2010, LG&E and KU announced a voluntary plan to replace certain thermostats which had been provided to customers as part of the Companies' demand reduction programs, due to concerns that the thermostats may present a safety hazard. Under the plan, LG&E and KU anticipate replacing up to approximately 14,000 thermostats. Estimated costs associated with the replacement program may be $2 million. However, LG&E and KU cannot fully predict the ultimate outcome of the replacement program or other effects or developments which may be associated with the thermostat replacement matter at this time.

Reserve Sharing Developments

The membership of LG&E and KU in the Midwest Contingency Reserve Sharing Group terminated on December 31, 2009. In December 2009, LG&E and KU entered into arrangements with Tennessee Valley Authority and East Kentucky Power Cooperative to form a new reserve sharing group, the TEE Contingency Reserve Sharing Group. Contingency reserves, including spinning reserves and supplemental reserves, relate to power or capacity requirements that LG&E and KU must have available for certain reliability purposes. In general, the operational and financial impact of reserve sharing arrangements varies based upon factors such as the terms of the agreement, the relative generating and operations conduct of the parties and relevant market prices. While LG&E and KU do not anticipate the revised reserve sharing developments will have a material adverse effect on their prospective operations or financial condition, such outcome cannot be guaranteed.

Mine Safety Compliance Costs

In March 2006, the Mine Safety and Health Administration enacted Emergency Temporary Standards regulations and has issued additional regulations as the result of the passage of the Mine Improvement and New Emergency Response Act of 2006, which was signed into law in June 2006. At the state level, Kentucky, and other states that supply coal to LG&E and KU, have passed new mine safety legislation. These pieces of legislation require all underground coal mines to implement new safety measures and install new safety equipment. Under the terms of the majority of the long-term coal contracts that LG&E and KU have in place, provisions are made to allow for price adjustments for compliance costs resulting from new or amended laws or regulations. LG&E's and KU's coal suppliers regularly submit price adjustments related to these compliance costs. LG&E and KU employ an external consultant to review all relevant mine safety compliance cost claims for validity and reasonableness. Depending upon the terms of the contracts and commercial practice, LG&E and KU may delay payment of the adjustments or pay certain adjustments subject to refund. At appropriate times in the review, payment or refund processes, LG&E and KU may make adjustments to the values or amounts of inventory, accounts receivable or accounts payable relating to coal matters. In general, LG&E and KU expect to recover these coal-related cost adjustments through the FAC.

Environmental

LG&E's and KU's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to LG&E's and KU's business operations are described below.

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's and KU's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. In January 2010, the EPA issued a proposed rule to reconsider the NAAQS for Ozone, previously revised in 2008. The proposal would institute more stringent standards. At present, the Company is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the new ozone standard.

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous Order, directing the EPA to promulgate a new regulation, but leaving the CAIR in place in the interim. Depending upon the course of such matters, the CAIR could be superseded by new or revised NOx or SO_2 regulations with different or more stringent requirements and SIPs which incorporate CAIR requirements could be subject to revision. LG&E and KU are also reviewing aspects of their compliance plans relating to the CAIR, including scheduled or contracted pollution control construction programs. Finally, as discussed below, the remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and LG&E's and KU's compliance plans relating thereto, due to the interconnection of the CAIR with such associated programs. At present, LG&E and KU are not able to predict the outcomes of the legal and regulatory proceedings related to the CAIR and whether such outcomes could have a material effect on their financial or operational conditions.

Hazardous Air Pollutants. As provided in the Clean Air Act, as amended, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provided for

reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. In addition, in 2006, the Metro Louisville Air Pollution Control District adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants.

In February 2008, a federal appellate court issued a decision vacating the CAMR. The EPA has announced that it intends to promulgate a new rule to replace the CAMR. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new mercury reduction rules with different or more stringent requirements. Kentucky has also repealed its corresponding state mercury regulations. At present, LG&E and KU are not able to predict the outcomes of the legal and regulatory proceedings related to the CAMR and whether such outcomes could have a material effect on their financial or operational conditions.

Acid Rain Program. The Clean Air Act, as amended, imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The Clean Air Act, as amended, also contains requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its CAVR detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR provided for more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts. Additionally, because the regional haze SIPs incorporate certain CAIR requirements, the remand of CAIR could potentially impact regional haze SIPs. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. KU's strategy for its Phase II SO_2 requirements, which also commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions mandated by the NOx SIP Call and associated obligations, LG&E and KU installed additional NOx controls, including SCR technology, during the 2000-through-2009 time period at a cost of $197 million and $221 million, respectively. In 2001, the Kentucky Commission granted approval to recover the costs incurred by LG&E and KU for these projects through the environmental surcharge mechanisms. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, LG&E and KU expect to incur additional capital expenditures totaling approximately $85 million and $320 million, respectively, during the 2010 through 2012 time period for pollution control equipment, and additional operating and maintenance costs in operating such

controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by LG&E and KU for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E and KU believe their costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's and KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E and KU will continue to monitor these developments to ensure that their environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

GHG Developments. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. As discussed below, legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are on-going. The current administration has announced its support for the adoption of mandatory GHG reduction requirements at the federal level. The United States and other countries met in Copenhagen, Denmark in December 2009, in an effort to negotiate a GHG reduction treaty to succeed the Kyoto Protocol, which is set to expire in 2013. At Copenhagen, the U.S. provided voluntary agreements to, among other things, seek to reduce GHG emissions to 17% below 2005 levels by 2020 and provide financial support to developing countries. The United States and other nations are scheduled to meet in Cancun, Mexico, in late 2010 to continue toward a binding agreement.

GHG Legislation. LG&E and KU are monitoring on-going efforts to enact GHG reduction requirements and requirements governing carbon sequestration at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. In June 2009, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009, (H.R. 2454), which is a comprehensive energy bill containing the first-ever nation-wide GHG cap and trade program. If enacted into law, the bill would provide for reductions in GHG emissions of 3% below 2005 levels by 2012, 17% by 2020, and 83% by 2050. In order to cushion potential rate impacts for utility customers, approximately 43% of emissions allowances would initially be allocated at no cost to the electric utility sector, with this allocation gradually declining to 7% in 2029 and zero thereafter. The bill would also establish a renewable electricity standard requiring utilities to meet 20% of their electricity demand through renewable energy and energy efficiency by 2020. The bill contains additional provisions regarding carbon capture and sequestration, clean transportation, smart grid advancement, nuclear and advanced technologies and energy efficiency.

In September 2009, the Clean Energy Jobs and American Power Act (S. 1733), which is largely patterned on the House legislation, was introduced in the U.S. Senate. The Senate bill raises the emissions reduction target for 2020 to 20% below 2005 levels and does not include a renewable electricity standard. While the initial bill lacked detailed provisions for the allocation of emissions allowances, a subsequent revision has incorporated allowance allocation provisions similar to the House bill. The Company is closely monitoring the progress of the legislation, although the prospect for passage of comprehensive GHG legislation in 2010 is uncertain.

GHG Regulations. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. In April 2009, the EPA issued a proposed endangerment finding concluding that GHGs endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding was issued in December 2009. In September 2009, the EPA issued a final GHG reporting rule requiring reporting by facilities with annual GHG emissions equivalent to at least 25,000 tons of

carbon dioxide. A number of the Company's facilities will be required to submit annual reports commencing with calendar year 2010. Also in September 2009, the EPA proposed to require new or modified sources with GHG emissions equivalent to at least 10,000 to 25,000 tons of carbon dioxide to obtain permits under the Prevention of Significant Deterioration Program. Such new or modified facilities would be required to install Best Available Control Technology. While the Company is unaware of any currently available GHG control technology that might be required for installation on new or modified power plants, it is currently assessing the potential impact of the proposed rule. A final rule is expected in 2010.

The Company is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations. As companies with significant coal-fired generating assets, LG&E and KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on their operations, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs. While the Company believes that many costs of complying with mandatory GHG reduction requirements or purchasing emission allowances to meet applicable requirements would likely be recoverable, in whole or in part under the ECR, where such costs are related to the Company's coal-fired generating assets, or other potential cost-recovery mechanisms, this cannot be assured.

GHG Litigation. A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities. In October 2009, the United States Court of Appeals for the 5th Circuit in the case of Comer v. Murphy Oil reversed a lower court, holding that private plaintiffs have standing to assert certain common law claims against more than 30 utility, oil, coal and chemical companies. The Comer complaint alleges that GHG emissions from the defendants' facilities contributed to global warming which increased the intensity of Hurricane Katrina. The Company was included as defendant in the complaint, but has not been subject to the proceedings due to the failure of the plaintiffs to pursue service under the applicable international procedures. LG&E and KU are currently unable to predict further developments in the Comer case, including whether the plaintiffs will continue with a previously-dismissed motion seeking to amend their complaint to add the Companies as parties. LG&E and KU continue to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to their operations.

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging KU had exceeded heat input values in violation of the air permit for the unit. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint sought civil penalties, including potential per-day fines, remedial measures and injunctive relief. In December 2008, KU reached a tentative settlement with the government resolving all outstanding claims. The proposed consent decree, which was approved by the court in March 2009, provides for payment of a $1 million civil penalty; funding of $3 million in environmental mitigation projects; surrender of 53,000 excess SO_2 allowances; surrender of excess NOx allowances estimated at 650 allowances annually for eight years; installation of an FGD by December 31, 2010; installation of an SCR by December 31, 2012; and compliance with specified emission limits and operational restrictions.

Section 114 Requests. In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain projects undertaken at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's Ghent 2 generating unit. LG&E and KU have complied with the information requests and are not able to predict further proceedings in this matter at this time.

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and

3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Ghent New Source Review NOV. In March 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued a Section 114 information request seeking additional information on this matter. In March 2010, KU received an EPA settlement proposal providing for imposition of additional permit limits and emission controls. The Company anticipates continued settlement negotiations with EPA. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures by KU. KU is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon KU's financial position or results of operations.

In March 2010, KU received an EPA settlement proposal providing for imposition of additional permit limits and emission controls. The Company anticipates continued settlement negotiations with EPA. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures by KU. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial position or results of operations.

Ash Ponds, Coal-Combustion Byproducts and Water Discharges. The EPA has undertaken various initiatives in response to the December 2008 impoundment failure at the Tennessee Valley Authority's Kingston power plant, which resulted in a major release of coal combustion byproducts into the environment. The EPA issued information requests to utilities throughout the country, including LG&E and KU, to obtain information on their ash ponds and other impoundments. In addition, the EPA inspected a large number of impoundments located at power plants to determine their structural integrity. The inspections included several of LG&E's and KU's impoundments, which the EPA found to be in satisfactory condition. The Company is awaiting final inspection reports for additional impoundments. The EPA and other agencies are currently considering the need to revise applicable standards governing the structural integrity of ash ponds and other impoundments. In addition, the EPA has announced that it is re-evaluating current regulatory requirements applicable to coal combustion byproducts and anticipates proposing new rules by early 2010. The EPA is considering a wide range of regulatory options including subjecting ash ponds and landfills handling coal combustion byproducts to regulation under the hazardous waste program. Finally, the EPA has announced plans to develop revised effluent limitations guidelines and standards governing discharges from power plants. The Company is monitoring these ongoing regulatory developments, but will be unable to determine the impact until such time as new rules are finalized.

General Environmental Proceedings. From time to time, LG&E and KU appear before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations, a completed settlement with state regulators regarding particulate limits in the air permit for KU's Tyrone generating station, remediation activities for, or other risks relating to elevated Polychlorinated Biphenyl ("PCB") levels at existing properties, activities for former manufactured gas plant sites or liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; or on-going claims regarding alleged particulate emissions from LG&E's Cane Run station and claims regarding GHG emissions from LG&E's and KU's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under

existing approved plans or agreements. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E or KU. The Company is currently conducting remediation of certain contamination existing or occurring at a former mid-stream gas gathering and processing sites in Texas, which it sold during 2000.

Argentina Matters

In December 2001, the Company commenced arbitration proceedings against the Republic of Argentina under the U.S.-Argentina Bilateral Investment Treaty before the ICSID. The arbitration presents claims relating to the diminution in value of the former investments of the Company in Argentina due to certain prejudicial actions of the Argentine government. In July 2007, the panel issued an order awarding E.ON U.S. $57 million (including interest) for the period through February 2005. In July 2007, the panel denied an E.ON U.S. request for additional damages of approximately $56 million for the period March 2005 - July 2007. In August and November 2008, E.ON U.S. and the Argentine government submitted respective petitions for annulment of elements of the prior decisions. Since late 2008, in connection with on-going interim and final gas tariff renegotiation processes in Argentina, the parties have agreed to a temporary suspension and potential dismissal of the ICSID proceeding, subject to certain conditions. E.ON Spain has assumed relevant rights and obligations with respect to claims and liabilities relating to the Argentine businesses in connection with the 2010 transfer such businesses to E.ON Spain.

During November 2008, the Argentine Central Bank commenced an administrative proceeding alleging a violation of certain emergency currency exchange laws in place during the country's economic crisis in connection with a December 2002 refinancing by Centro of $35 million of a previously-existing, maturing loan. Centro and its individual directors have filed responsive pleadings in the matter and requested dismissal at the administrative phase. In April 2010, the Argentine Central Bank staff issued a ruling declining to dismiss the case at the conclusion of the administrative stage and therefore forwarded the matter to a specialized financial criminal court where further proceedings will continue. A subsidiary of E.ON U.S. has entered into indemnity agreements with certain associated directors. E.ON Spain has assumed relevant rights and obligations with respect to claims and liabilities relating to the Argentine businesses in connection with its purchase of the business in 2010.

Guarantees

In connection with various divestitures, the Company has indemnified/guaranteed respective parties against certain liabilities that may arise in connection with these transactions and business activities. The terms of these indemnifications/guarantees vary, as do the expiration terms. In addition, the Company indemnifies its duly elected or appointed directors and officers against liabilities incurred as a result of their activities for the Company, such as adverse judgments relating to litigation matters. If the indemnified party were to incur a liability or have a liability increase as a result of a successful claim, pursuant to the terms of the indemnification, the Company would be required to reimburse the indemnified party. The maximum amount of potential future payments is generally unlimited. The carrying amount recorded for all indemnifications/guarantees as of December 31, 2009 was $85.6 million, and relate to WKE. There was no accrual for 2008.

In connection with the WKE transaction, see Note 3, Discontinued Operations, WKE indemnified the purchaser against certain liabilities primarily related to litigation from third parties. The estimated fair value of this indemnity obligation is $10.8 million and is included in the indemnifications/guarantees balance of $85.6 million at December 31, 2009. Additionally, regarding the WKE transaction, a direct financial guarantee in the form of a swap was issued to a third party customer. The estimated fair value of this guarantee is $74.8 million and is included in the indemnifications/guarantees balance of $85.6 million at December 31, 2009. The Company has issued direct financial guarantees to all parties involved guaranteeing the due and punctual

payment, performance and discharge by each WKE Party of its respective present and future obligations. The most comprehensive of these guarantees is the parental guarantee covering the WKE Transaction Termination Agreement, which has a term of 12 years beginning on July 16, 2009. Among other matters, such obligations include indemnities regarding operational, regulatory or environmental matters, if any, relating to the Company's completed leasing and operating period. The obligation valuations were calculated based on management's best estimated of the value expected to be required to issue the indemnifications in a standalone, arm's length transaction with an unrelated party and, where appropriate, by the utilization of probability weighted discounted net cash flow models.

Additionally, the Company has indemnified various third parties related to historical obligations for divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum amount limits range from being capped at the purchase price to no specified maximum; however, the Company is not aware of claims made by any party at this time. The Company would be required to perform on these indemnifications in the event of default by the indemnified party. No additional material loss is anticipated by reason of such indemnifications.

Note 14 - Jointly Owned Electric Utility Plants

Trimble County Unit 1

LG&E owns a 75% undivided interest in Trimble County Unit 1, which the Kentucky Commission has allowed to be reflected in customer rates. Of the remaining 25% of the unit, IMEA owns a 12.12% undivided interest, and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate ownership share of fuel cost, operation and maintenance expenses, and incremental assets.

The following data represents shares of the jointly owned property (based on nameplate rating):

	Trimble County 1			
	LG&E	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	425	73	68	566
(in millions of $):				
LG&E's 75% ownership:				
Plant held for future use	$503			
Construction work in progress	22			
Accumulated depreciation	213			
Net book value	$312			

Trimble County Unit 2

LG&E and KU are nearing completion of TC2, a jointly-owned unit at the Trimble County site. LG&E and KU own undivided interests of 14.25% and 60.75%, respectively, in the unit. Of the remaining 25% of the unit, IMEA owns a 12.12% undivided interest and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction, and fuel, operation and maintenance costs when the unit begins operation, which is expected to occur in 2010.

The following data represents shares of the jointly owned property:

	TC2			
	LG&E And KU	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	628	108	102	838
(in millions of $):				
LG&E's 75% ownership:				
Plant held for future use	$126			
Construction work in progress	848			
Accumulated depreciation	65			
Net book value	$909			

Note 15 - Accumulated Other Comprehensive Income

Accumulated other comprehensive income consisted of the following (in millions of $):

	Funded Status Of Pension And Postretirement Plans		Accumulated Derivative Gain or Loss		Foreign Currency Translation Adj.		Totals		
	Pretax	Tax	Pretax	Tax	Pretax	Tax	Pretax	Tax	Net
Balance at December 31, 2007	$(32)	$12	$(11)	$4	$22	$(4)	$(21)	$12	$(9)
Change in funded status of defined-benefit pension and postretirement plans	(77)	31	-	-	-	-	(77)	31	(46)
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments	-	-	(2)	-	-	-	(2)	-	(2)
Foreign currency translation adjustment	-	-	-	-	(5)	1	(5)	1	(4)
Balance at December 31, 2008	(109)	43	(13)	4	17	(3)	(105)	44	(61)
Change in funded status of defined-benefit pension and postretirement plans	29	(11)	-	-	-	-	29	(11)	18
Gains (losses) on derivative instruments designated and qualifying as cash flow hedging instruments	-	-	5	(2)	-	-	5	(2)	3
Foreign currency translation adjustment	-	-	-	-	(4)	1	(4)	1	(3)
Balance at December 31, 2009	$(80)	$32	$(8)	$2	$13	$(2)	$(75)	$32	$(43)

Note 16 - Share Performance Plan

In 2006, the Company introduced a stock-based compensation system, the E.ON Share Performance Plan, and virtual shares were granted under the Plan to certain executives of the Company. The Plan is a stock-based compensation plan based on the value of E.ON's shares, and it entitles each participant to receive a payment at the end of a three-year period equal to a target value per share times the number of virtual shares granted. The number of virtual shares can not change during the three-year period, but the target value per share can change

based on E.ON's stock price and the performance of E.ON stock during the three-year period compared to the change in the Dow Jones STOXX Utilities Index (Total Return EUR). The Company uses the fair-value method to account for the Plan. See Note 7, Fair Value Measurements.

The table below shows the number of virtual shares issued to E.ON U.S. executives and outstanding under the E.ON Share Performance Plan:

	Virtual Shares Granted	Target Price
2006	8,725	€79.22
2007	6,830	96.52
2008	5,537	136.26
2009	30,040	27.93
2010	27,643	27.25

The 2006 grant was paid out in 2009, and the 2007 grant was paid out in January 2010. On August 31, 2008, E.ON AG stock shares were split three for one. This split was reflected in the 2009 and 2010 grants.

The Company recorded expense of less than $1 million related to the Plan in 2009, and it recorded income of less than $1 million in 2008.

Note 17 – Subsequent Events

Subsequent events have been evaluated through April 27, 2010, the date of issuance of these statements and these statements contain all necessary adjustments and disclosures resulting from that evaluation.

On April 15, 2010, the Company made a discretionary contribution to its WKE Union pension plan totaling $3.3 million.

On March 24, 2010, LG&E and KU delivered notices of termination under provisions of the wind power contracts permitting termination if certain conditions precedent were not accomplished by a fixed date. The Companies also filed a motion with the Kentucky Commission noting the termination of the contracts and seeking withdrawal of their application in the related regulatory proceeding.

On March 4, 2010, the Virginia Commission approved the stipulation related to the rate increase filing with rates to become effective in April 2010.

On January 29, 2010, LG&E and KU filed an application with the Kentucky Commission requesting increases in annual electric base rates of $95 million and $135 million, respectively, or approximately 12% each. At the same time, LG&E filed an application with the Kentucky Commission requesting an increase in gas base rates of $23 million annually or approximately 8%. LG&E and KU has requested the increases based on the twelve month test year ended October 31, 2009. LG&E and KU requested new base rates to become effective on and after March 1, 2010. Under Kentucky Commission practice, the requested rates have been suspended until August 1, 2010, at which time they may be put into effect, subject to refund, if the Kentucky Commission has not issued an order in the proceeding.

On January 13, 2010, the Company made discretionary contributions to its pension plans totaling $41 million.

On January 1, 2010, the Company sold its interests in Centro and Cuyana to an affiliate of E.ON AG for a total of $35 million. See Note 3, Discontinued Operations.

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Report of Independent Auditors

To the Board of Directors and Management of E.ON U.S. LLC

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of capitalization, operations, comprehensive loss, retained earnings, and cash flows present fairly, in all material respects, the financial position of E.ON U.S. LLC and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 27, 2010

E.ON U.S. LLC and Subsidiaries

Consolidated Financial Statements

As of and for the Years Ended
December 31, 2008 and 2007

E.ON U.S. LLC and Subsidiaries
Consolidated Financial Statements
As of and for the Years Ended
December 31, 2008 and 2007

Table of Contents

E.ON U.S. LLC and Subsidiaries
Consolidated Financial Statements
As of and for the Years Ended
December 31, 2008 and 2007

Index of Abbreviations

AG	Attorney General of Kentucky
ARB	Accounting Research Bulletin
ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
Big Rivers	Big Rivers Electric Corporation
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAP	Compliance Assurance Process
Capital Corp.	E.ON U.S. Capital Corp.
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Centro	Distribuidora de Gas Del Centro S.A.
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Company	E.ON U.S. LLC and Subsidiaries
CT	Combustion Turbine
Cuyana	Distribuidora de Gas Cuyana S.A.
DOE	U.S. Department of Energy
DSM	Demand Side Management
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC
E.ON U.S. Services	E.ON U.S. Services Inc.
ECR	Environmental Cost Recovery
EISA 2007	Energy Independence and Security Act
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation Number
FSP	FASB Staff Position
GAAP	Generally Accepted Accounting Principles
Gas BAN	Gas Natural BAN, S.A.
GHG	Greenhouse Gas
GSC	Gas Supply Clause
HMPL	Henderson Municipal Power and Light
IBEW	International Brotherhood of Electrical Workers
ICE	Intercontinental Exchange
ICSID	International Council for the Settlement of Investment Disputes
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
KAR	Kentucky Administrative Regulation
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.

Index of Abbreviations (Cont.)

KU	Kentucky Utilities Company
Kwh	Kilowatt hours
LEM	LG&E Energy Marketing Inc.
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offered Rate
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator
MMBtu	Million British thermal units
Moody's	Moody's Investor Services, Inc.
Mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NGHH	Natural Gas-Henry Hub
NOV	Notice of Violation
NOx	Nitrogen Oxide
OCI	Other Comprehensive Income (Loss) or Accumulated Other Comprehensive Income (Loss)
OMU	Owensboro Municipal Utilities
OVEC	Ohio Valley Electric Corporation
PBR	Performance-Based Rate-making
PCB	Polychlorinated Biphenyl
PMCC	Philip Morris Capital Corporation
PUHCA	Public Utility Holding Company Act
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
RIA	Retirement Income Account
RSG	Revenue Sufficiency Guarantee
RRO	Regional Reliability Organization
S&P	Standard and Poor's Rating Service
SAR	Stock Appreciation Right
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
Trimble County	LG&E's Trimble County plant
TTA	Transaction Termination Agreement
USWA	United Steelworkers of America
VDT	Value Delivery Team
VEBA	Voluntary Employee Beneficiary Association
Virginia Commission	Virginia State Corporation Commission
WKE	Western Kentucky Energy Corp. and its Affiliates

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Operations
(Millions of $)

	Years Ended December 31	
	2008	2007
REVENUES:		
Electric utility	$2,221	$2,060
Gas utility	452	353
Non-utility	71	72
Total revenues	2,744	2,485
OPERATING EXPENSES:		
Operation and maintenance:		
Fuel and power purchased	1,079	950
Gas supply expenses	349	255
Utility operation and maintenance	533	491
International and non-utility operation and maintenance	53	54
Depreciation, accretion and amortization (Note 1)	267	250
Total operating expenses	2,281	2,000
Loss on impairment of goodwill (Note 2)	(1,806)	-
Equity in earnings of unconsolidated ventures (Note 10)	31	31
OPERATING (LOSS) INCOME	(1,312)	516
Other (deductions) income (Note 13)	(25)	5
Gain on sale of Gas BAN (Note 3)	-	38
Interest expense - affiliated companies	(138)	(110)
Interest expense	(39)	(46)
Minority interest (Note 3)	(8)	(13)
(Loss) income from continuing operations, before income taxes	(1,522)	390
Income tax expense (Note 12)	84	106
(Loss) income from continuing operations	(1,606)	284
Discontinued operations (Note 4):		
Loss from discontinued operations	(309)	(184)
Income tax benefit from discontinued operations	120	73
Loss from discontinued operations	(189)	(111)
NET (LOSS) INCOME	$(1,795)	$173

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income (Note 18)
(Millions of $)

	Years Ended December 31	
	2008	2007
Net (loss) income	$(1,795)	$173
Other comprehensive (loss) income:		
Change in funded status of defined-benefit pension and postretirement plans	(77)	15
Losses on derivative instruments	(2)	(7)
Foreign currency translation adjustment (Note 3)	(5)	9
Income tax (expense) benefit related to items of other comprehensive income	32	(6)
Comprehensive (loss) income	$(1,847)	$184

Consolidated Statements of Retained (Deficit) Earnings
(Millions of $)

	Years Ended December 31	
	2008	2007
Balance January 1	$691	$596
Net (loss) income	(1,795)	173
Cash dividends declared on common stock	(68)	(78)
Balance December 31	$(1,172)	$691

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

E.ON U.S. LLC and Subsidiaries
Consolidated Balance Sheets
(Millions of $)

	December 31	
	2008	2007
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	$31	$36
Restricted cash (Note 1)	12	18
Accounts receivable - less reserve of $7 in 2008 and 2007 (Note 1)	377	372
Materials and supplies (Note 1):		
Fuel (predominantly coal)	123	88
Gas stored underground	112	81
Other materials and supplies	68	65
Deferred income taxes (Note 12)	32	12
Assets of discontinued operations (Note 4)	804	828
Prepayments and other current assets	29	18
Total current assets	1,588	1,518
Utility plant (Note 1):		
At original cost	10,129	9,258
Less: reserve for depreciation	3,414	3,240
Net utility plant	6,715	6,018
Other property and investments:		
Investments in unconsolidated ventures (Note 10)	45	47
Non-utility property and plant, net of accumulated depreciation of $57 in 2008 and $49 in 2007	41	44
Other	7	7
Total other property and investments	93	98
Regulatory assets - pension and postretirement benefits (Notes 6 and 11)	376	138
Regulatory assets - other (Note 6)	228	181
Goodwill (Notes 1 and 2)	2,330	4,136
Unamortized debt expense (Note 1)	9	17
Restricted cash (Note 1)	22	12
Other long-term assets	47	55
Total deferred debits and other assets	3,012	4,539
Total assets	$11,408	$12,173

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

E.ON U.S. LLC and Subsidiaries
Consolidated Balance Sheets (Continued)
(Millions of $)

	December 31	
	2008	2007
LIABILITIES AND MEMBER'S EQUITY:		
Current liabilities:		
Current portion of long-term debt (Note 14)	$349	$177
Current portion of long-term debt - affiliated company (Notes 5 and 14)	255	-
Notes payable - affiliated company (Notes 5 and 15)	299	62
Accounts payable	303	305
Accounts payable to affiliated companies (Note 5)	57	23
Customer deposits	43	39
Liabilities of discontinued operations (Note 4)	989	901
Other current liabilities	100	106
Total current liabilities	2,395	1,613
Long-term debt - affiliated companies (Notes 5 and 14)	2,766	2,446
Long-term debt (Note 14)	416	756
Total long-term debt	3,182	3,202
Deferred income taxes (Note 12)	424	469
Investment tax credit (Note 12)	130	101
Accumulated provision for pensions and related benefits (Note 11)	591	278
Asset retirement obligations (Note 6)	63	60
Regulatory liability - accumulated cost of removal (Note 6)	579	551
Regulatory liability - other (Note 6)	126	102
Derivative liability	55	21
Other long-term liabilities	66	62
Total deferred credits and other liabilities	2,034	1,644
Minority interest (Note 3)	32	34
Member's equity	3,765	5,680
Total liabilities and member's equity	$11,408	$12,173

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Cash Flows
(Millions of $)

	Years Ended December 31	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(1,795)	$173
Items not requiring cash currently:		
Depreciation, accretion and amortization	267	250
Deferred income taxes - net (Note 12)	(47)	(54)
Investment tax credit - net (Note 12)	29	47
Provision for pensions	41	41
Loss on impairment of goodwill (Note 2)	1,806	-
Undistributed earnings of unconsolidated ventures (Note 10)	1	(9)
Loss from discontinued operations -- net of tax (Note 4)	189	111
Losses on interest-rate swaps	44	-
Gain on sale of Gas BAN (Note3)	-	(38)
Other	(2)	3
Changes in certain net current assets and liabilities:		
Accounts receivable	(2)	(96)
Materials and supplies	(69)	15
Accounts payable	66	50
Accrued taxes and interest	(10)	(38)
Prepayments and other	(17)	19
Changes in other deferred credits	10	18
Changes in regulatory assets and liabilities	(36)	(40)
Changes in deferred income taxes	12	7
Pension and postretirement funding	(18)	(116)
Net operating cash flows from discontinued operations	(70)	(46)
Other	(1)	(10)
Net cash flows provided by operating activities	398	287
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of property	9	4
Construction expenditures	(949)	(937)
Construction expenditures - discontinued operations	(23)	(17)
Change in non-hedging derivative liability	(10)	-
Proceeds from sales of investments in unconsolidated ventures (Note 3)	-	54
Decrease in restricted cash	1	21
Net cash flows used in investing activities	(972)	(875)

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
(Millions of $)

	Years Ended December 31	
	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of long-term debt (Note 14)	78	207
Retirement of long-term debt (Note 14)	(67)	(234)
Acquisition of outstanding bonds	(339)	-
Reissuance of reacquired bonds	159	-
Borrowings from affiliates (Notes 5 and 15)	2,637	2,388
Repayment of borrowings from affiliates (Notes 5 and 15)	(1,825)	(1,595)
Redemption of preferred stock (Note 14)	-	(74)
Retirement of mandatorily redeemable preferred shares (Note 14)	-	(20)
Distributions to minority interests	(7)	(6)
Payment of common dividends	(68)	(78)
Net cash flows provided by financing activities	568	588
Change in cash and cash equivalents	(6)	-
Effect of exchange rates on cash and equivalents	1	3
Beginning cash and cash equivalents	36	33
Ending cash and cash equivalents	$31	$36
Supplemental disclosures of cash flow information:		
Cash paid (received) during the year for:		
Income taxes	$(10)	$130
Interest on borrowed money - external	34	38
Interest on borrowed money - affiliates	134	102

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Capitalization
(Millions of $)

	December 31 2008	December 31 2007
MEMBER'S EQUITY:		
Membership units, without par value - Authorized 10,000,000 units, outstanding 1,001 units	$777	$777
Membership unit expense	(3)	(3)
Additional paid-in capital	4,224	4,224
Accumulated other comprehensive loss (Note 18)	(61)	(9)
Retained (deficit) earnings	(1,172)	691
Total member's equity	3,765	5,680
LONG-TERM DEBT (Note 14):		
Louisville Gas and Electric Company:		
Pollution control series -		
Jefferson Co. 2001 Series A pollution control bonds, due September 1, 2026, variable %	23	23
Trimble Co. 2001 Series A, due September 1, 2026, variable %	28	28
Jefferson Co. 2000 Series A, due May 1, 2027, 5.375%	25	25
Jefferson Co. 2001 Series A environmental facilities bonds, due September 1, 2027, variable %	10	10
Jefferson Co. 2001 Series B, due November 1, 2027, variable %	35	35
Trimble Co. 2001 Series B, due November 1, 2027, variable %	35	35
Trimble Co. 2000 Series A, due August 1, 2030, variable %	83	83
Trimble Co. 2002 Series A, due October 1, 2032, variable %	42	42
Louisville Metro 2007 Series A, due June 1, 2033, 5.625%	31	31
Louisville Metro 2007 Series B, due June 1, 2033, variable %	35	35
Trimble Co. 2007 Series A, due June 1, 2033, 4.60%	60	60
Louisville Metro 2003 Series A, due October 1, 2033, variable %	128	128
Louisville Metro 2005 Series A, due February 1, 2035, 5.75%	40	40
Total LG&E bonds including reacquired bonds	575	575
Less reacquired bonds	163	-
Total LG&E bonds	412	575
Due to affiliates -		
Fidelia, due January 16, 2012, 4.33%, unsecured	25	25
Fidelia, due April 30, 2013, 4.55%, unsecured	100	100
Fidelia, due August 15, 2013, 5.31%, unsecured	100	100
Fidelia, due November 23, 2015, 6.48%	50	-
Fidelia, due July 25, 2018, 6.21%	25	-
Fidelia, due November 26, 2022, 5.72%, unsecured	47	47
Fidelia, due April 13, 2031, 5.93%, unsecured	68	67
Fidelia, due April 13, 2037, 5.98%, unsecured	70	70
Total LG&E due to affiliates	485	409
Total LG&E debt outstanding	897	984

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Capitalization (Continued)
(Millions of $)

	December 31	
	2008	2007
LONG-TERM DEBT - cont. (Note 14):		
Kentucky Utilities Company:		
Pollution control series -		
Mercer Co. 2000 Series A, due May 1, 2023, variable %	13	13
Carroll Co. 2007 Series A, due February 1, 2026, 5.75%	18	18
Carroll Co. 2002 Series A, due February 1, 2032, variable %	21	21
Carroll Co. 2002 Series B, due February 1, 2032, variable %	2	2
Mercer Co. 2002 Series A, due February 1, 2032, variable %	8	8
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %	2	2
Carroll Co. 2008 Series A, due February 1, 2032, variable %	78	-
Carroll Co. 2002 Series C, due October 1, 2032, variable %	96	96
Carroll Co. 2004 Series A, due October 1, 2034, variable %	50	50
Carroll Co. 2006 Series B, due October 1, 2034, variable %	54	54
Carroll Co. 2005 Series A, due June 1, 2035, variable %	-	13
Carroll Co. 2005 Series B, due June 1, 2035, variable %	-	13
Carroll Co. 2006 Series A, due June 1, 2036, variable %	-	17
Carroll Co. 2006 Series C, due June 1, 2036, variable %	-	17
Trimble Co. 2007 Series A, due March 1, 2037, 6.00%	9	9
Total KU bonds	351	333
Due to affiliates -		
Fidelia, due November 24, 2010, 4.24%, unsecured	33	33
Fidelia, due January 16, 2012, 4.39%, unsecured	50	50
Fidelia, due April 30, 2013, 4.55%, unsecured	100	100
Fidelia, due August 15, 2013, 5.31%, unsecured	75	75
Fidelia, due December 19, 2014, 5.45%, unsecured	100	100
Fidelia, due July 8, 2015, 4.735%, unsecured	50	50
Fidelia, due December 21, 2015, 5.36%, unsecured	75	75
Fidelia, due October 25, 2016, 5.675%, unsecured	50	50
Fidelia, due June 20, 2017, 5.98%, unsecured	50	50
Fidelia, due July 25, 2018, 6.160%, unsecured	50	-
Fidelia, due August 27, 2018, 5.645%, unsecured	50	-
Fidelia, due December 17, 2018, 7.035%, unsecured	75	-
Fidelia, due October 25, 2019, 5.71%, unsecured	70	70
Fidelia, due February 7, 2022, 5.69%, unsecured	53	53
Fidelia, due May 22, 2023, 5.85%, unsecured	75	-
Fidelia, due September 14, 2028, 5.96%, unsecured	100	100
Fidelia, due June 23, 2036, 6.33%, unsecured	50	50
Fidelia, due March 30, 2037, 5.86%, unsecured	75	75
Total KU due to affiliates	1,181	931
Total KU debt outstanding	1,532	1,264

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Capitalization (Continued)
(Millions of $)

	December 31	
	2008	2007
LONG-TERM DEBT - cont. (Note 14):		
E.ON U.S. Capital Corp.:		
Medium term notes, due January 15, 2008, 6.46%	-	24
Medium term notes, due November 1, 2011, 7.47%	2	2
Total Capital Corp. debt outstanding	2	26
E.ON U.S. LLC:		
Due to affiliates -		
Fidelia, due January 6, 2009, 3.98%	50	50
Fidelia, due February 17, 2009, variable	80	80
Fidelia, due November 26, 2009, variable	50	50
Fidelia, due December 20, 2009, 4.07%	75	75
Fidelia, due April 30, 2010, 4.64%	150	150
Fidelia, due June 28, 2010, variable	100	-
Fidelia, due October 15, 2010, 7.01%	75	-
Fidelia, due July 5, 2011, variable	300	300
Fidelia, due November 19, 2012, variable	75	75
Fidelia, due December 19, 2012, 5.52%	100	100
Fidelia, due June 20, 2014, variable	50	50
E.ON North America, due October 27, 2014, 4.63%	50	50
Fidelia, due March 25, 2015, variable	75	-
Fidelia, due December 20, 2016, variable	50	50
Fidelia, due April 25, 2017, 5.71%	75	75
Total E.ON U.S. LLC debt outstanding	1,355	1,105
Total outstanding	3,786	3,379
Less current portion of long-term debt	604	177
Long-term debt	3,182	3,202
Total capitalization	$7,551	$9,059

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

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation. E.ON U.S. (the "Company") is an indirect wholly-owned subsidiary of E.ON AG, a German corporation. The consolidated financial statements include the following companies: E.ON U.S., LG&E, KU, LEM, E.ON U.S. Services and Capital Corp., and its wholly owned subsidiaries. E.ON U.S.'s utility operations are comprised of LG&E and KU. E.ON AG and E.ON U.S. are registered as holding companies under PUHCA 2005 and were formerly registered holding companies under PUHCA 1935.

LG&E and KU are regulated public utilities engaged in the generation, transmission, distribution and sale of electric energy. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name, and it serves customers in Tennessee under the KU name.

Capital Corp. is the primary holding company for the Company's non-utility businesses. Its businesses include:

- *WKE and affiliates.* WKE has a 25-year lease of and operates the generating facilities of Big Rivers, a power generation cooperative in western Kentucky, and a coal-fired facility owned by Henderson Municipal Power and Light, which is owned by the City of Henderson, Kentucky. The Company classified WKE as discontinued operations effective December 31, 2005. See Note 4, Discontinued Operations.

- *Argentine Gas Distribution.* Through its Argentine Gas Distribution operations, Capital Corp. owns interests in entities which distribute natural gas to approximately one million customers in Argentina through two distribution companies (Centro and Cuyana). Capital Corp. owned an interest in a third entity, Gas BAN, until it sold the interest in June 2007. See Note 3, Argentine Investments.

LEM engages in asset-based energy marketing, which primarily involves the marketing of power generated by non-utility physical assets controlled by E.ON U.S. and its affiliates.

E.ON U.S. Services provides certain services to affiliated entities, including E.ON U.S., LG&E, KU, Capital Corp. and LEM, at cost, as permitted under PUHCA 2005.

Consolidation. The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated. Investments in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies, are accounted for by the equity method. The Company consolidates its investment in Centro and uses minority interests to reflect the portion of Centro not owned by the Company.

Goodwill. An annual testing of goodwill for impairment, as required by SFAS No. 142, *Goodwill and Other Intangible Assets*, is carried out in the fourth quarter of each year. This testing indicated an impairment of $1.806 billion in 2008. See Note 2, Goodwill Impairment.

Regulatory Accounting. LG&E and KU are subject to SFAS No. 71, under which regulatory assets are created based on expected recovery from customers in future rates to defer costs that would otherwise be charged to expense. Likewise, regulatory liabilities are created based on expected return to customers in future rates to defer credits that would otherwise be reflected as income, or, in the case of costs of removal, are created to match long-term future obligations arising from the current use of assets. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each item as prescribed by the FERC,

the Kentucky Commission, the Virginia Commission, or the Tennessee Regulatory Authority. See Note 6, Utility Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Cash and Cash Equivalents. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash. Current restricted cash mainly consists of a deposit of $9 million at KU representing proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) held in trust pending expenditure for qualifying assets. Long-term restricted cash represents a collateral deposit at LG&E of $22 million for an $83 million interest rate swap expiring in 2020. Advance deposits of $2 million relating to projects are also restricted for equipment purchases.

Allowance for Doubtful Accounts. The allowances for LG&E and KU are based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged off after four months, although collection efforts continue thereafter. Non-utility allowances generally equal the total of all residential and commercial balances over one year old and all large-customer balances over ninety days old.

Materials and Supplies. Fuel, natural gas stored underground and other materials and supplies inventories are accounted for using the average-cost method. Emission allowances are included in other materials and supplies and are not currently traded by LG&E or KU. At December 31, 2008 and 2007, the emission allowances inventory totaled less than $1 million.

Financial Instruments. The Company uses over-the-counter interest-rate swap agreements to limit its exposure to fluctuations in interest rates on its long-term debt. Gains and losses on effective interest-rate swaps used to hedge interest rate risk are reflected in other comprehensive income. Gains and losses resulting from ineffectiveness are shown on the income statement in other income (expense).

The Company uses energy-trading and risk-management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to mitigate price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. See Note 7, Financial Instruments.

Unamortized Debt Expense. Debt expense is capitalized and amortized using the straight-line method, which approximates the effective interest method, over the lives of the related bond issues.

Utility Plant. Utility plant consisted of the following at December 31, (in millions of $):

	2008	2007
Electric	$7,789	$7,114
Gas	599	551
Common	190	177
Total excluding construction in progress	8,578	7,842
Construction in progress	1,551	1,416
Total	$10,129	$9,258

Utility plant for LG&E and KU is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits, and administrative and general costs. Construction work in progress has been included in the

rate base for determining retail customer rates in Kentucky. Neither LG&E nor KU has recorded any significant allowance for funds used during construction, in accordance with Kentucky Commission regulations.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost is charged to the reserve for depreciation. When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, when a long-lived asset's carrying amount exceeds its fair value. In such cases, the carrying value of such an impaired asset is written down to its fair value. If necessary, the remaining useful life of the asset is correspondingly revised. No impairment charges for utility plant were required to be recognized in 2008 or 2007.

Depreciation and Amortization. Utility depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided for LG&E equaled 3.1% in 2008 and 3.2% in 2007 of average depreciable plant, and the amounts provided for KU equaled 3.0% in 2008 and 3.2% in 2007 of average depreciable plant. Of the amount provided for depreciation at LG&E at December 31, 2008, approximately 0.4% electric, 0.9% gas and 0.1% common were related to the retirement, removal and disposal costs of long lived assets. Of the amount provided for depreciation at LG&E at December 31, 2007, approximately 0.4% electric, 0.8% gas and 0.1% common were related to the retirement, removal and disposal costs of long lived assets. Of the amount provided for depreciation at KU at December 31, 2008 and 2007, approximately 0.5% was related to the retirement, removal and disposal costs of long lived assets.

Non-Utility Property and Plant. Non-utility property, plant and equipment are depreciated on a straight-line basis over periods averaging thirty-six years.

Income Taxes. Income taxes are accounted for under SFAS No.109, *Accounting for Income Taxes* and FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109*. In accordance with these statements, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are transactions for which the ultimate tax outcome is uncertain. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Uncertain tax positions are analyzed periodically and adjustments are made when events occur to warrant a change. See Note 12, Income Taxes.

Investment Tax Credits. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. KU and LG&E received investment tax credits related to TC2. These credits will be amortized to income over the estimated service life of the unit once it is placed into commercial operation. See Note 12, Income Taxes.

Investment tax credits prior to 2006 resulted from provisions of the tax law that permitted a reduction of the Company's tax liability based on credits for certain construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Utility revenues are recorded based on service rendered to customers through month-

end. LG&E and KU accrue estimates for unbilled revenues from each meter reading date to the end of the accounting period based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. The unbilled revenue estimates included in accounts receivable for both LG&E and KU at December 31, 2008 and 2007, were approximately $133 million and $124 million, respectively. Non-utility revenues are recorded based on when the service is rendered to customers. Unbilled revenues for the non-utility businesses are accrued based on the difference between the volume of gas delivered to the distribution system during the period and the volume of gas billed to customers.

Fuel and Gas Costs. The cost of fuel for electric generation is charged to expense as used, and the cost of natural gas supply is charged to expense as delivered to the distribution system. LG&E operates under a Kentucky Commission-approved performance-based ratemaking mechanism related to natural gas procurement. See Note 6, Utility Rates and Regulatory Matters.

Allocation of Intercompany Interest to Discontinued Operations. The Company allocates intercompany interest to discontinued operations based on Capital Corp.'s weighted-average cost of capital.

Management's Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accrued liabilities, including legal and environmental, are recorded when they are probable and estimable. Actual results could differ from those estimates.

Reclassifications. Certain reclassification entries have been made to the previous years' financial statements to conform to the 2008 presentation with no impact on previously-reported total assets, total liabilities and member's equity, net cash flows or net income.

Recent Accounting Pronouncements.

FSP 132(R)-1

In December 2008, the FASB issued FSP SFAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which will be effective as of December 31, 2009. FSP 132(R)-1 requires additional disclosures related to pension and other postretirement benefit plan assets. Additional disclosures include the investment allocation decision-making process, the fair value of each major category of plan assets as well as the inputs and valuation techniques used to measure fair value and significant concentrations of risk within the plan assets. The adoption of FSP 132(R)-1 will not have a material impact on the Company's results of operations, financial position or liquidity, because it provides enhanced disclosure requirements only.

FSP 142-3

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*, and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R, *Business Combinations*, when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset

must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS No. 142's entity-specific factors. FSP 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the potential impact of the adoption of FSP 142-3 on its financial position, statements of operations and cash flows.

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*, which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The adoption of SFAS No. 161 will have no impact on the Company's financial position, statements of operations and cash flows, however, additional disclosures relating to derivatives will be required during 2009.

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards that require that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS No. 160 requires that any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value when a subsidiary is deconsolidated. SFAS No. 160 also sets forth the disclosure requirements to identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS No. 160 must be applied prospectively as of the beginning of the fiscal year in which SFAS No. 160 is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements are applied retrospectively for all periods presented. The Company does not anticipate that the initial application of SFAS No. 160 will have a materially adverse impact on the Company.

FSP 39-1

In April 2007, the FASB issued FSP FIN 39-1, *Amendment of FASB Interpretation No. 39*, effective as of the beginning of 2008. FSP 39-1 permits companies to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a liability) against fair value amounts recognized for derivative instruments that are executed with the same counterparty under the same master netting arrangement. The Company did not elect to adopt FSP FIN 39-1 for any of its eligible financial instruments or other items.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-

instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 was adopted effective January 1, 2008, and the Company chose not to elect the fair-value option for its eligible financial assets and liabilities.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No.157*, which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. All other amendments related to SFAS No. 157 have been evaluated and have no impact on the Company's financial statements. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, the Company has provided additional disclosures in Note 8, Fair Value Measurements, relating to its financial derivatives, cash collateral on derivatives, and share performance plan, as required. Per FASB Staff Position 157-2, fair value accounting for nonfinancial assets and liabilities will be adopted effective January 1, 2009.

Note 2 - Goodwill Impairment

The Company performed annual impairment assessments of the carrying value of goodwill as required under SFAS No. 142, *Goodwill and Other Intangible Assets*, in 2008 and 2007. In accordance with SFAS No. 142, the Company compared the carrying values of its utility subsidiaries, LG&E and KU, to their estimated fair values. The Company did not compare the carrying values of its other subsidiaries to their fair values because all of the goodwill resulted from E.ON AG's acquisition of Powergen and was attributable to LG&E and KU.

The Company estimated the fair values of LG&E and KU primarily using the income-approach valuation methodology that includes the discounted cash-flow method, taking into consideration the market approach and certain market multiples as a validation of the values derived using the discounted cash-flow methodology. The discounted cash flows for LG&E and KU were based on discrete financial forecasts developed by management for planning purposes and consistent with those given to E.ON AG. Cash flows beyond the discrete forecasts were estimated using a terminal-value calculation, which incorporated historical and forecasted financial trends for each identified reporting unit and considered long-term earnings growth rates for publicly-traded peer companies. Future cash flows were discounted to present value using the techniques discussed in FASB Concepts Statement 7, *Using Cash Flow Information and Present Value in Accounting Measurements*. Specifically, the income-approach valuations included a cash-flow discount rate of 6.3% and a terminal-value growth rate of 1.1%.

Upon completion of the 2007 annual impairment assessment, the Company determined no impairment was indicated as the estimated fair values of LG&E and KU exceeded their respective carrying values. Upon completion of the 2008 assessment, the Company determined that the carrying values of LG&E and KU exceeded their estimated fair values. Because indicators of impairment existed for LG&E and KU, the Company performed the second step of the test required under SFAS No. 142 to determine the fair value of the goodwill of these subsidiaries.

In accordance with SFAS No. 142, the implied fair value of goodwill was determined in the same manner utilized to estimate the amount of goodwill recognized in a business combination. As part of the second step of the impairment test performed in 2008, the Company concluded that the fair values of LG&E and KU equaled their net book values, due to the regulatory environment in which they operate. The Kentucky and Virginia Commissions allow LG&E and KU to earn returns on the book values of their regulated asset bases at rates the Commissions determine to be fair and reasonable. Since there is no current prospect for deregulation, the Company assumed LG&E and KU will remain in a regulated environment for the foreseeable future. The impairment loss for the Company was measured by the amount the carrying value of goodwill exceeded the implied fair value of the goodwill. Based on this assessment, the Company recorded a charge of $1.806 billion in December 2008.

The primary factors contributing to these impairment charges were the recent significant economic downturn, which caused a decline in the volume of projected sales of electricity to commercial customers, and an increase in the implied discount rate due to higher risk premiums.

Note 3 - Argentine Investments

The Company owns interests in two gas distribution companies in Argentina: 45.9% of Centro and 14.4% of Cuyana. These two entities serve a combined customer base of approximately one million customers. The interests in Centro and Cuyana were purchased in 1997. The Company owned a 19.6% interest in a third entity, Gas BAN, until June 2007, when it sold the interest for $54 million and recognized a pretax gain on the sale of $38 million. The Centro investment is consolidated due to the Company's majority ownership in the holding company of Centro. The Company recorded minority interest of $32 million and $34 million at December 31, 2008 and 2007, respectively. The Cuyana investment is and the Gas BAN investment was accounted for using the equity method due to the ownership influence the Company exerts on the businesses despite its minority ownership interests.

The Company recognizes translation charges in other comprehensive income. These charges relate to the translation of the functional-currency financial statements of the Argentine investments into the Company's reporting currency. The translation at December 31, 2008, was performed using an exchange rate of 3.454 Argentine pesos to one U.S. dollar for assets and liabilities and an average exchange rate of 3.158 Argentine pesos to one U.S. dollar for income statement amounts. The translation at December 31, 2007, was performed using an exchange rate of 3.150 Argentine pesos to one U.S. dollar for assets and liabilities and an average exchange rate of 3.116 Argentine pesos to one U.S. dollar for income statement amounts. The amounts recorded in accumulated OCI at December 31, 2008 and 2007, totaled $17 million and $22 million, respectively.

Argentine law requires that every Argentine company retain 5% of its Argentine GAAP net income until total legal reserves equal 20% of the value of the Argentine company's common stock and additional paid in capital. Legal Reserves held in Argentina for the Argentine companies in which Capital Corp. had direct or indirect ownership interests equaled approximately $11 million and $10 million as of December 31, 2008 and 2007, respectively. These amounts satisfied the legal requirements at December 31, 2008 and 2007.

Note 4 - Discontinued Operations

In November 2005, E.ON U.S. and Big Rivers signed a letter of intent to sell certain assets and terminate the leasing arrangement under which the Company, through its WKE subsidiary, leases the generating assets of Big Rivers, sells power to Big Rivers through December 31, 2023, and provides power to two smelters through December 31, 2010 and 2011, respectively. WKE operates nine coal fired facilities and a combustion turbine owned by Big Rivers and operates and maintains a coal-fired facility owned by HMPL. The transaction would

also result in the termination of WKE's obligation to operate facilities owned by Big Rivers and to operate and maintain the HMPL facility. On March 26, 2007, E.ON U.S., applicable subsidiaries, and Big Rivers executed a TTA and related documents which required a number of conditions precedent and third party consents. On November 1, 2007, the first amendment to the TTA was signed which allowed for a 2008 closing as a result of delays experienced in completing the transaction. The second amendment to the TTA was signed on June 19, 2008. The second amendment increased the termination payment required from WKE to Big Rivers at close to cover anticipated increases in fuel costs, addressed the proration of property tax expenses, and modified dates, prior to closing, by which certain actions must be taken. The third amendment to the TTA was signed on November 3, 2008. The third amendment increased the termination payment required from WKE to Big Rivers at close to reimburse Big Rivers for half of the amount required to terminate the leveraged lease held by defeased leaseholder, PMCC. In addition, the third amendment covered several negotiation points related to environmental issues and the purchase of the barges owned by WKE.

On June 30, 2008, WKE funded Big Rivers' buy out of leaseholder, Bank of America, to terminate its interest in the leveraged lease. At closing, Big Rivers and the smelters will reimburse WKE for portions of that expense. On September 30, 2008, Big Rivers bought out leaseholder, PMCC, to terminate its interest in the leveraged lease. When the transaction closes, WKE will reimburse Big Rivers for all of that cost. Agreements have been reached with Big Rivers and the smelters on the cash payments to be made upon closing.

Big Rivers made a filing with the Kentucky Commission on December 28, 2007. Two rounds of data requests, including requests to the Company, and responses were completed in the first quarter of 2008. Big Rivers made an additional filing in October 2008, and formal hearings took place in December 2008. A decision from the Kentucky Commission approving the transaction was issued on March 6, 2009, with a tentative close date in the second quarter of 2009. E.ON U.S. continues to actively pursue actions needed for a successful completion of the transaction, including final consent from HMPL, but the Company cannot predict the timing or success of an ultimate closing. The Company has reported WKE's operations as discontinued in the accompanying financial statements.

The tables below provide selected financial information from the WKE discontinued operations as of December 31, and for the twelve months then ended (in millions of $):

	2008	2007
Revenues	$300	$279
Loss before taxes	(309)	(184)
Income tax benefit	120	73
Net loss	$(189)	$(111)

	2008	2007
Assets:		
Current assets	$153	$159
Property, plant and equipment	202	281
Lease intangible	117	117
Deferred income taxes	317	254
Other	15	17
Total assets	$804	$828
Liabilities:		
Sales contract liability	$908	$832
Other	81	69
Total liabilities	$989	$901

The power sales contracts with Big Rivers and the two smelters had previously been eligible for the normal sales exclusion under SFAS No. 133, as amended, since the Company planned to provide the power from the leased assets through the term of the respective contracts. Because the contracts are no longer expected to result in physical delivery through the term of the contracts, they are no longer eligible for the normal sales exclusion and are now marked to model market prices under SFAS No. 133, as amended. The Company uses modeled prices based on market trends to value the contracts due to the lack of market liquidity through the remaining term of the contracts. See Note 8, Fair Value Measurements.

Pursuant to the March 26, 2007, Transaction Termination Agreement, upon completion of the proposed transaction, WKE will transfer control of relevant assets currently under lease back to Big Rivers, transfer certain personal property, including additions to the assets under lease and inventories (fuel, emission allowance, and materials and supplies), and make a negotiated cash payment to Big Rivers. Also upon completion of the transaction, the outstanding balance on an original $20 million note payable from Big Rivers to WKE, entered into at the inception of the leasing arrangement in July 1998, will be forgiven. The note is payable in monthly installments of $151,859, including principal and interest at 8%, over the life of the lease term. The balance of the note equaled $15.7 million and $16.2 million at December 31, 2008 and 2007, respectively.

Note 5 – Related Party Transactions

The Company had the following balances with E.ON and its affiliates as of December 31, (in millions of $):

	2008	2007
Accounts payable	$57	$23
Notes payable	299	62
Long-term debt	3,021	2,446

The Company also recorded interest expense to E.ON and its affiliates of $138 million and $110 million in 2008 and 2007, respectively. See Note 14, Long-Term Debt, and Note 15, Notes Payable.

Note 6 - Utility Rates and Regulatory Matters

LG&E and KU are subject to the jurisdiction of the Kentucky Commission and the FERC, and KU is further subject to the jurisdiction of the Virginia Commission and the Tennessee Regulatory Authority, in virtually all

matters related to electric and gas utility regulation, and as such, its accounting is subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation.* These regulators have the ability to examine the rates LG&E and KU charge their jurisdictional customers at any time. Given their position in the marketplace and the status of regulation in Kentucky and Virginia, LG&E and KU have no plans or intentions to discontinue the application of SFAS No. 71.

Electric and Gas Rate Cases. In July 2008, LG&E and KU filed applications with the Kentucky Commission requesting increases in base electric rates, and LG&E also filed an application requesting an increase in base gas rates. In conjunction with the filings of the applications for changes in base rates, based on previous Orders by the Kentucky Commission approving settlement agreements among all interested parties, the VDT surcredit terminated in August 2008. In January 2009, LG&E, KU, the AG, KIUC and all other parties to the rate cases filed a settlement agreement with the Kentucky Commission, under which LG&E's base gas rates will increase by $22 million annually, and the base electric rates of LG&E and KU will decrease by $13 million and $9 million, respectively, annually. An Order approving the settlement agreement was received in February 2009. The new rates were implemented effective February 6, 2009, at which time the merger surcredit terminated.

The VDT surcredit originated in December 2001, when the Kentucky Commission issued an Order approving a settlement agreement allowing LG&E and KU to set up regulatory assets of $141 million and $54 million, respectively, for workforce reduction costs and begin amortizing it over a five-year period starting in April 2001. The Order also provided for a surcredit to be included on customers' bills representing 40% of the annual estimated savings derived from this initiative. For periods beginning January 1, 2006, the VDT surcredits of LG&E and KU had increased to $9 million and $4 million, respectively, per year.

In February 2006, LG&E, KU and all parties to the proceeding reached a unanimous settlement agreement on the future ratemaking treatment of the VDT surcredit. Under the terms of the settlement agreement, the VDT surcredit continued at its current level until such time as LG&E or KU filed for changes in electric or natural-gas base rates. The Kentucky Commission issued an Order in March 2006, approving the settlement agreement. In accordance with the Order, the VDT surcredit terminated in August 2008, the first billing month after the July 2008 filing for a change in base rates.

The merger surcredit originated as part of the LG&E Energy Corp. merger with KU Energy Corporation in 1998. It was based on estimated non-fuel savings over a ten-year period following the merger. Costs to achieve these savings were deferred and amortized over a five-year period pursuant to regulatory orders. In approving the merger, the Kentucky Commission adopted LG&E's and KU's proposal to reduce their retail customers' bills based on one-half of the estimated merger-related savings, net of deferred and amortized amounts, over a five-year period. These savings were provided in the form of a surcredit mechanism on customers' bills. In October 2003, the Kentucky Commission issued an Order approving a unanimous settlement agreement reached with all parties to the case in which the merger surcredit of $36 million per year ($18 million each for LG&E and KU) would remain in place for another five-year term beginning July 1, 2003, and LG&E and KU would file a plan for the merger surcredit six months before its expiration.

In December 2007, LG&E and KU submitted their plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. In June 2008, the Kentucky Commission issued an Order approving a unanimous settlement agreement reached with all parties to the case which provided for a reduction in the merger surcredit to approximately $12 million ($6 million each for LG&E and KU) for a 7-month period beginning July 2008, termination of the merger surcredit when new base rates went into effect on or after January 31, 2009, and that the annual merger surcredit be continued at an annual rate of $24 million ($12 million each for LG&E and KU) thereafter should LG&E and KU not file for a change in base rates. In accordance with the Order, the merger surcredit was terminated effective February 6, 2009, with the implementation of new base rates.

FERC Wholesale Rate Case. In September 2008, KU filed an application with the FERC for increases in base electric rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requests a shift from current, all-in stated unit charge rates to an unbundled and formula rate. The revised rates represent varying increases of 6% to 7% from current charges and include a change to the all-in stated applicable return on equity of 11.8%. The proceeding involves data requests and hearings before the FERC, as well as data requests and filings by intervenors. In November 2008, the FERC issued an Order to suspend rates until May 1, 2009, at which time the applied for rates will become effective, subject to potential refund or adjustment commencing in October 2009, based upon the outcome of the proceedings. Concurrently with the progress of the FERC rate proceedings, KU and the municipal customers have commenced structured settlement negotiations overseen by the FERC.

Regulatory Assets and Liabilities. The following regulatory assets and liabilities were included in the consolidated balance sheets as of December 31, (in millions of $):

	2008	2007
ARO	$57	$48
Unamortized loss on bonds	37	29
MISO exit	31	33
GSC	28	16
ECR	24	15
FAC	16	26
Hurricane Ike storm costs	26	-
Other	9	14
Subtotals	228	181
Pension and postretirement benefits	376	138
Total regulatory assets	604	319
Deferred income taxes – net	(61)	(72)
GSC	(29)	(10)
Other	(36)	(20)
Subtotals	(126)	(102)
Accumulated cost of removal of utility plant	(579)	(551)
Total regulatory liabilities	$(705)	$(653)

LG&E and KU do not currently earn rates of return on the GSC, FAC and gas performance-based ratemaking regulatory assets (included in "Other" above), all of which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. LG&E and KU will recover this asset through pension expense included in the calculation of base rates with the Kentucky Commission, and KU will seek recovery of this asset in future proceedings with the Virginia Commission. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E and KU received approval for the recovery of this asset from the Kentucky Commission as part of the 2008 base rate case, and KU will seek recovery of this asset in future proceedings with the Virginia Commission. LG&E and KU earn rates of return on remaining regulatory assets, including other regulatory assets comprised of VDT costs (2007 only), merger surcredit, deferred storm, gas performance

based ratemaking and Mill Creek Ash Pond costs. Other regulatory assets also include KCCS funding (see CMRG and KCCS Contributions below), FERC jurisdictional pension expense and rate case expenses. LG&E and KU will seek recovery of the KCCS funding in the next base rate case and received approval for the recovery of the rate case expenses as part of the 2008 base rate case. Other regulatory liabilities include DSM and MISO costs included in base rates that will be netted against costs of withdrawing from the MISO as part of the settlement agreement in the 2008 base rate case.

ARO. A summary of LG&E's and KU's net ARO assets, regulatory assets, ARO liabilities, regulatory liabilities and cost of removal established under FIN 47, *Accounting for Conditional Asset Retirement Obligations - an Interpretation of SFAS No. 143*, and SFAS No. 143, *Accounting for Asset Retirement Obligations*, follows:

	ARO Net Assets	ARO Liabilities	Regulatory Assets	Regulatory Liabilities	Accum Cost Of Removal	Cost Of Removal Depreciation
As of December 31, 2006	$9	$(57)	$44	$(2)	$5	$1
ARO accretion	-	(4)	4	-	-	-
ARO depreciation	-	1	-	-	-	-
As of December 31, 2007	9	(60)	48	(2)	5	1
ARO accretion	-	(3)	4	-	-	-
Other	-	-	5	(5)	-	-
As of December 31, 2008	$9	$(63)	$57	$(7)	$5	$1

Pursuant to regulatory treatment prescribed under SFAS No. 71, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of $2 million each for LG&E and KU in 2008 and 2007 for the ARO accretion and depreciation expense. LG&E's and KU's AROs are primarily related to the final retirement of assets associated with generating units and natural gas wells. For assets associated with AROs, the removal cost accrued through depreciation under regulatory accounting is established as a regulatory liability pursuant to regulatory treatment prescribed under SFAS No. 71. There were no FIN 47 net asset additions during 2008 or 2007. For the year ended December 31, 2008, removal costs incurred were less than $1 million at each utility. For the years ended December 31, 2008 and 2007, LG&E and KU each recorded less than $1 million of depreciation expense related to the cost of removal of ARO related assets. An offsetting regulatory liability was established pursuant to regulatory treatment prescribed under SFAS No. 71.

The transmission and distribution lines of LG&E and KU largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under SFAS No. 143, no material asset retirement obligations are recorded for transmission and distribution assets.

GSC. LG&E's natural gas rates contain a GSC, whereby increases or decreases in the cost of natural gas supply are reflected in LG&E's rates, subject to approval by the Kentucky Commission. The GSC procedure prescribed by Order of the Kentucky Commission provides for quarterly rate adjustments to reflect the expected cost of natural gas supply in that quarter. In addition, the GSC contains a mechanism whereby any over- or under-recoveries of natural gas supply cost from prior quarters is to be refunded to or recovered from customers through the adjustment factor determined for subsequent quarters.

LG&E's GSC was modified in 1997 to incorporate a natural gas procurement incentive mechanism. Since November 1, 1997, LG&E has operated under this PBR mechanism related to its natural gas procurement

activities. LG&E's rates are adjusted annually to recover (or refund) its portion of the expense (or savings) incurred during each PBR year (12 months ending October 31). During the PBR year ending in 2008, LG&E achieved $11 million in savings. Of that total savings amount, LG&E's portion was approximately $3 million and the customers' portion was approximately $8 million. Pursuant to the extension of LG&E's natural gas supply cost PBR mechanism effective November 1, 2001, the sharing mechanism under the PBR requires savings (and expenses) to be shared 25% with shareholders and 75% with customers up to 4.5% of the benchmarked natural gas costs. Savings (and expenses) in excess of 4.5% of the benchmarked natural gas costs are shared 50% with shareholders and 50% with customers. The current natural gas supply cost PBR mechanism extends through 2010.

MISO. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, LG&E and KU withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since the exit from the MISO, LG&E and KU have been operating under a FERC-approved open access-transmission tariff. LG&E and KU now contract with the Tennessee Valley Authority to act as their transmission Reliability Coordinator and Southwest Power Pool, Inc. to function as their Independent Transmission Organization, pursuant to FERC requirements.

LG&E, KU and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Companies following their withdrawal. In October 2006, LG&E and KU paid $13 million and $20 million, respectively, to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. LG&E and KU resolved their dispute with the MISO regarding the calculation of the exit fee and, in November 2007, filed applications with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provided LG&E with an immediate recovery of less than $1 million and an estimated $2 million over the next seven years for credits realized from other payments the MISO will receive, plus interest. The agreement also provided KU with an immediate recovery of $1 million and an estimated $3 million over the next seven years for credits realized from other payments the MISO will receive, plus interest. In accordance with Kentucky Commission Orders approving the MISO exit, LG&E and KU have established a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which continue to be collected via base rates. The approved base rate case settlement provided for MISO Schedule 10 expenses collected through base rates from May 1, 2008 to February 6, 2009, and any future adjustments to the MISO exit fee, to be established as a regulatory liability until the amounts can be amortized in future base rate cases.

In November 2008, the FERC issued Orders in industry-wide proceedings relating to MISO RSG calculation and resettlement procedures. RSG charges are amounts assessed to various participants active in the MISO trading market which generally seek to compensate for uneconomic generation dispatch due to regional transmission or power market operational considerations, with some customer classes eligible for payments, while others may bear charges. The FERC Orders approved two requests for significantly altered formulas and principles, each of which the FERC applied differently to calculate RSG charges for various historical and future periods. LG&E, KU and other parties have requested rehearing and a delay in any collection of RSG amounts. During January and February 2009, the FERC issued a deficiency letter in the proceeding relating to one prior Order, which delays collection of applicable RSG resettlements by the MISO pending further proceedings. Further developments in the RSG proceeding are expected to occur during 2009. Due to the numerous participants, complex principles at issue and changes from prior precedents, the Company cannot predict the ultimate outcome of this matter. Based upon the recent FERC Orders, LG&E and KU established reserves during the fourth quarter of 2008 of $2 million and less than $1 million, respectively, relating to

potential RSG resettlement costs for the period ended December 31, 2008.

Unamortized Loss on Bonds. The costs of early extinguishment of debt, including call premiums, legal and other expenses, and any unamortized balance of debt expense are amortized using the straight-line method, which approximates the effective interest method, over the life of either the replacement debt (in the case of refinancing) or the original life of the extinguished debt.

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

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges.

In January 2009, the Kentucky Commission initiated a routine examination of LG&E's and KU's FACs for the two-year period November 1, 2006 through October 31, 2008. A public hearing was held in March 2009. An order is anticipated in the second quarter of 2009.

In August 2008, the Kentucky Commission initiated a routine examination of LG&E's and KU's FACs for the six-month period November 1, 2007 through April 30, 2008. The Kentucky Commission issued an Order in January 2009, approving the charges and credits billed through the FAC during the review period.

In January 2008, the Kentucky Commission initiated a routine examination of LG&E's and KU's FACs for the six-month period May 1, 2007 through October 31, 2007. The Kentucky Commission issued an Order in May 2008, approving the charges and credits billed through the FAC during the review period.

In August 2007, the Kentucky Commission initiated a routine examination of LG&E's and KU's FACs for the six-month period of November 1, 2006 through April 30, 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

In December 2006, the Kentucky Commission initiated its periodic two-year review of LG&E's and KU's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates for November 1, 2004 through October 31, 2006. In March 2007, the KIUC challenged LG&E's recovery of approximately $1 million in aggregate fuel costs LG&E incurred during a period prior to its exit from the MISO and requested the Kentucky Commission disallow this amount. The KIUC also challenged KU's recovery of approximately $5 million in aggregate fuel costs KU incurred during the same period and also requested the Kentucky Commission disallow this amount. A public hearing was held in May 2007. In October 2007, the Kentucky Commission issued its Order approving the calculation and application of LG&E's and KU's FAC charges and fuel procurement practices and indicated that LG&E was in compliance with the provisions of Administrative Regulation 807 KAR 5:5056. The Kentucky Commission further approved LG&E's and KU's recommendation for the transfer of fuel cost from the FAC to base rates. In November 2007, the KIUC filed a petition for rehearing, claiming the Kentucky Commission misinterpreted the KIUC's arguments in the proceeding. In the same month, the Kentucky Commission issued an Order denying the KIUC's request for rehearing. An appeal was not filed by the KIUC.

In January 2003, the Kentucky Commission reviewed KU's FAC for the six-month period ended October 31, 2001. The Kentucky Commission ordered KU to reduce its fuel costs for purposes of calculating its FAC by less than $1 million. At issue was the purchase of approximately 102,000 tons of coal from Western Kentucky Energy Corp., a non-regulated affiliate, for use at KU's Ghent facility. The Kentucky Commission further ordered that an independent audit be conducted to examine operational and management aspects of both LG&E's and KU's fuel procurement functions. The final report's recommendations, issued in February 2004, related to documentation and process improvements. Management Audit Action Plans were agreed upon by LG&E, KU and the Kentucky Commission Staff in the second quarter of 2004, and resulted in Audit Progress Reports being filed by LG&E and KU with the Kentucky Commission. In February 2007, the Kentucky Commission staff indicated that LG&E and KU fully complied with all audit recommendations and that no further reports are required.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The factor may be adjusted annually for over- or under-collections of fuel costs from the prior year. In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor applicable during the billing period, April 2008 through March 2009. The Virginia Commission allowed the new rates to be in effect for the April 2008 customer billings. In April 2008, the Virginia Commission Staff recommended a change to the fuel factor KU filed in its application, to which KU has agreed. Following a public hearing and an Order in May 2008, the recommended change became effective in June 2008, resulting in a decrease of 0.482 cents/kwh from the factor in effect for the April 2007 through March 2008 period.

ECR. Kentucky law permits LG&E and KU to recover the costs of complying with the Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

In February 2009, the Kentucky Commission approved a settlement agreement in the rate case which provides for an authorized return on equity applicable to the ECR mechanism of 10.63% effective with the March 2009 expense month filing, which represents a slight increase over the current 10.50%.

In January 2009, the Kentucky Commission initiated a six-month review for the period ending October 31, 2008, of LG&E's and KU's environmental surcharges. An order is anticipated in the second quarter of 2009.

In June 2008, the Kentucky Commission initiated two six-month reviews for periods ending October 31, 2007 and April 30, 2008, of LG&E's and KU's environmental surcharges. The Kentucky Commission issued an Order in August 2008, approving the charges and credits billed through the ECR during the review period and the rate of return on capital.

In October 2007, KU met with the Kentucky Commission and other interested parties to discuss the status of the Ghent Unit 2 SCR construction. KU informed the Kentucky Commission that construction of the Ghent Unit 2 SCR was not going to commence before the CCN expired in December 2007, due to a change in the economics for the project. The CCN expired in December 2007, and KU has delayed construction of the Ghent Unit 2 SCR.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of LG&E's and KU's environmental surcharges. The Kentucky Commission issued a final Order in March 2008, approving the charges and credits billed through the ECR during the review periods, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

Hurricane Ike. In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, LG&E and KU filed applications with the Kentucky Commission requesting approval to establish regulatory assets, and defer for future recovery, approximately $24 million and $3 million, respectively, of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued Orders allowing LG&E and KU to establish regulatory assets of up to $24 million and $3 million, respectively, based on their actual costs for storm damages and service restoration due to Hurricane Ike.

Mill Creek Ash Pond Costs. In June 2005, the Kentucky Commission issued an Order approving the establishment of a regulatory asset for $6 million in costs related to the removal of ash from the Mill Creek ash pond, and authorized amortization over four years beginning in May 2006.

FERC Jurisdictional Pension Costs. Pension costs of $3 million were incurred by KU and allocated to its FERC jurisdictional ratepayers. KU will seek recovery of this asset in the next FERC rate proceeding.

Rate Case Expenses. LG&E and KU each incurred $1 million in expenses related to the development and support of the 2008 Kentucky base rate case. The Kentucky Commission approved the establishment of regulatory assets for these expenses and authorized amortization over three years beginning in March 2009.

CMRG and KCCS Contributions. In July 2008, LG&E and KU, along with Duke Energy Kentucky, Inc. and Kentucky Power Company, filed an application with the Kentucky Commission requesting approval to establish regulatory assets related to contributions to the CMRG for the development of technologies for reducing carbon dioxide emissions and the KCCS to study the feasibility of geologic storage of carbon dioxide. The filing companies proposed that these contributions be treated as regulatory assets to be deferred until recovery is provided in the next base rate case of each company, at which time the regulatory assets will be amortized over the life of each project: four years with respect to the KCCS and ten years with respect to the CMRG. LG&E and KU jointly agreed to provide less than $2 million over two years to the KCCS and up to $2 million over ten years to the CMRG. In October 2008, an Order approving the establishment of the requested regulatory assets was received and LG&E and KU will seek rate recovery in the Company's next base rate case.

Deferred Storm Costs. Based on an Order from the Kentucky Commission in June 2004, KU reclassified from maintenance expense to a regulatory asset, $4 million related to costs not reimbursed from the 2003 ice storm. These costs will be amortized through June 2009.

Pension and Postretirement Benefits. LG&E and KU adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, in 2006. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or liability in the balance sheet and to recognize through other comprehensive income the changes in the funded status in the year in which the changes occur. Under SFAS No. 71, LG&E and KU can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky and Virginia is based on SFAS No. 87, *Employers' Accounting for Pensions*, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*, both of which were amended by SFAS No. 158. Regulators have been clear and consistent with their historical treatment of such rate recovery, therefore, the Company has recorded a regulatory asset representing the change in funded status of the pension and postretirement plans that is expected to be recovered. The regulatory asset will be adjusted annually as prior service cost and actuarial gains and losses are recognized in net periodic benefit cost.

Accumulated Cost of Removal of Utility Plant. As of December 31, 2008 and 2007, LG&E has segregated the cost of removal, previously embedded in accumulated depreciation, of $251 million and $241 million, respectively, in accordance with FERC Order No. 631. As of December 31, 2008 and 2007, KU has segregated

the cost of removal, previously embedded in accumulated depreciation, of $329 million and $310 million, respectively, in accordance with the same Order. This cost of removal component is for assets that do not have a legal ARO under SFAS No. 143. For reporting purposes in the balance sheets, LG&E and KU have presented these costs of removal as a regulatory liability pursuant to SFAS No. 71.

Deferred Income Taxes - Net. These regulatory liabilities represent the future revenue impact from the reversal of deferred income taxes required for unamortized investment tax credits, the allowance for funds used during construction and deferred taxes provided at rates in excess of currently enacted rates.

DSM. LG&E's and KU's rates contain a DSM provision. The provision includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows LG&E and KU to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

In July 2007, LG&E and KU filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the previous annual costs of approximately $10 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. LG&E and KU filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

Other Regulatory Matters

Storm Restoration. In January 2009, a significant winter ice storm passed through LG&E's service territory causing approximately 205,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 37,000 customer outages. LG&E currently estimates costs incurred of $45 million of expenses and $8 million of capital expenditures related to the restoration following the two storms. The same storms passed through KU's service territory causing approximately 199,000 customer outages from the ice storm and approximately 44,000 customer outages from the wind storm. KU currently estimates costs incurred of $66 million of expenses and $28 million of capital expenditures related to the restoration following the two storms. LG&E and KU expect to seek recovery of these costs from the Kentucky Commission.

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave customers the ability to choose their electric supplier and capped electric rates through December 2010. KU subsequently received a legislative exemption from the customer choice requirements of this law. In April 2007, however, the Virginia General Assembly amended the Virginia Electric Utility Restructuring Act, thereby terminating this competitive market and commencing re-regulation of utility rates. The new act ended the cap on rates at the end of 2008. Pursuant to this legislation, the Virginia Commission adopted regulations revising the rules governing utility rate increase applications. As of January 2009, a hybrid model of regulation is being applied in Virginia. Under this model, utility rates are reviewed every two years. KU's exemption from the requirements of the Virginia Electric Utility Restructuring Act in 1999, however, discharges KU from the requirements of the new hybrid model of regulation. In lieu of submitting an annual information filing, KU has the option of requesting a change in base rates to recover prudently incurred costs by filing a traditional base rate case. KU is also subject to other utility regulations in Virginia, including, but not limited to, the recovery of prudently incurred fuel costs through an annual fuel factor charge and the submission of integrated resource plans.

Regional Reliability Council. LG&E and KU have changed their regional reliability council membership from the Reliability First Corporation to the SERC, effective January 1, 2007. Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in

North America.

Arena. In August 2006, LG&E filed an application with the Kentucky Commission requesting approval for the sale of its Waterside property to the Louisville Arena Authority. The Kentucky Commission issued an Order in September 2006, approving the proposed transaction. In November 2006, LG&E completed certain agreements pursuant to its August 2006 Memorandum of Understanding with the Louisville Arena Authority regarding the proposed construction of an arena in downtown Louisville. LG&E entered into a relocation agreement with the Louisville Arena Authority providing for the reimbursement to LG&E of the costs to be incurred in relocating certain LG&E facilities related to the arena transaction. These costs are currently estimated to be approximately $63 million. As of December 31, 2008, approximately $58 million of the estimated total costs have been received. The relocation work is expected to be completed during 2009. The parties further entered into a property sale contract providing for LG&E's sale of a downtown site to the Louisville Arena Authority which was completed for $9 million in September 2008. The contract amounts are subject to potential adjustments for certain cost or expense variances related to potential future demolition, construction or site environmental developments, although the Company does not currently anticipate such events.

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by LG&E and KU, together with the IMEA and the IMPA, was approved by the Kentucky Commission in November 2005.

CCN applications for two transmission lines associated with the TC2 unit were approved by the Kentucky Commission in September 2005 and May 2006. All regulatory approvals and rights of way for one transmission line have been obtained.

The CCN for the remaining line has been challenged by certain Hardin County, Kentucky property owners. In August 2006, LG&E and KU obtained a successful dismissal of the challenge at the Franklin County circuit court, which ruling was reversed by the Kentucky Court of Appeals in December 2007, and the proceeding reinstated. The matter is currently before the Kentucky Supreme Court on a motion for discretionary review filed by LG&E and KU in May 2008. The motion, which seeks reversal of the appellate court decision and reinstatement of the circuit court dismissal of the challenge has not yet been ruled upon.

Completion of the transmission lines are also subject to standard construction permit, environmental authorization and real property or easement acquisition procedures and certain Hardin County landowners have raised challenges to such transmission line in some of these forums as well. During 2008, LG&E and KU obtained various successful rulings at the Hardin County circuit court establishing their condemnation and easement rights. In August 2008, the landowners appealed such rulings to the Kentucky Court of Appeals and received a stay preventing LG&E and KU access to the properties during the appeal. LG&E and KU have petitioned the appellate court to lift the stay and otherwise sustain the lower court ruling, but such matter has not yet been ruled upon. In a separate proceeding, certain Hardin County landowners have also challenged the same transmission line in federal district court in Louisville, Kentucky, claiming that certain National Historic Preservation Act requirements were not fully complied with by the U.S. Army relating to easements for the line through Fort Knox. LG&E and KU are cooperating with the U.S. Army in its defense in this case.

LG&E and KU continue to actively engage in settlement negotiations with the Hardin County property owners involved in the appeals of the condemnation proceedings. During the fourth quarter of 2008, LG&E and KU entered into settlements with certain Meade County landowners and obtained dismissals of prior litigation they had brought challenging the same transmission line. LG&E and KU are not currently able to predict the ultimate outcome and possible effects, if any, on the construction schedule relating to these transmission line approval and land acquisition proceedings.

Ghent FGD Inquiry. In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGDs at the Ghent generating station. The proceeding requested, and the Company provided, additional information regarding configuration details, expenditures and the proposed construction sequence applicable to future construction phases of the Ghent FGD project. In January 2007, the Kentucky Commission issued an Order completing its inquiry in the matter and confirming its approval of KU's construction plan. The Order also provided general guidance for jurisdictional utilities regarding applicable information and data requirements for future CCN applications and subsequent proceedings.

Market-Based Rate Authority. In July 2006, the FERC issued an Order in LG&E's and KU's market-based rate proceeding accepting LG&E's and KU's further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, LG&E and KU received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E and KU of power at market-based rates in the LG&E/KU and Big Rivers Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for LG&E's and KU's power sales at control area interfaces. In December 2008, the FERC issued Order No. 697-B potentially placing additional restrictions on certain power sales involving areas where market power is deemed to exist. The Order is subject to a FERC rehearing process during which time the FERC has delayed implementation of the provisions relating to sales at interfaces. The Company cannot determine its ultimate impact at this time. As a condition of receiving and retaining market-based rate authority, LG&E and KU must comply with applicable affiliate restrictions set forth in the FERC's regulation. During September 2008, LG&E and KU submitted a regular tri-annual update filing under market-based rate regulations and FERC review proceedings for such filing remain in progress.

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various RROs by the NERC, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. LG&E and KU are members of the SERC, which acts as LG&E's and KU's RRO. During May 2008, the SERC, LG&E and KU agreed to a settlement involving penalties totaling less than $1 million for each utility related to LG&E's and KU's February 2008 self-reports concerning possible violations of certain existing mitigation plans relating to reliability standards. The SERC, LG&E and KU are currently involved in settlement negotiations concerning June 2008 self-reports by LG&E and KU relating to three other standards and an October 2008 self-report of a possible violation relating to an additional standard. SERC proceedings for these June and October self-reports are in the early stages and therefore the outcome is unable to be determined. Mandatory reliability standard settlements commonly include other non-penalty elements, including compliance steps and mitigation plans. Settlements with the SERC proceed to NERC and FERC review before becoming final. In December 2008, the SERC commenced a routine, periodic audit of LG&E and KU relating to certain designated reliability standards. This audit was completed during the first quarter of 2009 with no violations identified. While the Company believes itself to be in compliance with the mandatory reliability standards, it cannot predict the outcome of other analyses, including on-going SERC or other reviews described above.

IRP. Integrated resource planning regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2008, LG&E and KU filed their 2008 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. The AG and the KIUC were granted intervention in the IRP

proceeding. During September 2008, LG&E and KU responded to public comments and they are awaiting the Kentucky Commission staff report which will close this proceeding. LG&E and KU are not able to predict further proceedings at this time.

PUHCA. E.ON AG, the Company's ultimate parent, is a registered holding company under PUHCA 2005 and was a registered holding company under PUHCA 1935. E.ON AG, E.ON U.S., LG&E, KU, and certain of the Company's non-utility subsidiaries are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. E.ON U.S. believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

EPAct 2005. The EPAct 2005 was enacted in August 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; granting enhanced civil penalty authority to the FERC; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing the Public Utility Holding Company Act of 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252, Smart Metering standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254, Interconnection standards within one year after the enactment of EPAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E and KU developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. Data discovery concluded in July 2007, and no parties to the case requested a hearing. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E and KU for implementation within approximately eight months, for its large commercial and industrial customers. The tariff was filed in October 2008, with an effective date of December 1, 2008. LG&E and KU will file annual reports on the program within 90 days of each plan year-end for the 3-year pilot period.

As part of the LG&E 2004 rate case settlement agreements, and as referred to in the Kentucky Commission EPAct 2005 Administrative Order, LG&E made its responsive pricing and smart metering pilot program filing, which addresses real-time pricing for residential and general service customers, in March 2007. The AG and KIUC were granted full intervention. In July 2007, the Kentucky Commission approved the application as filed, for 100 residential customers and a sampling of other customers, and authorized LG&E to establish the responsive pricing and smart metering pilot program, recovery of non-specific customer costs through the DSM billing mechanism and the filing of annual reports by April 1, 2009, 2010 and 2011. LG&E must also file an evaluation of the program by July 1, 2011.

Green Energy Riders. In February 2007, LG&E and KU filed a Joint Application and Testimony for Proposed Green Energy Riders. The AG and KIUC were granted full intervention. In May 2007, a Kentucky Commis-

sion Order was issued authorizing LG&E and KU to establish Small and Large Green Energy Riders, allowing customers to contribute funds to be used for the purchase of renewable energy credits.

Hydro Upgrade. In October 2005, LG&E received from the FERC a new license to upgrade, operate and maintain the Ohio Falls Hydroelectric Project. The license is for a period of 40 years, effective November 2005. LG&E began refurbishing the facility to add approximately 20 Mw of generating capacity in 2004, and plans to spend approximately $35 million from 2009 to 2011.

Gas Storage Field Matter. In March 2007, LG&E commenced a review of certain federal and state permitting, licensing and oversight matters relating to existing natural gas operations at its Doe Run, Kentucky storage field, which extends into Indiana. Following this review, LG&E submitted an application for Federal Power Act authorization in April 2007. FERC accepted this application in July 2007, and granted appropriate permit status for retail gas activities and placed these activities in compliance for future periods. In August 2007, the FERC advised LG&E that it had concluded its investigation related to prior periods and had closed the matter with no further actions.

Home Energy Assistance Program. In July 2007, LG&E and KU filed an application with the Kentucky Commission for the establishment of a new Home Energy Assistance program. During September 2007, the Kentucky Commission approved the new five-year program as filed, effective in October 2007. The program terminates in September 2012, and is funded through a $0.10 per month meter charge. Effective February 6, 2009, as a result of the settlement agreement in the 2008 base rate case, the program is funded through a $0.15 per month meter charge.

Collection Cycle Revision. In September 2007, LG&E filed an application with the Kentucky Commission to revise the collection cycle for customer bill payments from 15 days to 10 days to more closely align with the KU billing cycle and to avoid confusion for delinquent customers. In April 2008, the Kentucky Commission issued an Order denying LG&E's request to revise its collection cycle without prejudice for refiling the request in a base rate proceeding. As part of the base rate case filed on July 29, 2008, LG&E again proposed to change the due date for customer bill payments from 15 days to 10 days to align its collection cycle with KU. In addition, KU proposed to include a late payment charge if payment is not received within 15 days from the bill issuance date to align with LG&E. The settlement agreement approved in the rate case in February 2009, changed the due date for customer bill payments to 12 days after bill issuance for both LG&E and KU, and KU will implement a late payment charge if payment is not received within 15 days from the bill issuance date.

Depreciation Study. In December 2007, LG&E and KU filed a depreciation study with the Kentucky Commission as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received from the Kentucky Commission. In July 2008, LG&E and KU filed a motion to consolidate the procedural schedule of the depreciation study with the application for a change in base rates. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. The settlement agreement in the rate case established new depreciation rates effective February 2009. KU also filed the depreciation study with the Virginia Commission, but has not requested formal review and approval of the depreciation rates from the Virginia Commission. Such a review will take place either during KU's next base rate case in Virginia or when KU makes a formal application to the Virginia Commission for approval of the proposed rates.

Brownfield Development Rider Tariff. In March 2008, LG&E and KU received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a brownfield site, as certified by the appropriate Kentucky state agency. The rider would permit special contracts with such customers which provide for a series of declining partial rate discounts over an initial five-year period of a longer service

arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant brownfield sites.

Interconnection and Net Metering Guidelines. In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case presented proposed interconnection guidelines to the Kentucky Commission in October 2008. In a January 2009 Order, the Kentucky Commission issued the Interconnection and Net Metering Guidelines - Kentucky that were developed by all parties to the proceeding. LG&E and KU do not expect any impact as a result of this Order. LG&E and KU shall file revised net metering tariffs and application forms within ninety days of the Order to comply with the new guidelines.

EISA 2007 Standards. In November 2008, the Kentucky Commission initiated an administrative proceeding to consider new standards as a result of the Energy Independence and Security Act of 2007 ("EISA 2007"), part of which amends the Public Utility Regulatory Policies Act of 1978 ("PURPA"). There are four new PURPA standards and one non-PURPA standard applicable to electric utilities. The proceeding also considers two new PURPA standards applicable to natural gas utilities. EISA 2007 requires state regulatory commissions and nonregulated utilities to begin consideration of the rate design and smart grid investments no later than December 19, 2008 and to complete the consideration by December 19, 2009.

Note 7 - Financial Instruments

The cost and estimated fair values of the Company's non-trading financial instruments as of December 31, 2008 and 2007 follow (in millions of $):

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term investments	$1	$1	$1	$1
Long-term debt (including current portion):				
Affiliated companies	3,021	2,925	2,446	2,616
External	765	744	933	930
Interest rate swaps	(55)	(55)	(21)	(21)

The fair values of the long-term investments reflect cost, since the Company cannot reasonably estimate fair value. The fair values for external long-term debt reflect prices quoted by dealers. The fair values for debt due to affiliates are determined using an internal valuation model that discounts the future cash flows of each loan at current market rates. The current market rates are determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in the Company's credit ratings and default risk. The fair values of the swaps reflect price quotes from dealers. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

The Company is subject to the risk of fluctuating interest rates in the normal course of business. The Company's policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At December 31, 2008, a 100-basis-point change in the benchmark rate on the Company's variable-rate debt not hedged by an interest rate swap, would impact pre-tax interest expense by $15 million annually.

Interest Rate Swaps. The Company uses over-the-counter interest rate swaps to limit exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature.

The fair value of the interest rate swaps is determined by a quote from the counterparty. This value is verified by the Company monthly using a model that calculates the present value of future payments under the swap utilizing current swap market rates obtained from another dealer active in the swap market and validated by market transactions. Market liquidity is considered, however the valuation does not require an adjustment for market liquidity as the market is very active for swaps such as the Company utilizes. The Company considered the impact of counterparty credit risk by evaluating credit ratings and financial information. All counterparties had strong investment grade ratings at December 31, 2008. The Company did not have any credit exposure to the swap counterparties, as it was in a liability position at December 31, 2008, therefore, the market valuation required no adjustment for counterparty credit risk. In addition, the Company and the counterparties have agreed to post margin if the credit exposure exceeds certain thresholds. Cash collateral for interest rate swaps is classified as restricted cash.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $179 million and $211 million as of December 31, 2008 and 2007, respectively. Under these swap agreements, LG&E paid fixed rates averaging 4.52% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 1.27% and 3.50% at December 31, 2008 and 2007, respectively. One swap hedging LG&E's $83 million Trimble County 2000 Series A bond has been designated as a cash flow hedge and continues to be highly effective. The remaining interest rate swaps designated to hedge LG&E's $128 million Jefferson County 2003 Series A bond became ineffective during 2008 as a result of the impact of downgrades of the underlying debt associated with issues involving the bond insurers. One swap with a notional value of $32 million was terminated by the counterparty in December 2008. See Note 14, Long-Term Debt.

The interest rate swaps are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Financial instruments designated as effective cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity. See Note 18, Accumulated Other Comprehensive Income. The ineffective portion of financial instruments designated as cash flow hedges is recorded to earnings monthly as is the entire change in the market value of the ineffective swaps. LG&E recorded a pre-tax loss of $8 million in other deductions (income) during 2008, to reflect the ineffective portion of the interest rate swaps deemed highly effective. LG&E recorded a $36 million mark-to-market loss in earnings on the interest rate swaps related to the Jefferson County 2003 Series A bond after the swaps were deemed ineffective. Amounts recorded in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $22 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

A decline of 100 basis points in the current market interest rates would reduce the fair value of LG&E's interest rate swaps by approximately $35 million. Such a change could affect the interest rate swap account within accumulated other comprehensive income if the hedge is effective, or the income statement if the hedge is ineffective.

Energy Trading and Risk Management Activities. The Company conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to manage price risk and are accounted for as non-

hedging derivatives on a mark-to-market basis in accordance with SFAS No. 133, as amended. The Company also conducts limited proprietary trading in energy-related commodities to maximize corporate revenues and related market insight.

Energy trading and risk management contracts are valued using prices based on active trades on the ICE. In the absence of a traded price, midpoints of the best bids and offers will be the primary determinants of valuation. When sufficient trading activity is unavailable, other inputs can include prices quoted by brokers or observable inputs other than quoted prices such as one-sided bids or offers as of the balance sheet date. Quotes are verified quarterly using an independent pricing source of actual transactions. Quotes for combined off-peak and weekend timeframes are allocated between the two timeframes based on their historical proportional ratios to the integrated cost. No other adjustments are made to the forward prices.

No changes to valuation techniques for energy trading and risk management activities occurred during 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at December 31, 2008 and 2007, had a maturity of less than one year and were considered to be in a liquid market. Collateral related to the energy trading and risk management contracts totals less than $1 million and is categorized as restricted cash.

The Company maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2008, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. The Company has reserved against counterparty credit risk based on the counterparty's credit rating and applying historical default rates within varying credit ratings over time provided by S&P's or Moody's. At December 31, 2008 and 2007, counterparty credit reserves were less than $1 million.

The Company manages the price volatility of its forecasted electric wholesale sales by selling market-traded electric forward contracts and swaps. Hedge accounting treatment has not been elected for these transactions, and therefore realized gains and losses are included in the statements of income in electric utility revenues, and unrealized gains and losses are included in other (deductions) income. The Company recorded realized and unrealized gains of $4 million and $2 million, respectively, during the twelve months ended December 31, 2008, and realized and unrealized losses of $5 million and $1 million, respectively, during the twelve months ended December 31, 2007.

See Note 4, Discontinued Operations, for a discussion of the WKE sales contract derivative.

Note 8 - Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP 157-2. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

- Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with SFAS No. 157, the Company measures the assets and liabilities listed in the table below at fair value. The Company classifies its derivative cash collateral balances within level 1 based on the funds being held in liquid accounts. The Company classifies its liability for the E.ON share performance plan within level 2 because it is valued using a model that considers the quoted market price of E.ON's common shares traded on the Frankfurt Stock Exchange as well as other relevant economic measure. See Note 19, Stock Appreciation Rights and Share Performance Plan. The Company classifies its derivative contracts within level 2 because it values them using prices actively quoted for proposed or executed transactions, quoted by brokers or observable inputs other than quoted prices.

The Company classifies its liability for WKE's long-term sales contract within level 3 The contracts are with an electric cooperative and two aluminum smelters. The valuation is done on a monthly basis using market prices from Platts' on-line pricing service for the current and forward four years and a forecast for the outer years where market prices are not available. The outer year pricing is extrapolated from an annual forecast from the Energy Information Administration for NGHH pricing based on historical ratios of around-the-clock electricity prices to NGHH prices. See Note 4, Discontinued Operations.

Assets and liabilities measured at fair value as of December 31, 2008, are summarized below (in millions of $):

	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets:				
Interest-rate swap cash collateral	$22	$-	$-	$22
Electricity derivative cash collateral	1	-	-	1
Electricity derivative contracts	-	3	-	3
Total assets	$23	$3	$-	$26
Liabilities:				
Interest-rate swaps	$-	$56	$-	$56
Long-term sales contract - discontinued operations	-	-	908	908
E.ON share performance plan	-	2	-	2
Total liabilities	$-	$58	$908	$966

The following table presents net liabilities measured at fair value using significant unobservable inputs (level 3) as defined in SFAS No. 157 at December 31, 2008 (in millions of $):

Balance at December 31, 2007	$832
Net realized and unrealized losses included in earnings	262
Purchases, issuances and settlements	(186)
Balance at December 31, 2008	$908

Note 9 - Concentrations of Credit and Other Risks

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

LG&E's customer receivables and gas and electric revenues arise from deliveries of natural gas to approximately 314,000 customers and electricity to approximately 389,000 customers in Louisville and adjacent areas in Kentucky. KU's customer receivables and revenues arise from deliveries of electricity to approximately 508,000 customers in over 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and five customers in Tennessee. For the year ended December 31, 2008, 69% of LG&E's revenues were derived from electric operations and 31% from gas operations, and for the year ended December 31, 2007, 73% of LG&E's revenues were derived from electric operations and 27% from gas operations. All of KU's revenues were derived from electric operations in both years. During 2008, LG&E's 10 largest electric and gas customers accounted for less than 10% and less than 15% of total volumes, respectively. During 2008, KU's 10 largest customers accounted for less than 10% of electric volumes.

Effective November 2008, LG&E and employees represented by the IBEW Local 2100 signed a three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions. The employees represented by this bargaining agreement comprise approximately 68% of LG&E's workforce at December 31, 2008.

Effective August 1, 2006, KU and its employees represented by the IBEW Local 2100 entered into a new three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. Wage re-openers were negotiated and agreed to in July 2007 and July 2008. KU and employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement in August 2008. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. The employees represented by these two bargaining units comprise approximately 16% of KU's workforce at December 31, 2008.

In September 2008, WKE and IBEW Local 1701 employees extended their existing collective bargaining agreement by one year, to September 2009, or until the transaction with Big Rivers is complete, whichever comes first.

Note 10 - Investments in Unconsolidated Ventures

The Company's investments in unconsolidated ventures reflect interests in a coal-fired domestic electric power and steam producing plant, gas-fired combustion turbine and an Argentine gas distribution company.

The ownership percentages and carrying amounts of the unconsolidated ventures as of December 31, 2008 and 2007, are summarized as follows (in millions of $):

		Carrying Amount	
	% Owned	2008	2007
Electric Energy, Inc.	20	$31	$32
Distribuidora de Gas Cuyana (Note 3)	14	14	15
Total		$45	$47

The assets, liabilities and net income of the unconsolidated ventures as of December 31, 2008, follow (in millions of $):

	Assets	Liabilities	Net Income
Electric Energy, Inc.	$215	$103	$148
Distribuidora de Gas Cuyana (Note 3)	105	16	10
Total	$320	$119	$158

The underlying equity in the Company's unconsolidated ventures exceeded the Company's carrying amounts by $11 million at December 31, 2008 and 2007. These differences represent adjustments to reflect the fair value of the underlying net assets acquired.

See Note 3, Argentine Investments, for information about sales of unconsolidated ventures.

Note 11 - Pension and Other Postretirement Benefit Plans

Pension Plans and Other Postretirement Benefits. E.ON U.S. employees benefit from both funded and unfunded non-contributory defined benefit pension plans and other postretirement benefit plans that together cover employees hired by December 31, 2005. Employees hired after this date participate in the Retirement Income Account ("RIA"), a defined contribution plan. The Company makes an annual lump sum contribution to the RIA, based on years of service and a percentage of covered compensation. The health care plans are contributory with participants' contributions adjusted annually. E.ON U.S. uses December 31 as the measurement date for its plans.

Obligations and Funded Status. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 2008, and a statement of the funded status as of December 31, (in millions of $):

	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Change in benefit obligation				
Benefit obligation at beginning of year	$924	$929	$184	$215
Service cost	19	21	4	4
Interest cost	60	55	11	11
Plan amendments	-	38	3	3
Benefits paid, net of retiree contributions	(49)	(50)	(13)	(14)
Actuarial (gain) or loss	59	(69)	(4)	(35)
Benefit obligation at end of year	$1,013	$924	$185	$184
Change in plan assets				
Fair value of plan assets at beginning of year	$814	$710	$26	$24
Actual return (loss) on plan assets	(190)	53	(5)	2
Employer contributions	4	102	16	14
Benefits paid, net of retiree contributions	(49)	(50)	(13)	(14)
Administrative expenses	(2)	(1)	-	-
Fair value of plan assets at end of year	$577	$814	$24	$26
Funded status at end of year	$(436)	$(110)	$(161)	$(158)

Amounts Recognized in the Statement of Financial Position. The following tables provide the amounts recognized in the balance sheet and information for plans with benefit obligations in excess of plan assets as of December 31, (in millions of $):

	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Non-current assets	$-	$15	$-	$-
Accrued benefit liability – current	(2)	(2)	(3)	(3)
Accrued benefit liability – non-current	(434)	(123)	(157)	(155)
Amounts recognized in regulatory assets consist of:				
Transition obligation	$-	$-	$7	$9
Prior service cost	43	49	10	10
Accumulated loss (gain)	326	81	(10)	(11)
Total regulatory assets	$369	$130	$7	$8
Amounts recognized in accumulated OCI consist of:				
Prior service cost	$(25)	$(27)	$(2)	$(2)
Accumulated (loss) gain	(82)	(6)	-	3
Total accumulated OCI (Note 18)	$(107)	$(33)	$(2)	$1
Additional year-end information for plans with benefit obligations in excess of plan assets:				
Benefit obligation	$1,013	$924	$185	$184
Accumulated benefit obligation	852	783	-	-
Fair value of plan assets	577	814	24	26

The amounts recognized in regulatory assets for the years ended December 31 are composed of the following (in millions of $):

	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Prior service cost arising during period	$-	$19	$3	$3
Net loss (gain) arising during period	248	(30)	1	(30)
Amortization of prior service (cost) credit	(7)	(6)	(2)	(2)
Amortization of transitional (obligation) asset	-	-	(2)	(2)
Amortization of gain (loss)	(2)	(4)	-	-
Total amounts recognized in regulatory assets	$239	$(21)	$-	$(31)

The amounts recognized in accumulated OCI for the years ended December 31 are composed of the following (in millions of $):

	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Prior service cost arising during period	$-	$21	$1	$1
Net loss (gain) arising during period	76	(27)	3	(6)
Amortization of prior service (cost) credit	(3)	(2)	-	-
Amortization of gain (loss)	-	(1)	-	-
Total amounts recognized in accumulated OCI	$73	$(9)	$4	$(5)

For a discussion of the pension and postretirement regulatory assets, see Note 6, Utility Rates and Regulatory Matters.

Components of Net Periodic Benefit Costs. The following table provides the components of net periodic benefit cost for the plans for the twelve months ended December 31, (in millions of $):

	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Service cost	$19	$21	$4	$4
Interest cost	60	55	11	11
Expected loss on plan assets	(65)	(64)	(2)	(2)
Amortization of prior service cost	9	4	2	1
Amortization of actuarial loss	3	1	2	-
Net periodic benefit cost	$26	$17	$17	$14

The estimated amounts that will be amortized from regulatory assets and accumulated OCI into net periodic benefit cost in 2009 follow (in millions of $):

	Pension Benefits	Other Postretirement Benefits
Regulatory assets:		
Net actuarial loss	$20	$-
Prior service cost	6	3
Transition obligation	-	2
Total regulatory assets amortized during 2009	$26	$5
Accumulated OCI:		
Net actuarial loss	$4	$-
Prior service cost	3	-
Total accumulated OCI amortized during 2009	$7	$-

The weighted-average assumptions used in the measurement of the Company's pension benefit obligations as of December 31 are shown in the following table:

	2008	2007
Discount rate - union plan	6.33%	6.56%
Discount rate - nonunion plan	6.25%	6.66%
Discount rate - SERP plan	6.38%	6.41%
Discount rate - officer SERP plan	6.36%	6.65%
Discount rate - restoration plan	6.29%	6.77%
Rate of compensation increase	5.25%	5.25%

The discount rates were determined by the December 29, 2008, Mercer Pension Discount Yield Curve. These discount rates were then lowered by 2 basis points for the average change in 4 bond indices, Citigroup High Grade Credit Index AAA/AA 10+ years, Lehman Brothers U.S. AA Long Credit, Merrill Lynch U.S. Corporate AA-AAA rated 10+ years and Merrill Lynch U.S. Corporate AA rated 15+ years, for the period from December 29, 2008, to December 31, 2008.

The assumptions used in the measurement of the Company's net periodic benefit cost are shown in the following table:

	2008	2007
Discount rate	6.66%	5.96%
Expected long-term rate of return on plan assets	8.25%	8.25%
Rate of compensation increase	5.25%	5.25%

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation.

The following describes the effects on pension benefits by changing the major actuarial assumptions discussed above:

- A 1% change in the assumed discount rate could have an approximate $109 million positive or negative impact on the 2008 accumulated benefit obligation and an approximate $145 million positive or negative impact on the 2008 projected benefit obligation.

- A 25-basis point change in the expected rate of return on assets would have an approximate $2 million positive or negative impact on 2008 pension expense.

Assumed Health Care Cost Trend Rates. For measurement purposes, an 8% annual increase in the per capita cost of covered health care benefits was assumed for 2008. The rate was assumed to decrease gradually to 5% by 2016 and remain flat thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have resulted in an increase or decrease of less than $1 million on the 2008 total of service and interest costs components and an increase or decrease of $6 million in year-end 2008 postretirement benefit obligations.

Expected Future Benefit Payments and Medicare Subsidy Receipts. The following table provides the amount of expected future benefit payments, which reflect expected future service and the estimated gross amount of Medicare subsidy receipts (in millions of $):

	Pension Benefits	Other Postretirement Benefits	Medicare Subsidy Receipts
2009	$49	$15	$(1)
2010	49	15	-
2011	49	16	(1)
2012	49	16	-
2013	50	16	(1)
2014 - 2018	298	86	(3)

Plan Assets. The following table shows the Company's weighted-average asset allocations by asset category for the Company's pension plans at December 31:

	Target Range	2008	2007
Equity securities	45%-75%	55%	57%
Debt securities	30%-50%	43%	43%
Other	0%-10%	2%	0%
Totals		100%	100%

The investment policy of the pension plans was developed in conjunction with financial consultants, investment advisors and legal counsel. The goal of the investment policy is to preserve the capital of the fund and maximize investment earnings. The return objective is to exceed the benchmark return for the policy index comprised of the following: Russell 3000 Index, the MSCI-EAFE Index, Lehman Aggregate and Lehman U.S. Long Government Credit Bond Index in proportions equal to the targeted asset allocation.

Evaluation of performance focuses on a long-term investment time horizon of at least three to five years or a complete market cycle. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

To minimize the risk of large losses in a single asset class, no more than 5% of the portfolio will be invested in the securities of any one issuer with the exclusion of the U.S. government and its agencies. The equity portion of the fund is diversified among the market's various subsections to diversify risk, maximize returns and avoid undue exposure to any single economic sector, industry group or individual security. The equity subsectors include, but are not limited to, growth, value, small capitalization and international.

In addition, the overall fixed income portfolio holdings may have an average weighted duration, or interest rate sensitivity which is within +/- 20% of the duration of overall fixed income benchmark. Foreign bonds in the aggregate shall not exceed 10% of the total fund. The portfolio may make a limited investment of up to 20% in below investment grade securities provided that the overall average portfolio quality remains "AA" or better. The below investment grade investments include, but are not limited to, medium-term notes, corporate debt, non-dollar and emerging market debt and asset backed securities. The cash investments should be in securities that either are of short maturities (not to exceed 180 days) or readily marketable with modest risk.

Derivative securities are permitted only to improve the portfolio's risk/return profile, modify the portfolio's duration or to reduce transaction costs and must be used in conjunction with underlying physical assets in the portfolio. Derivative securities that involve speculation, leverage, interest rate anticipation, or any undue risk whatsoever are not deemed appropriate investments.

The investment objective for the postretirement benefit plans is to provide current income consistent with stability of principal and liquidity while maintaining a stable net asset value of $1.00 per share. The postretirement funds are invested in a prime cash money market fund that invests primarily in a portfolio of short-term, high-quality fixed income securities issued by banks, corporations and the U.S. government. The 401(h) plan provides for postretirement benefits for covered individuals and is invested within the pension trust.

Contributions. The Company made discretionary contributions to the pension plans of $2 million in April 2008 and $102 million in January 2007. Total contributions in 2008 equaled $4 million. The amount of future contributions to the pension plan will depend upon the actual return on plan assets and other factors, but the Company funds its pension obligations in a manner consistent with the Pension Protection Act of 2006. The Company plans to make contributions totaling approximately $29 million in the first half of 2009.

The Company made contributions to its other postretirement benefit plans of $16 million in 2008 and $14 million in 2007. In 2009, the Company plans on making voluntary contributions to fund VEBA trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Pension Legislation. The Pension Protection Act of 2006 was enacted in August 2006. New rules regarding funding of defined benefit plans are generally effective for plan years beginning in 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate full funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains a number of provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. The Company has monitored developments regarding the Act and has made a number of elections to comply with it.

Thrift Savings Plans. The Company has thrift savings plans under section 401(k) of the Internal Revenue Code. Under these plans, eligible employees may defer and contribute to the plans a portion of current compensation in order to provide future retirement benefits. The Company makes contributions to the plans by matching a portion of the employee's contributions. The costs of this matching were approximately $10 million and $8 million for 2008 and 2007, respectively.

The Company also makes contributions to retirement income accounts within its thrift savings plans for certain employees not covered by its noncontributory defined benefit pension plans. These employees consist mainly of those hired after December 31, 2005. The Company makes these contributions based on years of service and the employees' wage and salary levels, and it makes them in addition to the matching contributions discussed above. The amounts contributed by the Company under this arrangement equaled less than $1 million in 2008 and in 2007.

Note 12 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. Also, income tax returns are filed in various state jurisdictions. While the federal statute of

limitations related to 2005 and later are open, Revenue Agent Reports for 2005-2007 have been received from the IRS, effectively closing these years to additional audit adjustments. Adjustments made by the IRS for the 2005-2006 tax years were recorded in the 2008 financial statements. The tax year 2007 return was examined under an IRS pilot program named "Compliance Assurance Process" ("CAP"). This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed. Preliminary adjustments for 2007 were agreed to in January 2009 and were comprised of $5 million of depreciable temporary differences which will be recorded in 2009. The tax year 2008 return is also being examined under the CAP program.

E.ON U.S. adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109*, effective January 1, 2007. At the date of adoption, the Company had $10 million of unrecognized tax benefits, $5 million related to federal income tax and $5 million related to state income tax. If recognized, the entire $10 million of unrecognized tax benefits would reduce the effective income tax rate.

The following table shows additions in and reductions of unrecognized tax benefits for the twelve months ended December 31, (in millions of $):

	2008	2007
Balance at beginning of year	$10	$10
Additions based on tax positions of prior years	-	1
Reductions due to expiration of statute of limitations	(2)	(1)
Balance at end of year	$8	$10

Possible amounts of uncertain tax positions that may decrease within the next 12 months total $7 million and are based on the expiration of statutes during 2009. Of this amount, $3 million relates to federal income tax and $4 million relates to state income tax.

Interest and penalties, if any, are recorded as operating expenses on the income statement and accrued expenses on the balance sheet. Interest expense related to unrecognized tax benefits of less than $1 million was accrued for 2008 and 2007 based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. No penalties were accrued by the Company upon adoption of FIN 48 or through December 31, 2008.

Components of income tax expense are shown in the table below for the year ended December 31, (in millions of $):

	2008	2007
Current	$102	$113
Deferred	(47)	(54)
Investment tax credit - net	29	47
Total income tax expense	$84	$106

Total income tax expense decreased in 2008 due primarily to lower pre-tax income partially offset by tax benefits associated with the Gas BAN sale in 2007.

In June 2006, LG&E and KU filed a joint application with the DOE requesting certification to be eligible for

investment tax credits applicable to the construction of TC2. In November 2006, the DOE and IRS announced that LG&E and KU were selected to receive the tax credit. Final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, LG&E and KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit. This tax credit will be amortized to income starting after the plant is placed in service in 2010 over the life of the related property. Based on eligible construction expenditures incurred, the Company recorded investment tax credits of $33 million and $52 million in 2008 and 2007, respectively, of the maximum $125 million. In addition, a full depreciation basis adjustment is required for the credit and will be reflected in tax expense over the life of the related projects.

In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program. In August 2008, the plaintiffs submitted an amended complaint alleging additional claims for relief. In November 2008, the Court dismissed the suit; however, the plaintiffs filed a motion for reconsideration. The Company is not currently a party to this proceeding and is not able to predict the ultimate outcome of this matter.

Components of net deferred tax liabilities included in the balances sheet are shown below as of December 31, (in millions of $):

	2008	2007
Deferred tax liabilities:		
Fixed assets	$661	$655
Accruals and other assets	36	31
Investments and other financial assets	14	11
Total deferred tax liabilities	711	697
Deferred tax assets:		
Pensions and similar obligations	96	60
Investment tax credit	12	14
Income taxes due to customers	28	28
Investments and other financial assets	24	24
AMT, wind, and foreign tax credit carryforwards	149	123
Net operating loss carryforward	5	9
Accruals and other liabilities	37	17
	351	275
Valuation allowance	(32)	(35)
Total deferred tax assets	319	240
Net deferred income tax liability (current and noncurrent)	$392	$457
Balance-sheet classification:		
Current assets	$32	$12
Noncurrent liabilities	424	469
Net deferred income tax liability (current and noncurrent)	$392	$457

Based on the Company's net deferred tax liability position, past performance history of subsidiaries and expectations of similar performance in the future, and the extensive realization period for net operating loss carryforwards, future taxable income of the Company will more likely than not be sufficient to realize fully the

deferred tax assets associated with the net operating losses. The net operating loss carryforwards start to expire in 2024. Foreign tax credits of $7 million begin to expire in 2010; however, all are fully reserved through the valuation allowance discussed below. Alternative minimum tax credits of $18 million do not expire, investment tax credits of $100 million start to expire in 2026 and other general business credits start to expire in 2018. A wind energy credit of less than $1 million will expire in 2009.

Federal tax loss carryforwards equaled $27 million and $29 million as of December 31, 2008 and 2007, respectively. There were no state tax loss carryforwards as of December 31, 2008 and 2007.

A valuation reserve has been established for deferred tax assets that are unlikely to be realized. The reserve primarily relates to tax benefits associated with the Company's Argentine investments and foreign tax credits. The valuation reserve was reduced by $3 million in 2008 due to the realization of capital loss carryforwards.

A reconciliation of differences between the statutory U.S. federal income tax rate and the Company's effective income tax rate as a percentage of income from continuing operations before income taxes follows:

	2008	2007
Statutory federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	(0.2)	2.3
Sale of Gas BAN (Note 3)	0.0	(5.1)
Equity investments and other foreign	0.9	(2.0)
Investment and other tax credits	0.3	(1.3)
Goodwill impairment	(41.7)	0.0
Other differences - net	0.2	(1.8)
Effective income tax rate	(5.5)%	27.1%

The decrease in the effective rate from 2007 is primarily due to the impairment of goodwill. See Note 2, Goodwill Impairment. This $1.806 billion loss is a permanent tax difference. Excluding the loss on impairment of goodwill, the effective tax rate would have been comparable to 2007.

Note 13 - Other Income and Deductions

Other income and deductions consisted of the following for the twelve months ended December 31, (in millions of $):

	2008	2007
Interest rate swap mark-to-market (losses) - net	$(44)	$-
Increase in cash surrender value of company-owned life insurance	2	2
Gains on sales of property	9	1
Interest and dividend income	4	5
Other	4	(3)
Total other (deductions) and income, net	$(25)	$5

Note 14 - Long-Term Debt

Long-term debt and the current portion of long-term debt, summarized below, consists primarily of pollution control bonds issued by LG&E and KU, loans from an affiliated company, and medium-term notes issued by Capital Corp. Utility debt issuance expense is capitalized in regulatory assets and amortized over the lives of the

related bond issues for LG&E and KU, consistent with regulatory practices. Non-utility issuance expense is amortized using the effective interest rate method. Interest rates and maturities in the table below are for the amounts outstanding at December 31, 2008 and 2007, and include the impact of interest rate swaps in place.

	Stated Interest Rates	Weighted Average Interest Rate	Maturities	Principal Amounts (In Millions Of Dollars)
2008:				
Current	Variable-4.07%	2.26%	2009-2034	$604
Noncurrent	Variable-7.47%	4.85%	2010-2037	3,182
2007:				
Current	Variable-6.46%	3.72%	2008-2032	177
Noncurrent	Variable-7.47%	5.22%	2009-2037	3,202

Under the provisions for LG&E's and KU's variable-rate pollution control bonds classified as current portion of long-term debt, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt. The following bond series are subject to tender for purchase:

LG&E:
Jefferson Co. 2001 Series A, due September 1, 2026, variable %
Trimble Co. 2001 Series A, due September 1, 2026, variable %
Jefferson Co. 2001 Series B, due November 1, 2027, variable %
Trimble Co. 2001 Series B, due November 1, 2027, variable %

KU:
Mercer Co. 2000 Series A, due May 1, 2023, variable %
Carroll Co. 2002 Series A, due February 1, 2032, variable %
Carroll Co. 2002 Series B, due February 1, 2032, variable %
Carroll Co. 2008 Series A, due February 1, 2032, variable %
Mercer Co. 2002 Series A, due February 1, 2032, variable %
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %
Carroll Co. 2004 Series A, due October 1, 2034, variable %
Carroll Co. 2006 Series B, due October 1, 2034, variable %

The average annualized interest rates for these bonds during 2008 were 2.34% and 1.75% for LG&E and KU, respectively.

Redemptions of long-term debt in 2008 and 2007 are summarized below (in millions of $):

Year	Company	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2008	KU	Pollution control bonds	$13	Variable	Unsecured	2035
2008	KU	Pollution control bonds	$13	Variable	Unsecured	2035
2008	KU	Pollution control bonds	$17	Variable	Unsecured	2036
2008	KU	Pollution control bonds	$17	Variable	Unsecured	2036
2008	Cap. Corp.	Medium-term notes	$24	6.46%	Unsecured	2008
2007	E.ON U.S.	Due to Fidelia	$75	Variable	Unsecured	2007
2007	LG&E	Mand. redeemable preferred	$20	5.88%	Unsecured	2008
2007	LG&E	Pollution control bonds	$35	Variable	Secured	2013
2007	LG&E	Pollution control bonds	$31	Variable	Secured	2017
2007	LG&E	Pollution control bonds	$60	Variable	Secured	2017
2007	KU	First mortgage bonds	$54	7.92%	Secured	2007
2007	KU	Pollution control bonds	$54	Variable	Secured	2024

Issuances of long-term debt in 2008 and 2007 are summarized below (in millions of $):

Year	Company	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2008	E.ON U.S.	Due to Fidelia	$100	Variable	Unsecured	2010
2008	E.ON U.S.	Due to Fidelia	$75	7.01%	Unsecured	2010
2008	E.ON U.S.	Due to Fidelia	$75	Variable	Unsecured	2015
2008	LG&E	Due to Fidelia	$50	6.48%	Unsecured	2015
2008	LG&E	Due to Fidelia	$25	6.21%	Unsecured	2018
2008	KU	Due to Fidelia	$75	7.04%	Unsecured	2018
2008	KU	Due to Fidelia	$50	6.16%	Unsecured	2018
2008	KU	Due to Fidelia	$50	5.65%	Unsecured	2018
2008	KU	Due to Fidelia	$75	5.85%	Unsecured	2023
2008	KU	Pollution control bonds	$78	Variable	Unsecured	2032
2007	E.ON U.S.	Due to Fidelia	$50	Variable	Unsecured	2009
2007	E.ON U.S.	Due to Fidelia	$100	5.52%	Unsecured	2012
2007	E.ON U.S.	Due to Fidelia	$50	Variable	Unsecured	2014
2007	E.ON U.S.	Due to Fidelia	$76	5.71%	Unsecured	2017
2007	LG&E	Due to Fidelia	$47	5.72%	Unsecured	2022
2007	LG&E	Due to Fidelia	$68	5.93%	Unsecured	2031
2007	LG&E	Due to Fidelia	$70	5.98%	Unsecured	2037
2007	KU	Due to Fidelia	$53	5.69%	Unsecured	2022
2007	KU	Due to Fidelia	$75	5.86%	Unsecured	2037
2007	LG&E	Pollution control bonds	$31	Variable	Unsecured	2033
2007	LG&E	Pollution control bonds	$60	4.60%	Unsecured	2033
2007	LG&E	Pollution control bonds	$35	Variable	Unsecured	2033
2007	KU	Pollution control bonds	$18	Variable	Unsecured	2026
2007	KU	Pollution control bonds	$54	Variable	Unsecured	2034
2007	KU	Pollution control bonds	$9	Variable	Unsecured	2037

Acquisitions of outstanding pollution-control bonds and reissuances and retirements of reacquired pollution-control bonds in 2008 are summarized below (in millions of $):

Transaction Description	Company	Principal Amount	Rate	Secured/ Unsecured	Maturity
Acquisition	LG&E	$25	Variable	Unsecured	2027
Acquisition	LG&E	$31	Variable	Unsecured	2033
Acquisition	LG&E	$35	Variable	Unsecured	2033
Acquisition	LG&E	$128	Variable	Unsecured	2033
Acquisition	LG&E	$40	Variable	Unsecured	2035
Acquisition	KU	$13	Variable	Unsecured	2023
Acquisition	KU	$50	Variable	Unsecured	2034
Acquisition	KU	$17	Variable	Unsecured	2036
Reissuance	LG&E	$25	5.38%	Unsecured	2027
Reissuance	LG&E	$31	5.63%	Unsecured	2033
Reissuance	LG&E	$40	5.75%	Unsecured	2035
Reissuance	KU	$13	Variable	Unsecured	2023
Reissuance	KU	$50	Variable	Unsecured	2034
Retirement	KU	$17	Variable	Unsecured	2036

The proceeds of the 2008 LG&E and KU loans were used to fund capital expenditures. The proceeds of the 2008 E.ON U.S. loans were used to fund LG&E's and KU's capital expenditures and to fund discontinued operations.

The proceeds of the 2007 LG&E loans were used to refinance first mortgage bonds and to fund capital expenditures, the redemption of preferred stock, and pension contributions. The proceeds of the 2007 KU loans were used to refinance first mortgage bonds and to fund capital expenditures. The proceeds of the 2007 E.ON U.S. loans were used to fund the utilities' capital expenditures and to fund discontinued operations.

In January 2007, the Kentucky Commission issued an Order approving LG&E's application for certain financial transactions, including arrangements which provided a source of funds for the redemption of LG&E's preferred stock. In April 2007, LG&E redeemed all of its outstanding shares of its series of preferred stock at the following redemption prices, respectively, plus an amount equal to accrued and unpaid dividends to the redemption date:

- 860,287 shares of 5% cumulative preferred stock (par value $25 per share) at $28 per share;
- 200,000 shares of $5.875 cumulative preferred stock (without par value) at $100 per share; and
- 500,000 shares of auction rate, series A, cumulative preferred stock (without par value) at $100 per share.

Dividends on the shares of preferred stock ceased to accumulate on the redemption date and no further dividends will be paid or will accrue on such preferred stock thereafter.

In April 2007, LG&E agreed with Fidelia to eliminate the lien on two secured intercompany loans totaling $125 million. LG&E entered into two long-term borrowing arrangements with Fidelia in an aggregate principal amount of $138 million. The loan proceeds were used to fund the preferred stock redemption and to repay certain short-term loans incurred to fund the pension contribution made by the Company during the first quarter. LG&E also completed a series of financial transactions impacting its periodic reporting requirements. The

pollution control revenue bonds issued by certain governmental entities secured by the $31 million Pollution Control Series S, the $60 million Pollution Control Series T and the $35 million Pollution Control Series U bonds were refinanced and replaced with new unsecured tax-exempt bonds of like amounts. Pursuant to the terms of the bonds, an underlying lien on substantially all of LG&E's assets was released following the completion of these steps. LG&E no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

In February 2007, KU completed a series of financial transactions impacting its periodic reporting requirements. The $54 million Pollution Control Series 10 bond was refinanced and replaced with a new unsecured tax-exempt bond of the same amount maturing in 2034. The $53 million Series P bond was defeased and replaced with an intercompany loan totaling $53 million from Fidelia. In conjunction with the defeasance, the Company terminated the related interest rate swap. Fidelia also agreed to eliminate the second lien on its two secured loans. Pursuant to the terms of the remaining tax-exempt bonds, the first mortgage bonds were cancelled and the underlying lien on substantially all of KU's assets was released following the completion of these steps. KU no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

Pollution control series bonds are obligations of LG&E or KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E or KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during February and April 2007, the county's debt was also secured by an equal amount of LG&E's or KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless the Company defaults on the loan agreement. Subsequent to April 2007, the loan agreement is an unsecured obligation of LG&E or KU. Proceeds from KU's bond issuances for environmental equipment (primarily related to the installation of FGDs) were held in trust pending expenditure for qualifying assets. At December 31, 2008, and 2007, KU had $9 million and $11 million, respectively, of bond proceeds in trust, included in restricted cash in the balance sheets.

Several of the LG&E and KU pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At December 31, 2008, LG&E and KU had an aggregate $925 million of outstanding pollution control indebtedness of which $231 million is in the form of insured auction-rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and LG&E and KU have experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture which can be as high as 15%. During 2007, the average rate on LG&E's auction-rate bonds was 3.77%, whereas the average rate on these bonds in 2008 was 5.90%. Also during 2007, the average rate on KU's auction-rate bonds was 3.96%, whereas the average rate on these bonds in 2008 was 4.50%. The instruments governing these auction rate bonds permit LG&E and KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently.

In 2008, the ratings of the following bonds were downgraded due to downgrades of the bond insurers or the termination of the bond insurance (in millions of $):

	Notes	Principal	Moody's 2008	Moody's 2007	S&P 2008	S&P 2007
LG&E:						
Jefferson Co. 2000 Series A	(1)	$25	A2	Aaa	BBB+	AAA
Trimble County 2000 Series A	-	83	A2	Aaa	A	AAA
Jefferson Co. 2001 Series A	-	10	A2	Aaa	A	AAA
Trimble County 2002 Series A	-	42	A2	Aaa	A	AAA
Louisville Metro 2003 Series A	-	128	A2	Aaa	BBB+	AAA
Louisville Metro 2005 Series A	(1)	40	A2	Aaa	BBB+	AAA
Louisville Metro 2007 Series A	(1)	31	A2	Aaa	BBB+	AAA
Louisville Metro 2007 Series B	-	35	A2	Aaa	A	AAA
Trimble County 2007 Series A	-	60	A2	Aaa	A	AAA
KU:						
Mercer County 2000 Series A	(2)	13	Aaa	Aaa	AA+	AAA
Carroll County 2002 Series C	-	96	A2	Aaa	A	AAA
Carroll County 2004 Series A	(2)	50	Aaa	Aaa	AA+	AAA
Carroll County 2005 Series A	(3)	13	-	Aaa	-	AAA
Carroll County 2005 Series B	(3)	13	-	Aaa	-	AAA
Carroll County 2006 Series A	(3)	17	-	Aaa	-	AAA
Carroll County 2006 Series B	(2)	54	Aaa	Aaa	AA+	AAA
Carroll County 2006 Series C	(3)	17	-	Aaa	-	AAA
Carroll County 2007 Series A	-	18	A2	Aaa	A	AAA
Trimble County 2007 Series A	-	9	A2	Aaa	A	AAA
Carroll County 2008 Series A	(4)	78	Aaa	-	AA+	-

Notes:

(1) Bond insurance terminated in November 2008 upon restructuring.

(2) Bonds restructured in December 2008, and enhanced by letter of credit. Bond insurance terminated upon restructuring.

(3) Bonds defeased in October 2008. Proceeds combined with new bond allocation of $18 million to create new bond issue of $78 million without insurance enhancement.

(4) Bond issued in October 2008, without insurance enhancement. Bond restructured in December 2008, and enhanced by letter of credit.

In February 2008, KU issued a notice to bondholders of its intention to convert the Carroll County 2007 Series A bonds and the Trimble County 2007 Series A bonds from the auction rate mode to a fixed interest rate mode, as permitted under the loan documents. These conversions were completed in April 2008, and the new rates on the bonds are 5.75% and 6.00%, respectively. In February 2008, LG&E issued a notice to bondholders of its intention to convert the Louisville Metro 2005 Series A, 2007 Series A and 2007 Series B bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. These conversions were completed in March 2008, for the 2005 Series, and in April 2008, for the two 2007 Series. In connection with the conversions, LG&E purchased the bonds from the remarketing agent. The Louisville Metro 2005 and 2007 Series A bonds were remarketed in November 2008.

In March 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2006 Series C bonds and the Mercer County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The Carroll County conversion was completed in April 2008, and the Mercer County conversion was completed in May 2008. In connection with these conversions, KU purchased

the bonds from the remarketing agent. In October 2008, the Carroll County 2006 Series C bonds, along with the Carroll County 2005 Series A and B and Carroll County 2006 Series A bonds, were defeased. In March 2008, LG&E issued notices to bondholders of its intention to convert the Jefferson County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in May 2008. In connection with the conversion, LG&E purchased the bonds from the remarketing agent. The bonds were remarketed in November 2008.

In June 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2004 Series A bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in July 2008. In connection with the conversion, KU purchased the bonds from the remarketing agent. In June 2008, LG&E issued notices to bondholders of its intention to convert the Louisville Metro 2003 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in July 2008. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

In November 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2006 Series B and Carroll County 2008 Series A bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. The conversion was completed in December 2008. In connection with the conversions, the bond insurance policy associated with the bonds was terminated and replaced with letters of credit. In November 2008, LG&E converted three pollution control bonds to a mode wherein the interest rate is fixed for an intermediate term, but not the full term of the bond. At the end of the intermediate term, the Company must remarket the bonds or buy them back. The terms of the November transactions follow (in millions of $):

Series	Principal	Interest Rate	End of Fixed-Rate Term
Jefferson County 2000 Series A	$25	5.375%	November 30, 2011
Louisville Metro 2007 Series A	31	5.625%	December 2, 2012
Louisville Metro 2005 Series A	40	5.750%	December 1, 2013

At the time of the conversion, the bond insurance policy that had been in place was terminated.

In December 2008, KU remarketed the Mercer County 2000 Series A and Carroll County 2004 Series A bonds. In connection with the conversions, the bond insurance policy associated with the bonds was terminated and replaced with letters of credit.

As of December 31, 2008, LG&E continued to hold repurchased bonds in the amount of $163 million and KU had no remaining repurchased bonds. LG&E will hold some or all of such repurchased bonds until a later date, at which time LG&E may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps LG&E and KU have taken or may take to mitigate such uncertainty, such as additional conversions, subsequent restructurings or redemptions and refinancings, could result in LG&E and KU incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

The lenders under the medium-term notes for Capital Corp. are entitled to the benefits of a Support Agreement with E.ON U.S. The Support Agreement generally provides that E.ON U.S. will provide Capital Corp. with the necessary funds and financial support to meet its obligations under the medium-term notes.

All debt covenants at E.ON U.S. subsidiaries were satisfied at December 31, 2008.

Long-term debt maturities for E.ON U.S. are shown below:

	Notes	External	Affiliated	Totals
2009	-	$-	$255	$255
2010	-	-	358	358
2011	-	2	300	302
2012	-	-	250	250
2013	-	-	375	375
Thereafter	(1)	763	1,483	2,246
Totals		$765	$3,021	$3,786

Notes:

(1) Includes long-term debt of $349 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. Maturity dates for these bonds range from 2026 to 2034. The Company does not expect to pay these amounts in 2009.

Note 15 - Notes Payable

At December 31, 2008, E.ON U.S. had a line of credit with E.ON North America, an affiliate of E.ON, totaling $150 million. The line of credit is available for working capital needs. Unused capacity under the line totaled $14 million at December 31, 2008. The average interest rate on outstanding balances under this line of credit at December 31, 2008, was 0.32%. In February 2009, this line was extended to February 2010. E.ON U.S. also had two short-term loans with Fidelia outstanding as of December 31, 2008, totaling $163 million. The short-term loans were used to hold repurchased bonds in the amount of $163 million remaining at LG&E. The average interest rate on the short-term loans at December 31, 2008, was 3.48%.

At December 31, 2008, LG&E had short-term bilateral line-of-credit facilities totaling $125 million. These facilities have a maturity date of June 2012, and unused capacity under the facilities totaled $125 million at December 31, 2008. The covenants under these revolving lines of credit require that (1) LG&E keep its debt-to-total-capitalization ratio under 70%, (2) E.ON directly or indirectly own at least two-thirds of LG&E's voting stock, (3) LG&E maintain credit ratings of BBB- and Baa3 or better as determined by S&P and Moody's, and (4) LG&E cannot dispose of assets totaling more than 15% of total assets as of December 31, 2006.

At December 31, 2008, KU had short-term bilateral line-of-credit facilities totaling $35 million. These facilities have a maturity date of June 2012, and unused capacity under the facilities totaled $35 million at December 31, 2008. The covenants under this revolving line of credit requires that (1) KU keep its debt-to-total-capitalization ratio under 70%, (2) E.ON directly or indirectly own at least two-thirds of KU's voting stock, (3) KU maintain credit ratings of BBB- and Baa3 or better as determined by S&P and Moody's, and (4) KU cannot dispose of assets totaling more than 15% of total assets as of December 31, 2006.

All notes payable covenants at E.ON U.S. subsidiaries were satisfied at December 31, 2008.

Note 16 - Commitments and Contingencies

Purchased Power

LG&E has a contract for purchased power with OVEC, terminating in 2026, for various Mw capacities. LG&E has an investment of 5.63% ownership in OVEC's common stock, which is accounted for on the cost method of

accounting. LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity.

KU has purchased-power arrangements with OMU and OVEC. Under the OMU agreement, which is presently expected to end in May 2010, KU purchases all of the output not required by OMU of an approximately 400-Mw coal-fired generating station. The amount of purchased power available to KU during 2009-2010, which is expected to be approximately 5% of KU's total Kwh native load energy requirements, is dependent upon a number of factors including the OMU units' availability, maintenance schedules, fuel costs and OMU requirements (see "Owensboro Contract Litigation" on page 58). Payments are based on the total costs of the station allocated per terms of the OMU agreement. Included in the total costs is KU's proportionate share of debt service requirements on $228 million of OMU bonds outstanding at December 31, 2008. The debt service is allocated to KU based on its annual allocated share of capacity, which averaged approximately 41% in 2008. KU does not guarantee the OMU bonds, or any requirements therein, in the event of default by OMU.

KU has a contract for purchased power with OVEC, terminating in 2026, for various Mw capacities. KU has an investment of 2.5% ownership in OVEC's common stock, which is accounted for on the cost method of accounting. KU's share of OVEC's output is 2.5%, approximately 55 Mw of generation capacity.

Future obligations for power purchases are shown in the following table (in millions of $):

2009	$46
2010	38
2011	31
2012	33
2013	33
Thereafter	504
Totals	$685

Construction Program

LG&E had $39 million of commitments in connection with its construction program at December 31, 2008, and KU had $123 million of commitments in connection with its construction program as of the same date.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. The parties have commenced certain negotiations relating to potential construction cost increases due to higher labor and per diem costs above an established baseline, and certain safety and compliance costs resulting from a change in law. LG&E's and KU's share of additional costs from inception of the contract through the expected project completion in 2010 may be approximately $5 million and $25 million, respectively.

TC2 Air Permit

The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the KDAQ in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendency of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor

revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E and KU administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the KDAQ issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to "veto" the state air permit and in April 2008, they filed a petition seeking veto of the permit revision. In September 2008, the EPA issued an Order denying nine of eleven claims alleged in one of the petitions, but finding deficiencies in two areas of the permit. The KDAQ has revised the permit to address the issues identified in the EPA's Order, although the Sierra Club subsequently submitted comments objecting to the revisions. Although the Company does not expect material changes in the permit as a result of the various petitions, the EPA has yet to rule on several additional claims. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial condition or results of operations.

Mine Safety Compliance Costs

In March 2006, the Mine Safety and Health Administration enacted Emergency Temporary Standards regulations and has issued additional regulations as the result of the passage of the Mine Improvement and New Emergency Response Act of 2006, which was signed into law in June 2006. At the state level, Kentucky, and other states that supply coal to LG&E and KU, have passed new mine safety legislation. These pieces of legislation require all underground coal mines to implement new safety measures and install new safety equipment. Under the terms of some of the coal contracts LG&E and KU have in place, provisions are made to allow for price adjustments for compliance costs resulting from new or amended laws or regulations. LG&E and KU have begun to receive information from the mines it contracts with regarding price adjustments related to these compliance costs and has hired a consultant to review all supplier claims for validity and reasonableness. At this time LG&E and KU have not been notified of claims by all mines and is reviewing those claims it has received. An adjustment will be made to the value of the coal inventory once the amount is determinable, however, the amount cannot be estimated at this time. The Company expects to recover these costs through the FAC.

Letters of Credit

Subsidiaries of Capital Corp. have provided letters of credit securing on- and off-balance sheet commitments totaling $2 million at December 31, 2008. The underlying obligations are performance guarantees. LG&E has also issued letters of credit as of December 31, 2008, for off-balance sheet obligations totaling $3 million, and KU has issued letters of credit as of the same date for off-balance sheet obligations of less than $1 million and for on-balance sheet obligations of $198 million to support outstanding bonds of $195 million.

Argentina Matters

In December 2001, the Company commenced arbitration proceedings against the Republic of Argentina under the U.S.-Argentina Bilateral Investment Treaty before the ICSID. The arbitration presents claims relating to the diminution in value of investments of the Company in Argentina and certain prejudicial actions of the Argentine government in connection therewith, both prior to and during the current economic and financial difficulties in that country. In October 2006, the arbitration panel issued a decision upholding E.ON U.S.'s claim on the merits and entitlement to damages, except for a partial "emergency period." In November 2006, the panel issued a follow-up procedural order which proposed a damages methodology based upon estimated lost

dividends for historical periods. In July 2007, the panel issued an order awarding E.ON U.S. $57 million (including interest) for the period through February 2005. In August 2007, E.ON U.S. filed a request for a supplementary decision for additional damages of approximately $56 million (including interest) for the period March 2005-July 2007. In July 2008, the panel issued an order denying E.ON U.S.'s supplementary decision request. In August 2008, E.ON U.S. submitted a petition for partial annulment, seeking to annul that portion of the tribunal's prior order which excluded damages for the designated emergency period. In November 2008, the Argentine government submitted a petition for annulment seeking to challenge the basis of, or requesting reductions in, the damages amount contained in the July 2007 award. In connection with the interim and final tariff renegotiation process described below, the parties have negotiated a temporary suspension and potential dismissal of the ICSID proceeding, subject to certain conditions.

During late 2008, as part of a general governmental initiative to revise gas industry pricing structures, the Centro and Cuyana gas distribution companies completed preliminary proposed agreements regarding the terms of a tariff renegotiation framework. In connection therewith, an interim tariff period is to be established wherein increases of approximately 23-24% in distribution margin amounts, plus certain inflation mechanisms, will be effective. When implemented following completion of certain remaining conditional steps, the interim period is expected to be in place through mid to late 2009 and include certain retroactive amounts applicable to the fourth quarter 2008. Concurrently, a process will commence to occur generally during 2009 for establishing long-term tariffs for an approximate 5 year period. In April 2009, senior governmental approvals occurred relating to Centro's and Cuyana's interim period renegotiation agreements. Further regulatory and implementation actions remain to be completed regarding these interim agreements, as well as with respect to Centro's and Cuyana's long-term renegotiation agreements. The Company can not currently estimate the anticipated procedural timing or potential outcomes of the remaining interim or final tariff processes.

During November 2008, the Argentine Central Bank commenced an administrative proceeding alleging a violation of certain emergency currency exchange laws in place during the country's economic crisis in connection with a December 2002 refinancing by Centro of $35 million of a previously-existing, maturing loan. Centro and its individual directors have filed responsive pleadings in the matter and requested dismissal at the administrative phase. If the Argentine Central Bank rules adversely on such request in the administrative stage, the matter could proceed, in whole or in part, to a specialized financial criminal court. A subsidiary of E.ON U.S. has entered into indemnity agreements with certain associated directors. The Company can not currently estimate the anticipated procedural timing or ultimate outcome of this matter.

During March 2004, Centro and Cuyana received notifications from the national gas regulatory authority concerning correction methodologies applied to customer invoices for changes in air pressure and air temperature. The inquiries were part of a larger government review of gas industry companies regarding metering techniques at higher altitude locations and mentioned the possibility of future adjustments and/or customer refunds for various periods. Centro and Cuyana have previously applied and continue to use correction factors common in the industry which conform to methodologies used by the state gas company prior to privatization and which have not previously been challenged by the regulator. Centro and Cuyana believe their methods are defensible and should be considered appropriate. Centro and Cuyana submitted responsive correspondence in the proceeding, continue to monitor developments, but cannot currently reasonably estimate potential magnitudes or predict the ultimate outcome of this matter.

Operating Leases

The Company leases office space, office equipment, plant equipment and vehicles and accounts for these leases as operating leases. See also Note 4, Discontinued Operations, for a discussion of the Big Rivers operating lease. Lease expense equaled $15 million in 2008 and $11 million in 2007. Commitments under operating leases as of December 31, 2008, are presented below (in millions of $):

2009	$18
2010	10
2011	8
2012	7
2013	7
Thereafter	11
Totals	$61

LG&E and KU are participants in a sale and leaseback transaction involving their two jointly-owned CTs. Commencing in December 1999, LG&E and KU entered into a tax-efficient, 18-year lease of the CTs. LG&E and KU have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is the same as if LG&E and KU had retained their ownership interests. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

In case of default under the lease, LG&E and KU are obligated to pay to the lessor their share of certain fees or amounts. Primary events of default include loss or destruction of the CTs, failure to insure or maintain the CTs and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the CTs reverts jointly to LG&E and KU.

At December 31, 2008, the maximum aggregate amount of default fees or amounts was $9 million. Of this amount, LG&E would be responsible for approximately $3 million (38%) and KU would be responsible for approximately $6 million (62%). LG&E and KU have made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay any default fees that LG&E or KU may incur.

Owensboro Contract Litigation

In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in this proceeding denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages.

In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding, pursuant to a July 2005 summary judgment ruling interpreting the contract termination provisions in OMU's favor.

In September and October 2008, the court granted rulings on a number of summary judgment petitions in KU's favor, including determinations that KU's interpretation of facilities charge fund payments was accurate; that KU is the proportionate owner of NOx allowances allocated to the OMU plant by the government; that OMU's claims disputing various back-up power charges should be dismissed and that's KU's counterclaim based on operations and maintenance practices should proceed to trial. The summary judgment rulings resulted in the dismissal of all of OMU's remaining claims against KU. The trial on KU's counterclaim occurred during October and November 2008. During February 2009, the court issued orders on the matters covered at trial, including (i) awarding KU an aggregate $9 million relating to the cost of NOx allowances charged by OMU to KU and the price of back-up power purchased by OMU from KU and (ii) denying KU's claim for damages based upon sub-par operations and availability of the OMU units. Those rulings, as well as all of the court's various prior rulings, including upholding early termination of the contract in spring 2010, remain subject to post-trial motions and appeal rights.

Environmental

LG&E's and KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which they operate, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to LG&E's and KU's business operations are described below.

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. In March 2008, the EPA issued a revised NAAQS for ozone, which contains a more stringent standard than that contained in the previous regulation. At present, LG&E and KU are unable to determine what, if any, additional requirements may be

imposed to achieve compliance with the new ozone standard.

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous Order, directing the EPA to promulgate a new regulation, but leaving the CAIR in the interim. Depending upon the course of such matters, the CAIR could be superseded by new or revised NOx or SO_2 regulations with different or more stringent requirements and SIPs which incorporate CAIR requirements could be subject to revision. LG&E and KU are also reviewing aspects of their compliance plans relating to the CAIR, including scheduled or contracted pollution control construction programs. Finally, as discussed below, the remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and LG&E's and KU's compliance plans relating thereto, due to the interconnection of the CAIR and CAIR-associated steps with such associated programs. At present, LG&E and KU are not able to predict the outcomes of the legal and regulatory proceedings related to the CAIR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provided for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. In addition, in 2006, the Metro Louisville Air Pollution Control District adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants.

In February 2008, a federal appellate court issued a decision vacating the CAMR. The EPA has announced that it intends to promulgate a new rule to replace the CAMR. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new mercury reduction rules with different or more stringent requirements. Kentucky has also repealed its corresponding state mercury regulations. At present, LG&E and KU are not able to predict the outcomes of the legal and regulatory proceedings related to the CAMR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

Acid Rain Program. The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its CAVR detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR provided for more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts. Additionally, because the regional haze SIPs incorporate certain CAIR requirements, the remand of CAIR could potentially impact regional haze SIPs. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade

mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 through 2008 time period at a cost of $197 million. In order to achieve the NOx emission reductions and associated obligations, KU installed additional NOx controls, including SCR technology, during the 2000 to 2008 time period at a cost of $221 million. In 2001, the Kentucky Commission granted recovery in principal of these costs incurred by LG&E for these projects under its periodic environmental surcharge mechanisms. At the same time, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects also through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, LG&E and KU expect to incur additional capital expenditures totaling approximately $100 million and $720 million, respectively, during the 2009 through 2011 time period for pollution controls including FGD and SCR equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by the Company for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E and KU believe their costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's and KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E and KU will continue to monitor these developments to ensure that their environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. LG&E and KU are monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. LG&E and KU are also monitoring ongoing regulatory proceedings including the EPA's advanced notice of proposed rulemaking for regulation of GHGs under the existing authority of the Clean Air Act and proposed rules governing carbon sequestration. The new administration has announced its intention to exercise its existing authority under the Clean Air Act to achieve reductions in GHG emissions. LG&E and KU are unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As companies with significant coal-fired generating assets, LG&E and

KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E and KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint sought civil penalties, including potential per-day fines, remedial measures and injunctive relief. In April 2007, KU filed an answer in the civil suit denying the allegations. In July 2007, the court entered a schedule providing for a July 2009 date for trial. In December 2008, the Company reached a tentative settlement with the government resolving all outstanding claims. The proposed consent decree provides for payment of a $1 million civil penalty; funding of $3 million in environmental mitigation projects; surrender of 53,000 excess SO_2 allowances; surrender of excess NOx allowances estimated at 650 allowances annually for eight years; installation of an FGD by December 31, 2010; installation of an SCR by December 31, 2012; and compliance with specified emission limits and operational restrictions. In February 2009, the proposed consent decree was lodged with the Court. In March 2009, the Court issued a consent decree approving the settlement.

After expiration of a public comment period, the judge will rule on the appropriateness of the settlement. Until entry of a final consent decree by the Court, KU cannot determine the ultimate outcome of this matter.

Section 114 Requests. In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain projects undertaken at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's Ghent 2 generating unit. LG&E and KU have complied with the information requests and are not able to predict further proceedings in this matter at this time.

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

On March 19, 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial position or results of operations.

General Environmental Proceedings. From time to time, LG&E and KU appear before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations or activities for former manufactured gas plant sites or elevated PCB levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station and claims regarding GHG emissions from LG&E's and KU's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. With respect to the former manufactured gas plant sites, LG&E

has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E or KU.

Coal and Gas Purchase Commitments

The following table summarizes the Company's coal and gas purchase commitments for periods after December 31, 2008 (in millions of $):

2009	$749
2010	696
2011	671
2012	340
2013	122
Total	$2,578

Obligations after 2013 are indexed to future market prices and will not be included above until prices are set using the contracted methodology.

Note 17 - Jointly Owned Electric Utility Plants

Trimble County Unit 1

LG&E owns a 75% undivided interest in Trimble County Unit 1, which the Kentucky Commission has allowed to be reflected in customer rates. Of the remaining 25% of the unit, IMEA owns a 12.12% undivided interest, and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate ownership share of fuel cost, operation and maintenance expenses, and incremental assets. The following data represents shares of the jointly owned property:

	Trimble County 1			
	LG&E	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	383	66	62	511
(in millions of $):				
Cost	$606			
Accumulated depreciation	251			
Net book value	$355			
Construction work in progress (included above)	$12			

Trimble County Unit 2

LG&E and KU have begun construction of a jointly-owned unit at the Trimble County site (Trimble County Unit 2). LG&E and KU own undivided interests of 14.25% and 60.75%, respectively, in the unit. Of the remaining 25% of the unit, IMEA owns a 12.12% undivided interest and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction, and fuel, operation and maintenance costs when the unit begins operation, which is expected to occur in 2010. The following data represents shares of the jointly owned property:

	Trimble County 2			
	LG&E And KU	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	562	97	91	750
(in millions of $):				
Cost	$696			
Accumulated depreciation	2			
Net book value	$694			
Construction work in progress (included above)	$682			

Note 18 - Accumulated Other Comprehensive Income

Accumulated other comprehensive income consisted of the following (in millions of $):

	Funded Status Of Pension And Postretirement Plans		Accumulated Derivative Gain or Loss		Foreign Currency Translation Adj.		Totals		
	Pretax	Tax	Pretax	Tax	Pretax	Tax	Pretax	Tax	Net
Balance at December 31, 2006	$(47)	$18	$(4)	$2	$13	$(2)	$(38)	$18	$(20)
Change in funded status of defined-benefit pension and postretirement plans	15	(6)	-	-	-	-	15	(6)	9
Gains and losses on derivative instruments designated and qualifying as cash flow hedging instruments	-	-	(7)	2	-	-	(7)	2	(5)
Foreign currency translation adjustment	-	-	-	-	9	(2)	9	(2)	7
Balance at December 31, 2007	(32)	12	(11)	4	22	(4)	(21)	12	(9)
Change in funded status of defined-benefit pension and postretirement plans	(77)	31	-	-	-	-	(77)	31	(46)
Gains and losses on derivative instruments designated and qualifying as cash flow hedging instruments	-	-	(2)	-	-	-	(2)	-	(2)
Foreign currency translation adjustment	-	-	-	-	(5)	1	(5)	1	(4)
Balance at December 31, 2008	$(109)	$43	$(13)	$4	$17	$(3)	$(105)	$44	$(61)

Note 19 - Stock Appreciation Rights and Share Performance Plan

Certain executives of the Company participated in the E.ON Stock Appreciation Rights ("SAR") program, a stock-based compensation plan based on E.ON's shares. E.ON stopped issuing SARs to officers after the 2005 grant, and all of the remaining SARs outstanding were exercised in 2007. There were no SARs outstanding at December 31, 2008, or December 31, 2007. The Company recorded no SAR expense in 2008 and it recorded SAR expense of less than $1 million in 2007.

In 2006, a new stock-based compensation system, the E.ON Share Performance Plan, was introduced, and virtual shares were granted under the Plan to certain executives of the Company for the first time. The E.ON Share Performance Plan is a stock-based compensation plan based on the value of E.ON's shares, and it entitles each participant to receive a payment at the end of a three-year period equal to a target value per share times the number of virtual shares granted. The number of virtual shares can not change during the three-year period, but the target value per share can change based on E.ON's stock price and the performance of E.ON stock during the three-year period compared to the change in the Dow Jones STOXX Utilities Index (Total Return EUR). The Company uses the fair-value method to account for the Plan. See Note 8, Fair Value Measurements.

The table below shows the number of virtual shares issued to E.ON U.S. executives and outstanding under the E.ON Share Performance Plan:

Share balance at December 31, 2006	8,725
Shares issued in 2007	6,820
Share balance at December 31, 2007	15,545
Shares issued in 2008	5,537
Share balance at December 31, 2008	21,082

Target values per virtual share issued equaled €136.26 and €96.52 in 2008 and 2007, respectively. These amounts represent values of the virtual shares when issued.

The Company recorded income of less than $1 million related to the Plan in 2008, and it recorded expense of $2 million in 2007. The decrease in expense in 2008 compared to 2007 resulted mainly from a decrease in E.ON's share price.

Note 20 – Subsequent Events

On January 13, 2009, LG&E, KU, the AG, KIUC and all other parties to the rate cases filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, LG&E's base gas rates will increase by $22 million annually, and its base electric rates will decrease by $13 million annually. KU's base electric rates will decrease by $9 million annually. An Order approving the settlement agreement was received in February 2009. The new rates were implemented effective February 6, 2009. However, in connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit, respectively, terminated, which will amount in increased revenues of approximately $21 million and $16 million for LG&E and KU, respectively, annually.

On January 27 and 28, 2009, a significant winter ice storm passed through LG&E's service territory causing approximately 205,000 customer outages, followed closely by a severe wind storm on February 11, 2009, causing approximately 37,000 customer outages. LG&E currently estimates costs incurred of $45 million of

expenses and $8 million of capital expenditures related to the restoration following the two storms. The same storms passed through KU's service territory causing approximately 199,000 customer outages from the ice storm and approximately 44,000 customer outages from the wind storm. KU currently estimates costs incurred of $66 million of expenses and $28 million of capital expenditures related to the restoration following the two storms. LG&E and KU expect to seek recovery of these costs from the Kentucky Commission.

On February 3, 2009, KU and applicable federal agencies submitted a proposed settlement and consent decree to the court in the Brown New Source Review litigation. The proposed settlement provides for, among other provisions, a $1 million civil penalty, $3 million in supplemental environmental projects, certain emissions allowance surrenders and various agreed-upon construction programs or operating limits relating to future emissions. On March 17, 2009, the Court issued a consent decree approving the settlement in the Brown New Source Review litigation.

On February 19, 2009, the court issued post-trial orders in the litigation between KU and OMU, which orders awarded KU an aggregate $9 million related to disputed NOx allowance and back-up power pricing provisions, but denied a KU claim for damages relating to the availability of the OMU units. The orders are subject to certain appeal and other procedural rights prior to becoming final.

On March 6, 2009, the Kentucky Commission issued an order approving the WKE TTA, with a tentative close date in the second quarter of 2009.

On March 19, 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial position or results of operations.

In April 2009, KU submitted a notice to the Virginia Commission indicating its intent to submit an application for increases in base electric rates. The application is anticipated to be submitted during the second quarter 2009 and use calendar year 2008 as a test year.

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Report of Independent Auditors

To the Board of Directors and Management of E.ON U.S. LLC

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of capitalization, operations, comprehensive income, retained earnings, and cash flows present fairly, in all material respects, the financial position of E.ON U.S. LLC and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 8, 2009

E.ON U.S. LLC and Subsidiaries

Consolidated Financial Statements

As of December 31, 2007 and 2006

E.ON U.S. LLC and Subsidiaries
Consolidated Financial Statements
As of December 31, 2007 and 2006

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E.ON U.S. LLC and Subsidiaries
Consolidated Financial Statements
As of December 31, 2007 and 2006

Index of Abbreviations

AG	Attorney General of Kentucky
ARO	Asset retirement obligation
BART	Best Available Retrofit Technology
Big Rivers	Big Rivers Electric Corporation
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
Capital Corp.	E.ON U.S. Capital Corp.
CCN	Certificate of Public Convenience and Necessity
Centro	Distribuidora de Gas Del Centro S.A.
Clean Air Act	The Clean Air Act, as amended in 1990
Company	E.ON U.S. LLC and Subsidiaries
CT	Combustion Turbine
Cuyana	Distribuidora de Gas Cuyana S.A.
DOE	U.S. Department of Energy
DSM	Demand Side Management
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC
E.ON U.S. Services	E.ON U.S. Services Inc.
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation Number
GAAP	Generally Accepted Accounting Principles
Gas BAN	Gas Natural BAN, S.A.
GHG	Greenhouse Gas
GSC	Gas Supply Clause
Henderson	City of Henderson, Kentucky
IBEW	International Brotherhood of Electrical Workers
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
Kwh	Kilowatt hours
LEM	LG&E Energy Marketing Inc.
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offered Rate
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator
Mw	Megawatts
NOV	Notice of Violation
NOx	Nitrogen Oxide

Index of Abbreviations (Cont.)

OCI	Other Comprehensive Income (Loss) or Accumulated Other Comprehensive Income (Loss)
OMU	Owensboro Municipal Utilities
OVEC	Ohio Valley Electric Corporation
PBR	Performance-Based Rate-making
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
SCR	Selective Catalytic Reduction
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
Trimble County	LG&E's Trimble County plant
USWA	United Steelworkers of America
VDT	Value Delivery Team
VEBA	Voluntary Employee Beneficiary Association
Virginia Commission	Virginia State Corporation Commission
WKE	Western Kentucky Energy Corp. and its Affiliates

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Operations
(Millions of $)

	Years Ended December 31	
	2007	2006
REVENUES:		
Electric utility	$2,060	$1,974
Gas utility	353	395
International and non-utility	72	76
Total revenues	2,485	2,445
OPERATING EXPENSES:		
Operation and maintenance:		
Fuel and power purchased	950	909
Gas supply expenses	255	296
Utility operation and maintenance	491	502
International and non-utility operation and maintenance	54	49
Depreciation, accretion and amortization (Note 1)	250	242
Total operating expenses	2,000	1,998
Equity in earnings of unconsolidated ventures (Note 9)	31	32
OPERATING INCOME	516	479
Other income (Note 12)	5	10
Gain on sale of Gas BAN (Note 3)	38	-
Interest expense - affiliated companies	(110)	(77)
Interest expense and preferred dividends	(46)	(67)
Minority interest (Note 2)	(13)	(12)
Income from continuing operations, before income taxes	390	333
Income tax expense (Note 11)	106	115
Income from continuing operations	284	218
Discontinued operations (Note 4):		
(Loss) income from discontinued operations	(184)	124
Income tax benefit (expense) from discontinued operations	73	(44)
(Loss) income from discontinued operations	(111)	80
NET INCOME	$173	$298

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Comprehensive Income (Note 17)
(Millions of $)

	Years Ended December 31	
	2007	2006
Net income	$173	$298
Other comprehensive (loss) income:		
Change in funded status of defined-benefit pension plans	15	(20)
Minimum pension liability adjustment	-	36
Losses on derivative instruments	(7)	5
Foreign currency translation adjustment (Note 2)	9	(4)
Income tax benefit related to items of other comprehensive income	(6)	(6)
Comprehensive income	$184	$309

Consolidated Statements of Retained Earnings
(Millions of $)

	Years Ended December 31	
	2007	2006
Balance January 1	$596	$356
Net income	173	298
Cash dividends declared on common stock	(78)	(58)
Balance December 31	$691	$596

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

E.ON U.S. LLC and Subsidiaries
Consolidated Balance Sheets
(Millions of $)

	December 31	
	2007	2006
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	$36	$33
Restricted cash (Note 1)	18	23
Accounts receivable - less reserve of $7 in 2007 and $8 in 2006 (Note 1)	372	292
Materials and supplies (Note 1):		
Fuel (predominantly coal)	88	102
Gas stored underground	81	83
Other materials and supplies	65	64
Deferred income taxes (Note 11)	12	18
Assets of discontinued operations (Note 4)	828	803
Prepayments and other current assets	18	16
Total current assets	1,518	1,434
Utility plant (Note 1):		
At original cost	9,258	8,292
Less: reserve for depreciation	3,240	3,087
Net utility plant	6,018	5,205
Other property and investments:		
Investments in unconsolidated ventures (Notes 3 and 9)	47	53
Non-utility property and plant, net of accumulated depreciation of $57 in 2007 and $49 in 2006	44	45
Other	7	8
Total other property and investments	98	106
Regulatory assets - pension and postretirement benefits (Note 6)	138	190
Regulatory assets - other (Note 6)	181	177
Goodwill (Note 1)	4,136	4,136
Unamortized debt expense (Note 1)	17	14
Restricted cash (Note 1)	12	16
Other long-term assets	55	37
Total deferred debits and other assets	4,539	4,570
Total assets	$12,173	$11,315

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

E.ON U.S. LLC and Subsidiaries
Consolidated Balance Sheets (Continued)
(Millions of $)

	December 31	
	2007	2006
LIABILITIES AND MEMBER'S EQUITY:		
Current liabilities:		
Current portion of long-term debt (Note 13)	$177	$387
Current portion of long-term debt - affiliated company (Notes 5 and 13)	-	75
Notes payable - affiliated company (Notes 5 and 14)	62	102
Accounts payable	305	223
Accrued taxes	-	34
Customer deposits	39	37
Liabilities of discontinued operations (Note 4)	901	810
Other current liabilities	129	110
Total current liabilities	1,613	1,778
Long-term debt - affiliated companies (Notes 5 and 13)	2,446	1,538
Long-term debt (Note 13)	756	574
Preferred shares subject to mandatory redemption (Note 13)	-	19
Total long-term debt	3,202	2,131
Accumulated deferred income taxes (Note 11)	469	515
Investment tax credit (Note 11)	101	54
Accumulated provision for pensions and related benefits (Note 10)	278	406
Asset retirement obligations (Note 6)	60	57
Regulatory liability - accumulated cost of removal (Note 6)	551	530
Regulatory liability - other (Note 6)	102	122
Other long-term liabilities	83	52
Total deferred credits and other liabilities	1,644	1,736
Minority interest (Note 2)	34	96
Member's equity	5,680	5,574
Total liabilities and member's equity	$12,173	$11,315

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Cash Flows
(Millions of $)

	Years Ended December 31	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$173	$298
Items not requiring cash currently:		
Depreciation and amortization	250	242
Deferred income taxes - net (Note 11)	(54)	(9)
Investment tax credit - net (Note 11)	47	10
VDT amortization	-	10
Undistributed earnings of unconsolidated ventures (Note 9)	(9)	(9)
Loss (income) from discontinued operations – net of tax (Note 4)	111	(80)
Gain on sale of Gas BAN (Note 3)	(38)	-
Other	7	5
Change in certain net current assets and liabilities:		
Accounts receivable	(105)	5
Materials and supplies	15	32
Accounts payable	67	(21)
Accrued taxes and interest	(28)	26
Prepayments and other	1	(7)
Pension and postretirement funding	(116)	(45)
Net operating cash flows from discontinued operations	(28)	(76)
Other	6	72
Net cash flows provided by operating activities	299	453
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of property	4	9
Construction expenditures	(937)	(499)
Construction expenditures - discontinued operations	(17)	(16)
Proceeds from sales of investments in unconsolidated ventures (Note 3)	54	27
Net cash flows used by investing activities	(896)	(479)

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
(Millions of $)

	Years Ended December 31	
	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease (increase) in restricted cash	9	(7)
Issuance of long-term debt (Note 13)	207	34
Retirement of long-term debt (Note 13)	(234)	(310)
Borrowings from affiliates (Notes 5 and 14)	2,388	1,715
Repayment of borrowings from affiliates (Notes 5 and 14)	(1,595)	(1,337)
Redemption of preferred stock (Note 13)	(74)	-
Retirement of mandatorily redeemable preferred shares (Note 13)	(20)	(1)
Distributions to minority interests	(6)	(7)
Payment of common dividends	(78)	(58)
Net cash flows provided by financing activities	597	29
Change in cash and cash equivalents	-	3
Effect of exchange rates on cash and equivalents	3	(2)
Beginning cash and cash equivalents	33	32
Ending cash and cash equivalents	$36	$33
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	$130	$70
Interest on borrowed money - external	38	36
Interest on borrowed money - affiliates	102	87

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Capitalization
(Millions of $)

	December 31	
	2007	2006
MEMBER'S EQUITY:		
Common stock, without par value -		
Authorized 300,000,000 shares, outstanding		
129,677,030 shares	$777	$777
Common stock expense	(3)	(3)
Additional paid-in capital	4,224	4,224
Accumulated other comprehensive loss (Note 17)	(9)	(20)
Retained earnings	691	596
Total member's equity	5,680	5,574

CUMULATIVE PREFERRED STOCK:

	Shares Outstanding	Current Redemption Price		
Cumulative and redeemable on 30 days notice by Louisville Gas and Electric Company:				
$25 par value, 1,720,000 shares authorized -5% series	-	-	-	21
No par value, 6,750,000 shares authorized -- auction rate (a)	-	-	-	49
Total cumulative preferred stock (included in minority interest)			-	70

(a) LG&E has authorized 6,750,000 preferred shares for issuance in any series.

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Capitalization (Continued)
(Millions of $)

	December 31	
	2007	2006
LONG-TERM DEBT (Note 13):		
Louisville Gas and Electric Company:		
Pollution control series -		
S due September 1, 2017, variable	-	31
T due September 1, 2017, variable	-	60
U due August 15, 2013, variable	-	35
Jefferson Co. 2000 Series A, due May 1, 2027, variable %	25	25
Trimble Co. 2000 Series A, due August 1, 2030, variable %	83	83
Jefferson Co. 2001 Series A environmental facilities bonds, due September 1, 2027, variable %	10	10
Jefferson Co. 2001 Series A pollution control bonds, due September 1, 2026, variable %	23	23
Trimble Co. 2001 Series A, due September 1, 2026, variable %	28	28
Jefferson Co. 2001 Series B, due November 1, 2027, variable %	35	35
Trimble Co. 2001 Series B, due November 1, 2027, variable %	35	35
Trimble Co. 2002 Series A, due October 1, 2032, variable %	42	42
Louisville Metro 2003 Series A, due October 1, 2033, variable %	128	128
Louisville Metro 2005 Series A, due February 1, 2035, variable %	40	40
Trimble Co. 2007 Series A, due June 1, 2033, 4.60%	60	-
Louisville Metro 2007 Series B, due June 1, 2033, variable %	35	-
Louisville Metro 2007 Series A, due June 1, 2033, variable %	31	-
Total LG&E bonds	575	575
Due to affiliates -		
Fidelia, due November 26, 2022, 5.72%, unsecured	47	-
Fidelia, due April 13, 2031, 5.93%, unsecured	67	-
Fidelia, due April 13, 2037, 5.98%, unsecured	70	-
Fidelia, due April 30, 2013, 4.55%, unsecured	100	100
Fidelia, due August 15, 2013, 5.31%, unsecured	100	100
Fidelia, due January 16, 2012, 4.33%, unsecured	25	25
Total LG&E due to affiliates	409	225
Preferred shares subject to mandatory redemption -without par value -		
$5.875 series (200,000 shares outstanding in 2006)	-	20
Total LG&E debt outstanding	984	820

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Capitalization (Continued)
(Millions of $)

	December 31	
	2007	2006
LONG-TERM DEBT - cont. (Note 13):		
Kentucky Utilities Company:		
First mortgage bonds:		
Series P due May 15, 2007, 7.92%	-	54
Pollution control series:		
Series 10, due November 1, 2024, variable %	-	54
Mercer Co. 2000 Series A, due May 1, 2023, variable %	13	13
Carroll Co. 2002 Series A, due February 1, 2032, variable %	21	21
Carroll Co. 2002 Series B, due February 1, 2032, variable %	2	2
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %	2	2
Mercer Co. 2002 Series A, due February 1, 2032, variable %	8	8
Carroll Co. 2002 Series C, due October 1, 2032, variable %	96	96
Carroll Co. 2004 Series A, due October 1, 2034, variable %	50	50
Carroll Co. 2005 Series A, due June 1, 2035, variable %	13	13
Carroll Co. 2005 Series B, due June 1, 2035, variable %	13	13
Carroll Co. 2006 Series A, due June 1, 2036, variable %	17	17
Carroll Co. 2006 Series C, due June 1, 2036, variable %	17	17
Carroll Co. 2007 Series A, due February 1, 2026, variable %	18	-
Carroll Co. 2006 Series B, due October 1, 2034, variable %	54	-
Trimble Co. 2007 Series A, due March 1, 2037, variable %	9	-
Total KU bonds	333	360
Due to affiliates -		
Fidelia, due April 30, 2013, 4.55%, unsecured	100	100
Fidelia, due August 15, 2013, 5.31%, unsecured	75	75
Fidelia, due November 24, 2010, 4.24%, unsecured	33	33
Fidelia, due January 16, 2012, 4.39%, unsecured	50	50
Fidelia, due July 8, 2015, 4.735%, unsecured	50	50
Fidelia, due December 21, 2015, 5.36%, unsecured	75	75
Fidelia, due October 25, 2016, 5.675%, unsecured	50	50
Fidelia, due June 23, 2036, 6.33%, unsecured	50	50
Fidelia, due December 19, 2014, 5.45%, unsecured	100	-
Fidelia, due June 20, 2017, 5.98%, unsecured	50	-
Fidelia, due October 25, 2019, 5.71%, unsecured	70	-
Fidelia, due February 7, 2022, 5.69%, unsecured	53	-
Fidelia, due September 14, 2028, 5.96%, unsecured	100	-
Fidelia, due March 30, 2037, 5.86%, unsecured	75	-
Total KU due to affiliates	931	483
Total KU debt outstanding	1,264	843

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

E.ON U.S. LLC and Subsidiaries
Consolidated Statements of Capitalization (Continued)
(Millions of $)

	December 31	
	2007	2006
LONG-TERM DEBT - cont. (Note 13):		
E.ON U.S. Capital Corp.:		
Medium term notes, due January 15, 2008, 6.46%	24	24
Medium term notes, due November 1, 2011, 7.47%	1	1
Total Capital Corp. debt outstanding	25	25
E.ON U.S. LLC:		
Due to affiliates -		
Fidelia, due January 6, 2009, 3.98%	50	50
Fidelia, due April 30, 2010, 4.64%	150	150
E.ON North America, due October 27, 2014, 4.63%	50	50
Fidelia, due December 20, 2009, 4.07%	75	75
Fidelia, due December 19, 2007, variable	-	75
Fidelia, due November 19, 2012, variable	75	75
Fidelia, due February 17, 2009, variable	80	80
Fidelia, due July 5, 2011, variable	300	300
Fidelia, due December 20, 2016, variable	50	50
Fidelia, due November 26, 2009, variable	50	-
Fidelia, due December 19, 2012, 5.52%	100	-
Fidelia, due June 20, 2014, variable	50	-
Fidelia, due April 25, 2017, 5.71%	76	-
Total E.ON U.S. LLC debt outstanding	1,106	905
Total outstanding	3,379	2,593
Less current portion of long-term debt	177	462
Long-term debt	3,202	2,131
Total capitalization	$9,059	$8,237

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

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation. E.ON U.S. is an indirect wholly-owned subsidiary of E.ON, a German corporation. The consolidated financial statements include the accounts of E.ON U.S., LG&E, KU, LEM, E.ON U.S. Services and Capital Corp., and its wholly owned subsidiaries. E.ON U.S. is the holding company for LG&E, KU, Capital Corp., LEM, and E.ON U.S. Services. E.ON and E.ON U.S. are registered as holding companies under PUHCA 2005 and were formerly registered holding companies under PUHCA 1935. E.ON U.S. is referred to herein as the Company.

LG&E and KU are regulated public utilities engaged in the generation, transmission, distribution and sale of electric energy. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name.

Capital Corp. is the primary holding company for the Company's non-utility businesses. Its businesses include:

- *WKE and affiliates.* WKE has a 25-year lease of and operates the generating facilities of Big Rivers, a power generation cooperative in western Kentucky, and a coal-fired facility owned by Henderson. The Company classified WKE as discontinued operations effective December 31, 2005. See Note 4, Discontinued Operations.

- *Argentine Gas Distribution.* Through its Argentine Gas Distribution operations, Capital Corp. owns interests in entities which distribute natural gas to approximately one million customers in Argentina through two distribution companies (Centro and Cuyana). Capital Corp. owned an interest in a third entity, Gas BAN, until it sold the interest in June 2007. See Note 3, Sales of Assets.

LEM engages in asset-based energy marketing, which primarily involves the marketing of power generated by non-utility physical assets controlled by E.ON U.S. and its affiliates.

E.ON U.S. Services provides certain services to affiliated entities, including E.ON U.S., LG&E, KU, Capital Corp. and LEM, at cost, as permitted under PUHCA 2005.

Consolidation. The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated. Investments in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies, are accounted for by the equity method. The Company consolidates its investment in Centro and uses minority interests to reflect the portion of Centro not owned by the Company.

Goodwill. The Company decreased its goodwill balance by $55 million (net of tax) in December 2006. The decrease was necessary to reflect regulatory-asset treatment under SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, for the recognition of unfunded pension and postretirement liabilities and to reflect adjustments to accumulated other comprehensive income in accordance with SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*

The annual testing of goodwill for impairment, as required by SFAS No. 142, *Goodwill and Other Intangible Assets*, is carried out in the fourth quarter of each year. This testing indicated no impairment in 2007.

Regulatory Accounting. LG&E and KU are subject to SFAS No. 71, under which regulatory assets are created

based on expected recovery from customers in future rates to defer costs that would otherwise be charged to expense. Likewise, regulatory liabilities are created based on expected return to customers in future rates to defer credits that would otherwise be reflected as income, or, in the case of costs of removal, are created to match long-term future obligations arising from the current use of assets. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each item as prescribed by the FERC, the Kentucky Commission or the Virginia Commission. See Note 6, Utility Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Cash and Cash Equivalents. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value. Cash equivalents are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of interest rate changes.

Restricted Cash. Current restricted cash mainly represents proceeds of $11 million from bond issuances at KU for environmental equipment (primarily related to the installation of FGDs) held in trust pending expenditure for qualifying assets, and an advance deposit at LG&E of $7 million from the Louisville Arena Authority for equipment purchases related to relocating transmission facilities. Long-term restricted cash consists of a deposit of $12 million at LG&E used as collateral for an $83 million interest-rate swap expiring in 2020.

Allowance for Doubtful Accounts. LG&E's and KU's allowances are based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged off after four months, although collection efforts continue thereafter. Non-utility allowances generally equal the total of all residential and commercial balances over one year old and all large-customer balances over ninety days old.

Materials and Supplies. Fuel, natural gas stored underground and other materials and supplies inventories are accounted for using the average-cost method. Emission allowances are included in other materials and supplies at cost and are not traded by LG&E or KU. At December 31, 2006, emission allowances inventories equaled $2 million.

Financial Instruments. The Company uses over-the-counter interest-rate swap agreements to hedge its exposure to fluctuations in interest rates and in the value of its long-term debt. Gains and losses on interest-rate swaps used to hedge interest rate risk are reflected in other comprehensive income. Gains and losses resulting from ineffectiveness are shown in other income (expense) and to the extent that the hedging relationship has been effective, gains and losses are reflected in other comprehensive income.

The Company uses forward financial transactions to hedge price risk and to maximize the value of power sales from physical assets it owns. These transactions are accounted for on a mark-to-market basis in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Prior to the MISO establishing its Day 2 energy market in April 2005, wholesale forward transactions were treated as normal sales under SFAS No. 133, as amended, and were not marked to market. See Note 7, Financial Instruments.

Unamortized Debt Expense. Debt expense is capitalized and amortized using the straight-line method, which approximates the effective interest method, over the lives of the related bond issues.

Utility Plant. Utility plant at original cost consisted of the following at December 31, (in millions of $):

	2007	2006
Electric	$7,114	$6,880
Gas	551	527
Common	177	180
Total excluding construction in progress	7,842	7,587
Construction in progress	1,416	705
Total	$9,258	$8,292

LG&E's and KU's utility plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits, and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates in Kentucky. Neither LG&E nor KU has recorded any significant allowance for funds used during construction.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost is charged to the reserve for depreciation. When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation, and gains and losses, if any, are recognized.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, when a long-lived asset's carrying amount exceeds its fair value. In such cases, the carrying value of such an impaired asset is written down to its fair value. If necessary, the remaining useful life of the asset is correspondingly revised. No impairment charges for utility plant were required to be recognized in 2007 or 2006.

Depreciation and Amortization. Utility depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided for LG&E equaled 3.2% in 2007 and in 2006, and the amounts provided for KU equaled 3.2% in 2007 and 3.1% in 2006.

Non-Utility Property and Plant. Non-utility property, plant and equipment is depreciated over periods averaging 36 years using the straight-line method.

Income Taxes. Income taxes are accounted for under SFAS No.109, *Accounting for Income Taxes* and FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109.* In accordance with these statements, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are transactions for which the ultimate tax outcome is uncertain. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Uncertain tax positions are analyzed periodically and adjustments are made when events occur to warrant a change. See also Note 11, Income Taxes, for additional tax information.

Accumulated Deferred Income Taxes. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities. See Note 11, Income Taxes.

Investment Tax Credit. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally-responsible manner. KU and LG&E received investment tax credits related to TC2. For more details, see Note 11, Income Taxes.

Investment tax credits prior to 2006 resulted from provisions of the tax law that permitted a reduction of the Company's tax liability based on credits for certain construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Utility revenues are recorded based on service rendered to customers through month-end. LG&E and KU accrue estimates for unbilled revenues from each meter reading date to the end of the accounting period based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. The unbilled revenue estimates included in accounts receivable for both LG&E and KU at December 31, 2007 and 2006, were approximately $124 million and $95 million, respectively. Non-utility revenues are recorded based on when the service is rendered to customers. Unbilled revenues for the non-utility businesses are accrued based on the difference between the volume of gas delivered to the distribution system during the period and the volume of gas billed to customers.

Fuel and Gas Costs. The cost of fuel for electric generation is charged to expense as used, and the cost of natural gas supply is charged to expense as delivered to the distribution system. LG&E operates under a Kentucky Commission-approved performance-based rate-making mechanism related to natural gas procurement and off-system gas sales activity. See Note 6, Utility Rates and Regulatory Matters.

Operation and Maintenance. The cost for operation and maintenance expenses are recorded as the expenses are incurred.

Allocation of Intercompany Interest to Discontinued Operations. The Company allocates intercompany interest to discontinued operations based on Capital Corp.'s weighted-average cost of capital.

Management's Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accrued liabilities, including legal and environmental, are recorded when they are reasonable and estimable. Actual results could differ from those estimates.

Reclassifications. Certain reclassification entries have been made to the previous years' financial statements to conform to the 2007 presentation with no impact on previously-reported total assets, total liabilities and member's equity, cash flows or net income.

Recent Accounting Pronouncements. The following accounting pronouncements were issued that affected the Company:

FIN 48

In July 2006, the FASB issued FIN 48, which clarifies the accounting for the uncertainty of income tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for*

Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition based on the determination of whether it is "more likely than not" that a tax position will be sustained upon examination. The second step is to measure a tax position that meets the "more likely than not" threshold. The tax position is measured as the amount of potential benefit that exceeds 50% likelihood of being realized.

FIN 48 was adopted by the Company effective January 1, 2007. The impact of FIN 48 on the Company's statements of operations, financial position, and cash flows was less than $1 million.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No.157*, which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, the Company will provide additional disclosures relating to its financial derivatives, AROs and pension assets as required in 2008.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 was adopted effective January 1, 2008, and had no impact on the statements of operations, financial position and cash flows.

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards that require that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS No. 160 also requires that any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value when a subsidiary is deconsolidated. SFAS No. 160 also sets forth the disclosure requirements to identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is

effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS No. 160 must be applied prospectively as of the beginning of the fiscal year in which SFAS No. 160 is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements are applied retrospectively for all periods presented. The Company does not anticipate that the initial application of SFAS No. 160 will have a materially adverse impact on the Company.

Note 2 - Argentine Investments

The Company owns interests in two gas distribution companies in Argentina: 45.9% of Centro and 14.4% of Cuyana. These two entities serve a combined customer base of approximately one million customers. The interests in Centro and Cuyana were purchased in 1997. The Company owned a 19.6% interest in a third entity, Gas BAN, until it sold the interest in June 2007 (see Note 3, Sales of Assets). The Centro investment is consolidated due to the Company's majority ownership in the holding company of Centro. The Company recorded minority interest of $34 million and $26 million at December 31, 2007 and 2006, respectively, related to Centro. The Cuyana and Gas BAN investments are accounted for using the equity method due to the ownership influence the Company exerts on the businesses despite its minority ownership interests.

The Company recognizes translation charges in other comprehensive income. These charges relate to the translation of the functional-currency financial statements of the Argentine investments into the Company's reporting currency. The translation at December 31, 2007, was performed using an exchange rate of 3.150 Argentine pesos to one U.S. dollar for assets and liabilities and an average exchange rate of 3.116 Argentine pesos to one U.S. dollar for income statement amounts. The translation at December 31, 2006, was performed using an exchange rate of 3.067 Argentine pesos to one U.S. dollar for assets and liabilities and an average exchange rate of 3.074 Argentine pesos to one U.S. dollar for income statement amounts. The amounts recorded in accumulated OCI at December 31, 2007 and 2006, totaled $22 million and $13 million, respectively.

Argentine law requires that every Argentine company retain 5% of its Argentine GAAP net income until total legal reserves equal 20% of the value of the Argentine company's common stock and additional paid in capital. Legal Reserves held in Argentina for the Argentine companies in which Capital Corp. had direct or indirect ownership interests equaled approximately $10 million and $9 million as of December 31, 2007 and 2006, respectively. These amounts satisfied the legal requirements at December 31, 2007 and 2006.

Note 3 - Sales of Assets

In June 2007, the Company sold its 19.6% interest in Gas BAN for $54 million, and recognized a pretax gain on the sale of $38 million.

In June 2006, the Company sold its 50% ownership interest in a 209 MW coal-fired facility in Roanoke Valley, North Carolina, and sold its remaining operations and maintenance contracts relating to the North Carolina plant along with four independent power generation facilities contracts for total consideration of $27 million. In December 2005, an impairment charge of $5 million was recorded, and at the time of the sale in 2006, an additional $2 million loss was recorded.

Note 4 - Discontinued Operations

In November 2005, E.ON U.S. and Big Rivers signed a non-binding letter of intent to sell certain assets and terminate the leasing arrangement under which the Company, through its WKE subsidiary, leases the generating assets of Big Rivers, sells power to Big Rivers through December 31, 2023, and provides power to two smelters

through December 31, 2010 and 2011, respectively. WKE operates nine coal fired facilities and a combustion turbine owned by Big Rivers and operates and maintains a coal fired facility owned by the City of Henderson. The transaction would also result in the termination of WKE's obligation to operate facilities owned by Big Rivers and to operate and maintain the City of Henderson facility. On March 26, 2007, E.ON U.S., applicable subsidiaries, and Big Rivers executed a Transaction Termination Agreement and related documents which remain subject to a number of conditions precedent and third party consents. During 2007, the parties entered into a number of definitive agreements and ancillary documents relating to the transaction. At December 31, 2007, the parties were negotiating additional definitive termination documents and were targeting closing the transaction during 2008. The closing of the proposed transaction is subject to the review and approval of various regulatory agencies and other interested parties. The Company has reported the WKE operations as discontinued operations in the accompanying financial statements.

The tables below provide selected financial information from the WKE discontinued operations as of December 31, and for the twelve months then ended (in millions of $):

	2007	2006
Revenues	$279	$286
(Loss) income before taxes	(184)	124
Income tax benefit (expense)	73	(44)
Net (loss) income	$(111)	$80

	2007	2006
Assets:		
Current assets	$159	$172
Property, plant and equipment	281	265
Lease intangible	117	117
Deferred income taxes	254	232
Other	17	17
Total assets	$828	$803
Liabilities:		
Sales contract liability	$832	$746
Other	69	64
Total liabilities	$901	$810

The power sales contracts with Big Rivers and the two smelters had previously been eligible for the normal sales exclusion under SFAS No. 133, as amended, since the Company planned to provide the power from the leased assets through the term of the respective contracts. Because the contracts are no longer expected to result in physical delivery through the term of the contracts, they are no longer eligible for the normal sales exclusion and are now marked to modeled market prices under SFAS No. 133, as amended. The Company uses modeled prices based on market trends to value the contracts due to the lack of market liquidity through the remaining term of the contracts.

Pursuant to the March 26, 2007, Transaction Termination Agreement, upon completion of the proposed transaction, WKE will transfer control of relevant assets currently under lease back to Big Rivers, transfer certain personal property, including additions to the assets under lease and inventories (fuel, emission allowance, and materials and supplies), and make a negotiated cash payment to Big Rivers. Also upon

completion of the transaction, the outstanding balance on an original $20 million note payable from Big Rivers to WKE, entered into at the inception of the leasing arrangement in July 1998, will be forgiven. The note is payable in monthly installments of $151,859, including principal and interest at 8%, over the life of the lease term. The balance of the note equaled $16.2 million and $16.7 million at December 31, 2007 and 2006, respectively.

Note 5 – Related Party Transactions

The Company had the following balances with E.ON and its affiliates as of December 31, (in millions of $):

	2007	2006
Current accounts payable	$23	$16
Notes payable	62	102
Long-term debt	2,446	1,613

The Company also recorded interest expense to E.ON and its affiliates of $110 million and $77 million in 2007 and 2006, respectively. See Note 13, Long-Term Debt, and Note 14, Notes Payable.

Note 6 - Utility Rates and Regulatory Matters

LG&E and KU are subject to the jurisdiction of the Kentucky Commission and the FERC, and KU is further subject to the jurisdiction of the Virginia Commission and the Tennessee Regulatory Authority. These regulators have the ability to examine the rates LG&E and KU charge their jurisdictional customers at any time. As regulated entities, LG&E's and KU's accounting is subject to SFAS No. 71.

Electric and Gas Rate Cases. In December 2003, LG&E and KU filed applications with the Kentucky Commission requesting adjustments in LG&E's electric and natural gas rates and KU's electric rates. The revenue increases requested were $64 million and $58 million for electric (for LG&E and KU, respectively), $19 million for natural gas (for LG&E). In June 2004, the Kentucky Commission issued an Order approving increases in LG&E's electric base rates of approximately $43 million (8%) and natural gas base rates of approximately $12 million (3%). At the same time, the Kentucky Commission also issued an Order approving an increase in KU's base rates of approximately $46 million (7%). The rate increases took effect on July 1, 2004.

Final proceedings took place during the first quarter of 2006 concerning the sole remaining open issue relating to state income tax rates used in calculating all of the granted rate increases. On March 31, 2006, the Kentucky Commission issued an Order resolving this issue in LG&E's and KU's favor consistent with the original rate increase order.

Regulatory Assets and Liabilities. The following regulatory assets and liabilities were included in the consolidated balance sheets as of December 31, (in millions of $):

	2007	2006
Asset retirement obligations	$48	$44
MISO exit fee	33	33
Unamortized loss on bonds	29	30
Fuel adjustment clause	26	20
ECR	15	19
GSC adjustments	16	21
Other	14	10
Subtotals	181	177
Pension and postretirement benefits	138	190
Total regulatory assets	319	367
Deferred income taxes – net	(72)	(80)
GSC adjustments	(10)	(31)
Other	(20)	(11)
Subtotals	(102)	(122)
Cost of removal of utility plant	(551)	(530)
Total regulatory liabilities	$(653)	$(652)

LG&E does not currently earn a rate of return on GSC adjustments, FAC, and gas performance-based ratemaking regulatory assets, all of which are separate recovery mechanisms with recovery within twelve months. KU does not earn a rate of return on its FAC regulatory asset, which also is a separate recovery mechanism with recovery within twelve months. LG&E and KU do not earn returns on their pension and postretirement benefits regulatory assets, which represent the changes in funded status of the plans that they will seek recovery of in future proceedings with the Kentucky and Virginia Commissions. No return is currently earned by either LG&E or KU on their ARO assets. These regulatory assets will be offset against the associated regulatory liabilities, ARO assets and ARO liabilities at the time the underlying assets are retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. LG&E and KU will seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. LG&E and KU currently earn rates of return on the remaining regulatory assets. Other regulatory assets include VDT costs, the merger surcredit, gas performance based ratemaking, Mill Creek Ash Pond costs, and deferred storm costs. Other regulatory liabilities include DSM and MISO costs included in base rates that will be netted against costs of withdrawing from the MISO in the next rate case.

PUHCA. E.ON, the Company's ultimate parent, is a registered holding company under PUHCA 2005 and was a registered holding company under PUHCA 1935. E.ON, E.ON U.S., LG&E, KU, and certain of the Company's non-utility subsidiaries are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. E.ON U.S. believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

ARO. A summary of LG&E's and KU's net ARO assets, regulatory assets, liabilities and cost of removal established under FIN 47, *Accounting for Conditional Asset Retirement Obligations - an Interpretation of SFAS No. 143*, and SFAS No. 143, *Accounting for Asset Retirement Obligations*, follows:

	ARO Net Assets	ARO Liabilities	Regulatory Assets	Regulatory Liabilities	Accum Cost Of Removal	Cost of Removal Depreciation
As of December 31, 2005	$10	$(54)	$40	$(2)	$5	$1
ARO accretion	-	(3)	3	-	-	-
ARO depreciation	(1)	-	1	-	-	-
As of December 31, 2006	9	(57)	44	(2)	5	1
ARO accretion	-	(4)	4	-	-	-
Removal cost incurred	-	1	-	-	-	-
As of December 31, 2007	$9	$(60)	$48	$(2)	$5	$1

Pursuant to regulatory treatment prescribed under SFAS No. 71, offsetting regulatory credits were recorded in depreciation and amortization in the income statement of $2 million in 2007 and 2006 for LG&E and KU, respectively, for the ARO accretion and depreciation expense. LG&E AROs are primarily related to the final retirement of assets associated with generating units and natural gas wells. KU's AROs are primarily related to the final retirement of assets associated with generating units. For assets associated with AROs, the removal cost accrued through depreciation under regulatory accounting is established as a regulatory liability pursuant to regulatory treatment prescribed under SFAS No. 71. There were no FIN 47 net asset additions at either utility during 2007. FIN 47 net asset additions during 2006 were less than $1 million at either utility. For the years ended December 31, 2007 and 2006, LG&E and KU each recorded less than $1 million of depreciation expense related to the cost of removal of ARO related assets. Offsetting regulatory liabilities were established pursuant to regulatory treatment prescribed under SFAS No. 71.

LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under SFAS No. 143, no material asset retirement obligations are recorded for transmission and distribution assets.

GSC Adjustments. LG&E's natural gas rates contain a GSC, whereby increases or decreases in the cost of natural gas supply are reflected in LG&E's rates, subject to approval by the Kentucky Commission. The GSC procedure prescribed by Order of the Kentucky Commission provides for quarterly rate adjustments to reflect the expected cost of natural gas supply in that quarter. In addition, the GSC contains a mechanism whereby any over- or under-recoveries of natural gas supply cost from prior quarters is to be refunded to or recovered from customers through the adjustment factor determined for subsequent quarters.

LG&E's GSC was modified in 1997 to incorporate a natural gas procurement incentive mechanism. Since November 1, 1997, LG&E has operated under this PBR mechanism related to its natural gas procurement activities. LG&E's rates are adjusted annually to recover (or refund) its portion of the expense (or savings) incurred during each PBR year (12 months ending October 31). During the PBR year ending in 2007, LG&E achieved $10 million in savings. Of that total savings amount, LG&E's portion was approximately $2 million and the ratepayers' portion was approximately $8 million. Pursuant to the extension of LG&E's natural gas supply cost PBR mechanism effective November 1, 2001, the sharing mechanism under the PBR requires savings (and expenses) to be shared 25% with shareholders and 75% with ratepayers up to 4.5% of the benchmarked natural gas costs. Savings (and expenses) in excess of 4.5% of the benchmarked natural gas costs

are shared 50% with shareholders and 50% with ratepayers. The current natural gas supply cost PBR mechanism was extended through 2010 without further modification.

MISO Exit. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, LG&E and KU withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since the exit from the MISO, LG&E and KU have been operating under a FERC-approved open access-transmission tariff. LG&E and KU now contract with the Tennessee Valley Authority to act as its transmission Reliability Coordinator and Southwest Power Pool, Inc. to function as Independent Transmission Organization, pursuant to FERC requirements.

LG&E and KU and the MISO have agreed upon overall calculation methods for the contractual exit fees to be paid following their withdrawal. In October 2006, LG&E and KU paid approximately $13 million and $20 million, respectively, to the MISO pursuant to invoices regarding their exit fees and made related FERC compliance filings. LG&E and KU's payments of these exit-fee amounts were with reservation of their rights to contest the amounts, or components thereof, following a continuing review of their calculations and supporting documentation. In December 2006, LG&E and KU provided notice to the MISO of their disagreement with the calculations of the exit fees. LG&E and KU and the MISO have resolved their dispute regarding the calculations of the exit fees and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provides LG&E and KU with an immediate recovery of approximately $1 million for each utility and will provide an estimated $2 million and $3 million for LG&E and KU, respectively, over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving LG&E's and KU's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in LG&E's and KU's next rate cases, however, the utilities historically have received approval to recover and refund regulatory assets and liabilities.

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

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges.

In January 2008, the Kentucky Commission initiated a routine examination of LG&E's and KU's FAC for the six-month period May 1, 2007 through October 31, 2007. Data discovery is ongoing and a public hearing was held in March 2008. An order is anticipated in the second quarter of 2008.

In August 2007, the Kentucky Commission initiated routine examinations of LG&E's and KU's FACs for the six-month period of November 1, 2006 through April 30, 2007. Data discovery has concluded and a public hearing was held in October 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

In December 2006, the Kentucky Commission initiated its periodic two-year review of LG&E's and KU's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates for November 1, 2004 through October 31, 2006. In March 2007, the KIUC challenged LG&E's and KU's recoveries of approximately $1 million and $5 million, respectively, in aggregate fuel costs LG&E and KU incurred during a period prior to their exit from the MISO and requested the Kentucky Commission disallow these amounts. A public hearing was held in May 2007. In October 2007, the Kentucky Commission issued its Order approving the calculation and application of LG&E's and KU's FAC charges and fuel procurement practices and indicated that LG&E and KU were in compliance with the provisions of Administrative Regulation 807 KAR 5:5056. The Kentucky Commission further approved LG&E's and KU's recommendation for the transfer of fuel cost from the FAC to base rates. In November 2007, the KIUC filed a petition for rehearing, claiming the Kentucky Commission misinterpreted the KIUC's arguments in the proceeding. In the same month, the Kentucky Commission issued an Order denying the KIUC's request for rehearing. An appeal was not filed by the KIUC.

In July 2006, the Kentucky Commission initiated a six-month review of the FAC for LG&E and KU for the period of November 1, 2005 through April 30, 2006. The Kentucky Commission issued an Order in November 2006, approving the charges and credits billed through the FAC during the review period.

In January 2003, the Kentucky Commission reviewed KU's FAC for the six-month period ended October 31, 2001. The Kentucky Commission ordered KU to reduce its fuel costs for purposes of calculating its FAC by less than $1 million. At issue was the purchase of approximately 102,000 tons of coal from Western Kentucky Energy Corp., a non-regulated affiliate, for use at KU's Ghent facility. The Kentucky Commission further ordered that an independent audit be conducted to examine operational and management aspects of both LG&E's and KU's fuel procurement functions. The final report's recommendations, issued in February 2004, related to documentation and process improvements. Management Audit Action Plans were agreed upon by LG&E and KU and the Kentucky Commission Staff in the second quarter of 2004, and resulted in Audit Progress Reports being filed by LG&E and KU with the Kentucky Commission. In February 2007, the Kentucky Commission staff indicated that LG&E and KU fully complied with all audit recommendations and that no further reports are required.

KU also employs a FAC mechanism for Virginia customers that uses an average fuel cost factor based primarily on projected fuel costs. The fuel cost factor may be adjusted annually for over or under collections of fuel costs from the previous year. In February 2007, KU filed an application with the Virginia Commission seeking approval of an increase of approximately $4 million in its fuel cost factor to reflect higher fuel costs incurred and under-collected during 2006, and anticipated higher fuel costs to be incurred in 2007. The Virginia Commission approved KU's request in April 2007. In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease of 0.599 cents/KWh in its fuel cost factor applicable during the billing period April 2008 through March 2009. The decrease was requested because KU has fully recovered its under-recovered fuel expenses from the prior periods.

Unamortized Loss on Bonds. For LG&E and KU, the costs of early extinguishment of debt, including call premiums, legal and other expenses, and any unamortized balance of debt expense are amortized using the straight line method, which approximates the effective interest method, over the life of either replacement debt (in the case of refinancing) or the original life of the extinguished debt.

ECR. Kentucky law permits LG&E and KU to recover the costs of complying with the Federal Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending

October 31, 2006 and April 30, 2007, respectively, of LG&E's and KU's environmental surcharge. Data discovery concluded in December 2007, and all parties to the case submitted requests with the Kentucky Commission to waive rights to a hearing on this matter. The Kentucky Commission issued final Orders on March 28, 2008, approving the charges and credits billed through the ECR during the review period , as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

In June 2006, LG&E and KU filed applications to amend their ECR plans with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Company's generating facilities. As part of its filing, KU also applied for a CCN to construct a SCR at the Ghent station. The estimated capital cost of the upgrades for the years 2008 through 2010 is approximately $40 million and $125 million for LG&E and KU, respectively, of which approximately $30 million and $115 million, respectively, are for the Air Quality Control System at TC2. A final Order was issued by the Kentucky Commission in December 2006, approving all expenditures and investments as submitted. In October 2007, KU met with the Kentucky Commission and other interested parties to discuss the status of the Ghent Unit 2 SCR construction. KU informed the Kentucky Commission that construction of the Ghent Unit 2 SCR was not going to commence before the CCN expired in December 2007, due to a change in the economics for the project. The CCN expired in December 2007, and KU has delayed construction of the Ghent Unit 2 SCR.

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of KU's environmental surcharge for six-month periods ending July 2003, January 2004, January 2005, July 2005 and January 2006 and for the two-year period ending July 2004. At the same time, the Kentucky Commission initiated six-month and two-year reviews of LG&E's environmental surcharge for six-month periods ending October 2003, April 2004, October 2004, October 2005 and April 2006, and for the two-year period ending April 2005. A final Order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and the rate of return on capital.

VDT. In December 2001, the Kentucky Commission issued an Order approving a settlement agreement allowing LG&E and KU to set up regulatory assets of $141 million and $54 million, respectively, for workforce reduction costs and begin amortizing them over a five-year period starting in April 2001. Some employees rescinded their participation in the voluntary enhanced severance program which, along with the non-recurring charge of $7 million for FERC and Virginia jurisdictions, thereby decreased the charge to LG&E's regulatory asset from $144 million to $141 million, and decreased the charge to KU's regulatory asset $64 million to $54 million. The Order reduced revenues by approximately $26 million and $11 million for LG&E and KU, respectively, through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to LG&E and KU) of savings as stipulated by LG&E and KU, net of amortization costs of the workforce reduction. The five-year VDT amortization period expired in March 2006.

As part of the settlement agreements in the electric and natural gas rate cases, in September 2005, LG&E and KU filed with the Kentucky Commission a plan for the future ratemaking treatment of the VDT surcredit and costs. In February 2006, the AG, KIUC, LG&E and KU reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as LG&E and KU file for a change in electric or natural gas base rates. The Kentucky Commission issued an Order in March 2006, approving the settlement agreement.

Merger Surcredit. As part of the LG&E Energy merger with KU Energy Corporation in 1998, LG&E and KU estimated non-fuel savings over a ten-year period following the merger. Costs to achieve these savings were

deferred and amortized over a five-year period pursuant to regulatory orders. In approving the merger, the Kentucky Commission adopted LG&E and KU's proposal to reduce its retail customers' bills based on one-half of the estimated merger-related savings, net of deferred and amortized amounts, over a five-year period. The surcredit mechanism provides that 50% of the net non-fuel cost savings estimated to be achieved from the merger be provided to ratepayers through a monthly bill credit, and 50% be retained by LG&E and KU over a five-year period. In that same order, the Kentucky Commission required LG&E and KU, after the end of the five-year period, to present a plan for sharing with ratepayers the then-projected non-fuel savings associated with the merger. LG&E and KU submitted this filing in January 2003, proposing to continue to share with ratepayers, on a 50%/50% basis, the estimated fifth-year gross level of non-fuel savings associated with the merger. In October 2003, the Kentucky Commission issued an Order approving a settlement agreement reached with the parties in the case. According to the Order, LG&E's and KU's merger surcredits would remain in place for another five-year term beginning July 1, 2003, the merger savings would continue to be shared 50% with ratepayers and 50% with shareholders and LG&E and KU would file a plan for the merger surcredits six months before their expiration.

In December 2007, LG&E and KU submitted to the Kentucky Commission its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. An informal conference was held in March 2008 and a hearing is scheduled in May 2008, however, dates for an order have not been determined.

Deferred Storm Costs. Based on an Order from the Kentucky Commission in June 2004, KU reclassified from maintenance expense to a regulatory asset, $4 million related to costs not reimbursed from the 2003 ice storm. These costs will be amortized through June 2009. KU earns a return of these amortized costs, which are included in KU's jurisdictional operating expenses.

Pension and Postretirement Benefits. LG&E and KU adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, in 2006. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or liability in the balance sheet and to recognize through comprehensive income the changes in the funded status in the year in which the changes occur. Under SFAS No. 71, LG&E and KU can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky and Virginia is based on SFAS No. 87, *Employers' Accounting for Pensions*, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*, both of which were amended by SFAS No. 158. Regulators have been clear and consistent with their historical treatment of such rate recovery, therefore, LG&E and KU have recorded a regulatory asset representing the probable recovery of the portion of the change in funded status of the pension and postretirement plans that is expected to be recovered. The regulatory asset will be adjusted annually as prior service cost and actuarial gains and losses are recognized in net periodic benefit cost.

Accumulated Cost of Removal of Utility Plant. As of December 31, 2007 and 2006, LG&E has segregated the cost of removal, previously embedded in accumulated depreciation, of $241 million and $232 million, respectively, in accordance with FERC Order No. 631. And as of the same dates, KU has segregated the cost of removal, previously embedded in accumulated depreciation, of $310 million and $297 million, respectively, in accordance with FERC Order No. 631. This cost of removal component is for assets that do not have a legal ARO under SFAS No. 143. For reporting purposes in the balance sheets, the Company has presented this cost of removal as a regulatory liability pursuant to SFAS No. 71.

Deferred Income Taxes - Net. Deferred income taxes represent the future income tax effects of recognizing the regulatory assets and liabilities in the income statement. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

DSM. LG&E's and KU's rates contain a DSM provision. The provision includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows LG&E and KU to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

In July 2007, LG&E and KU filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the existing annual budget of approximately $10 million. Data discovery concluded in November 2007, and the Community Action Council ("CAC") for Lexington-Fayette, Bourbon, Harrison and Nicholas counties and the Kentucky Association for Community Action ("KACA"), filed a motion for hearing. In January 2008, the CAC and KACA filed a motion with the Kentucky Commission to withdraw the request because the parties reached a settlement. The Kentucky Commission issued an Order in March 2008, approving the proposed DSM programs and allowing the mechanism to continue in its current form.

Other Regulatory Matters

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave Virginia customers the ability to choose their electric supplier. Rates are capped at current levels through December 2010. The Virginia Commission will continue to require each Virginia utility to make annual filings of either a base rate change or an Annual Informational Filing consisting of a set of standard financial schedules. The Virginia Commission Staff will issue a Staff Report regarding the individual utility's financial performance during the historic 12-month period. The Staff Report can lead to an adjustment in rates, but through December 2010, rates are subject to the capped rate period and essentially "frozen." In April 2007, Virginia passed legislation terminating this competitive market and commencing re-regulation of utility rates in Virginia. The new act will end the cap on rates at the end of 2008, rather than through December 2010, and end customer choice for most consumers in the applicable regions of the state. Thereafter, a hybrid model of regulation is expected to apply in Virginia, whereby utility rates would be reviewed every two years and a utility's rate of return on equity shall not be set lower than the average of the rates of return for other regional utilities, with certain caps, floors or adjustments. The legislation was effective in July 2007, and also includes a 10% nonbinding goal for renewable power generation by 2022, as well as incentives for new generation, including renewables. Under the legislation, KU retains an existing exemption from customer choice and other restructuring activities as applicable to KU's limited service territory in Virginia. However, subject to future developments, KU may or may not undertake such a rate proceeding in the first six months of 2009 based on calendar year 2008 financial data under the hybrid model of regulation, or make biennial rate filings with the Virginia Commission thereafter.

Regional Reliability Council. LG&E and KU have changed their regional reliability council memberships from the Reliability First Corporation to the SERC Reliability Corporation ("SERC"), effective January 1, 2007. Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

Arena. In August 2006, LG&E filed an application with the Kentucky Commission requesting approval for sale of the Waterside property to the Louisville Arena Authority. The Kentucky Commission issued an Order in September 2006, approving the proposed transaction. In November 2006, LG&E completed certain agreements pursuant to its August 2006 Memorandum of Understanding with the Louisville Arena Authority regarding the proposed construction of an arena in downtown Louisville. LG&E entered into a relocation agreement with the Louisville Arena Authority providing for the reimbursement to LG&E of the costs to be incurred in moving certain LG&E facilities related to the arena transaction. Those costs are currently estimated to be approximately $63 million. The parties further entered into a property sale contract providing for LG&E's sale of a

downtown site to the Louisville Arena Authority for approximately $10 million, which represents the appraised value of the parcel, less certain agreed upon demolition costs. The amounts specified in the contracts are subject to certain adjustments. Depending upon continuing progress of the proposed arena, the transactions contemplated by the contracts will occur through 2008.

TC2 CCN Application. A CCN application for construction of the new, base-load, coal fired unit TC2, which will be jointly owned by KU and LG&E, was approved by the Kentucky Commission in November 2005, and initial CCN applications for three transmission lines were approved in September 2005 and May 2006. In August 2006, LG&E and KU obtained dismissal of a judicial review of such CCN approvals by certain property owners. In December 2007, the Kentucky Court of Appeals reversed and remanded the lower Court's dismissal. Both parties have filed for reconsideration of elements of the appellate court's ruling. The transmission lines are also subject to routine regulatory filings and the right-of-way acquisition process. See Note 15, Commitments and Contingencies, for further discussion regarding the TC2 air permit.

Ghent FGD Inquiry. In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGDs at the Ghent generating station. The proceeding requested, and KU provided, additional information regarding configuration details, expenditures and the proposed construction sequence applicable to future construction phases of the Ghent FGD project. In January 2007, the Kentucky Commission issued an Order completing its inquiry in the matter and confirming its approval of KU's construction plan. The Order also provided general guidance for jurisdictional utilities regarding applicable information and data requirements for future CCN applications and subsequent proceedings.

Market-Based Rate Authority. In July 2006, the FERC issued an Order in LG&E's and KU's market-based rate proceedings accepting their further proposals to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, LG&E and KU received permission to sell power at market-based rates at the interface of control areas in which it may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E and KU of power at market-based rates in the KU/LG&E and Big Rivers Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for LG&E's and KU's power sales at control area interfaces. As a condition of receiving and retaining market-based rate authority, LG&E and KU must comply with applicable affiliate restrictions set forth in FERC's regulation.

FERC Audit Results. In July 2006, the FERC issued a final report under a routine audit that its Office of Enforcement (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and its subsidiaries, including LG&E and KU, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and its subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and its subsidiaries have agreed to certain corrective actions and have submitted procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organizational and operational improvements as described above and are not expected to have a material adverse impact on the Company's results of operations or financial condition.

Mandatory Reliability Standards. As a result of EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various regional reliability organizations ("RRO") by the Electric Reliability Organization, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day as well as non-monetary penalties, depending upon the circumstances of the violation. LG&E and KU are members of the SERC, which acts as LG&E's and KU's RRO. The SERC is currently assessing LG&E's and KU's compliance with certain existing mitigation plans resulting from a prior RRO's audit of various reliability standards. While LG&E and KU believe they are in substantial compliance with the mandatory reliability standards generally, they cannot predict the outcome of the current SERC proceeding or of other analysis which may be conducted regarding compliance with particular reliability standards.

IRP. Integrated resource planning regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2005, LG&E and KU filed their 2005 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. The AG and the KIUC were granted intervention in the IRP proceeding. The Kentucky Commission issued its staff report with no substantive issues noted and closed the case by Order in February 2006. LG&E and KU will submit the next joint triennial filing in April 2008.

PUHCA 2005. The Company is a registered holding company under PUHCA 2005. The Company, its utility subsidiaries (LG&E and KU), and certain of its non-utility subsidiaries, are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. The Company believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

EPAct 2005. The EPAct 2005 was enacted in August 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; granting enhanced civil penalty authority to the FERC; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing the Public Utility Holding Company Act of 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252, Smart Metering standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254, Interconnection standards within one year after the enactment of EPAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. LG&E and KU developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. Data discovery concluded in July 2007, and no parties to the case requested a hearing. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E and

KU for implementation within approximately eight months. LG&E and KU will notify the Kentucky Commission 10 days prior to the actual implementation date and will file annual reports on the program within 90 days of each plan year-end for the 3-year pilot period.

Hydro Upgrade. In October 2005, LG&E received from the FERC a new license to upgrade, operate and maintain the Ohio Falls Hydroelectric Project. The license is for a period of 40 years, effective November 2005. LG&E began refurbishing the facility to add approximately 20 Mw of generating capacity in 2004, and plans to spend approximately $45 million from 2008 to 2010.

Gas Storage Field Matter. In March 2007, LG&E commenced a review of certain federal and state permitting, licensing and oversight matters relating to existing natural gas operations at its Doe Run, Kentucky storage field, which extends into Indiana. The review related, in part, to the applicable jurisdictional status of such operations under the Natural Gas Act and whether additional applications, filings or exemptions were required or advisable. During March 2007, LG&E reported to the FERC the existence of possible permitting failures and in April 2007, filed an application for corrective Federal Power Act authorizations. In July 2007, the FERC accepted LG&E's Federal Power Act filing granting appropriate permit status for retail gas activities. This corrective event places these activities in compliance for future periods. In August 2007, the FERC advised LG&E that it had concluded its investigation related to prior periods and had closed the matter with no further actions.

Green Energy Riders. In February 2007, KU and LG&E filed a Joint Application and Testimony for Proposed Green Energy Riders. The AG and KIUC were granted full intervention. In May 2007, a Kentucky Commission Order was issued authorizing KU to establish Small and Large Green Energy Riders, allowing customers to contribute funds to be used for the purchase of renewable energy credits.

Home Energy Assistance Program. In July 2007, LG&E and KU filed applications with the Kentucky Commission for the establishment of a new Home Energy Assistance program. During September 2007, the Kentucky Commission approved LG&E's and KU's new five-year program as filed, effective in October 2007. The program terminates in September 2012, and is funded through a $0.10 per month meter charge.

Collection Cycle Revision. In September 2007, LG&E filed an application with the Kentucky Commission to revise the collection cycle for customer bill payments from 15 days to 10 days to more closely align with the KU billing cycle and to avoid confusion for delinquent customers. In December 2007, the Kentucky Commission denied LG&E's request to shorten the collection cycle. LG&E filed a motion with the Kentucky Commission for reconsideration and received an Order granting approval. The Kentucky Commission issued additional data requests to LG&E in February 2008. No procedural schedule has been established.

Depreciation Study. In December 2007, LG&E and KU filed depreciation studies with the Kentucky Commission requesting a change in the depreciation rates as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received by the Kentucky Commission, the timing of which cannot currently be determined.

Note 7 - Financial Instruments

The cost and estimated fair values of the Company's non-trading financial instruments (excluding the fair values of the Company's price risk management assets and liabilities) as of December 31, 2007 and 2006 follow (in millions of $):

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term investments	$1	$1	$1	$1
Preferred stock subject to mandatory redemption	-	-	20	20
Long-term debt (including current portion)	3,379	3,546	2,573	2,568
Interest rate swaps	(21)	(21)	(15)	(15)

All of the above valuations reflect prices quoted by exchanges except for the swaps, long-term investments, and debt due to affiliates. The fair values of the swaps reflect price quotes from dealers. The fair values of the long-term investments reflect cost, since the Company cannot reasonably estimate fair value. The fair values for debt due to affiliates are calculated using accepted valuation models. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

Interest Rate Swaps. The Company uses interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk and earnings volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within OCI and member's equity. To the extent a financial instrument or the underlying item being hedged is prematurely terminated or the hedge becomes ineffective, the resulting gains or losses are reclassified from OCI to net income. See also Note 17, Accumulated Other Comprehensive Income. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

As of December 31, 2007 and 2006, LG&E was party to various interest-rate swap agreements with aggregate notional amounts of $211 million. Under these swap agreements, LG&E paid fixed rates averaging 4.38% at December 31, 2007 and 2006. LG&E received variable rates under the agreements based on the Securities Industry and Financial Markets Association's municipal swap index or LIBOR. The average rates paid equaled 3.50% and 3.75% at December 31, 2007 and 2006, respectively. As of December 31, 2006, KU was party to an interest-rate swap agreement with a notional amount of $53 million. Under this swap agreement, KU paid variable rates based on LIBOR. At December 31, 2006, the average rate paid was 7.44% and the average rate received was 7.92%. The KU swap was terminated in February 2007, when the underlying debt was extinguished.

At December 31, 2005, Capital Corp. was a party to an interest rate swap agreement with E.ON with a notional amount of $150 million. It received a fixed rate under the agreement of 7.471% and it paid variable rates (based on LIBOR) of 7.23% at December 31, 2005. Capital Corp. terminated the swap in 2006 when it completed a tender offer for its outstanding medium term notes. See Note 13, Long-Term Debt.

The swap agreements in effect at December 31, 2007, have been designated as either cash-flow hedges or fair-

value hedges and mature on dates ranging from 2020 to 2033. The cash-flow hedges have been deemed to be highly effective resulting in a decrease in fair value of $7 million and an increase of $5 million for 2007 and 2006, respectively, recorded in other comprehensive income. The amount recorded in other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amounts expected to be reclassified from other comprehensive income to earnings in the next twelve months is immaterial. The fair value designation was assigned to certain hedges because the underlying fixed rate debt had a firm future commitment. The Company recorded charges to interest expense of $1 million and $7 million in 2007 and 2006, respectively, as a result of marking these financial instruments and the underlying debt to market.

Interest-rate swaps hedge interest-rate risk on the underlying debt under SFAS No. 133, as amended. Thus, in addition to the fair-value swaps being marked to market, the item being hedged must also be marked to market. The Company's debt-related mark-to-market liability at December 31, 2007, totaled $21 million.

Energy Risk Management Activities (Non-Hedging Derivatives). The Company conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. The Company also conducts limited proprietary trading in energy-related commodities to maximize corporate revenues and related market insight.

The table below summarizes the Company's energy trading and risk management activities (in millions of $):

	2007	2006
Fair value of contracts at beginning of period, net asset	$2	$1
Realized gains and losses recognized during the period	(6)	17
Ending fair value of unsettled deals executed during the period	1	2
Changes in fair values due to changes in valuation techniques and assumptions	4	(18)
Fair value of contracts at end of period, net asset	$1	$2

No changes to valuation techniques for energy trading and risk management activities occurred during 2007 or 2006. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at December 31, 2007 and 2006, had a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

The Company maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2007, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better.

The Company sells market-traded electric forward contracts having maturities of less than one year. Hedge accounting treatment has not been elected for these transactions, and therefore gains and losses are shown in the statements of income in electric-utility revenues. Pretax losses of $5 million resulted from these transactions in 2007, and pretax gains of $17 million resulted from these transactions in 2006.

See Note 4, Discontinued Operations, for a discussion of the WKE sales contract derivative.

Note 8 - Concentrations of Credit and Other Risks

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

LG&E's customer receivables and gas and electric revenues arise from deliveries of natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. KU's customer receivables and revenues arise from deliveries of electricity to approximately 506,000 customers in over 600 communities and adjacent suburban and rural areas in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and five customers in Tennessee. For the year ended December 31, 2007, 73% of LG&E's revenues were derived from electric operations and 27% from gas operations, and for the year ended December 31, 2006, 70% of LG&E's revenues were derived from electric operations and 30% from gas operations. All of KU's revenues were derived from electric operations in both years.

Effective November 2005, LG&E and its employees represented by the IBEW Local 2100 entered into a three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages and annual benefits re-openers. Benefits re-openers were negotiated in November 2006, and November 2007. The employees represented by this bargaining agreement comprise approximately 69% of LG&E's workforce at December 31, 2007.

Effective August 1, 2006, KU and its employees represented by the IBEW Local 2100 entered into a new three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. A wage re-opener was negotiated in July 2007. KU and its employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement effective August 2005, with authorized annual wage re-openers. Wage re-openers were negotiated in July 2006, and July 2007. The employees represented by these two bargaining units comprise approximately 16% of KU's workforce at December 31, 2007.

In September 2007, WKE and IBEW Local 1701 employees entered into a collective bargaining agreement that will continue until September 2008, or until the unwind process with Big Rivers is complete, whichever comes first.

Note 9 - Investments in Unconsolidated Ventures

The Company's investments in unconsolidated ventures reflect interests in a coal-fired domestic electric power and steam producing plant and two of the Argentine gas distribution companies.

The ownership percentages and carrying amounts of the unconsolidated ventures as of December 31, 2007 and 2006, are summarized as follows (in millions of $):

		Carrying Amount	
	% Owned	2007	2006
Electric Energy, Inc.	20	$32	$28
Distribuidora de Gas Cuyana (Note 2)	14	15	15
Gas Natural BAN, S.A. (Notes 2 and 3)	20	-	10
Total		$47	$53

The assets, liabilities and net income of the unconsolidated ventures as of December 31, 2007, follow (in millions of $):

	Assets	Liabilities	Net Income
Electric Energy, Inc.	$196	$120	$121
Distribuidora de Gas Cuyana (Note 2)	114	20	11
Gas Natural BAN, S.A. (Notes 2 and 3)	-	-	19
Total	$310	$140	$151

The underlying equity in the Company's unconsolidated ventures exceeded the Company's carrying amounts by $11 million and $18 million at December 31, 2007 and 2006, respectively. These differences represent adjustments to reflect the fair value of the underlying net assets acquired.

See Note 3, Sales of Assets, for information about sales of unconsolidated ventures.

Note 10 - Pension and Other Postretirement Benefit Plans

Pension Plans and Other Postretirement Benefits. E.ON U.S. has both funded and unfunded noncontributory defined benefit pension plans that together cover substantially all of its employees.

The Company also offers other postretirement benefit plans to eligible employees. The postretirement health care plan is contributory with participants' contributions adjusted annually. Postretirement life insurance is also offered and is noncontributory.

The Company uses December 31 as the measurement date for its plans.

Obligations and Funded Status. The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 2007, and a statement of the funded status as of December 31, (in millions of $):

	Pension Plans		Other Benefits	
	2007	2006	2007	2006
Pension Plans:				
Change in benefit obligation				
Benefit obligation at beginning of year	$929	$958	$215	$220
Service cost	21	20	4	5
Interest cost	55	52	11	12
Plan amendments	38	7	3	-
Benefits paid	(50)	(52)	(14)	(13)
Actuarial (gain) or loss	(69)	(56)	(35)	(9)
Benefit obligation at end of year	$924	$929	$184	$215
Change in plan assets				
Fair value of plan assets at beginning of year	$710	$665	$24	$15
Actual return on plan assets	53	73	2	2
Employer contributions	102	25	14	20
Benefits paid	(50)	(52)	(14)	(13)
Administrative expenses	(1)	(1)	-	-
Fair value of plan assets at end of year	$814	$710	$26	$24
Funded status at end of year	$(110)	$(219)	$(158)	$(191)

Amounts Recognized in the Statement of Financial Position. The following tables provide the amounts recognized in the balance sheet and information for plans with benefit obligations in excess of plan assets as of December 31, (in millions of $):

	Pension Plans		Other Benefits	
	2007	2006	2007	2006
Regulatory assets	$130	$152	$8	$38
Non-current assets	15	-	-	-
Accrued benefit liability – current	(2)	(2)	(3)	(2)
Accrued benefit liability – non-current	(123)	(217)	(155)	(189)
Accumulated OCI (Note 17)	31	42	1	5
Additional year-end information for plans with benefit obligations in excess of plan assets:				
Benefit obligation	$924	$929	$184	$215
Accumulated benefit obligation	783	808	-	-
Fair value of plan assets	814	710	26	24

Components of Net Periodic Benefit Costs. The following table provides the components of net periodic benefit cost for the plans for the twelve months ended December 31, (in millions of $):

	Pension Plans		Other Benefits	
	2007	2006	2007	2006
Service cost	$21	$20	$4	$5
Interest cost	55	52	11	12
Expected return on plan assets	(64)	(54)	(2)	(1)
Amortization of prior service cost	4	2	1	1
Recognized actuarial (gain) or loss	1	7	-	-
Net periodic benefit cost (income)	$17	$27	$14	$17

The assumptions used in the measurement of the Company's pension benefit obligations are shown in the following table:

	2007	2006
Weighted-average assumptions as of December 31		
Discount rate - union plan	6.56%	5.91%
Discount rate - nonunion plan	6.66%	5.96%
Discount rate - SERP plan	6.41%	5.85%
Discount rate - officer SERP plan	6.65%	5.96%
Discount rate - restoration plan	6.77%	5.99%
Rate of compensation increase	5.25%	5.25%

The discount rate is based on the November Mercer Pension Discount Yield Curve, adjusted by the basis point change in the Moody's Corporate Aa Bond Rate in December.

The assumptions used in the measurement of the Company's net periodic benefit cost are shown in the following table:

	2007	2006
Discount rate	6.56%	5.50%
Expected long-term rate of return on plan assets	8.25%	8.25%
Rate of compensation increase	5.25%	5.25%

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The following describes the effects on pension benefits by changing the major actuarial assumptions discussed above:

- A 1% change in the assumed discount rate could have an approximate $102 million positive or negative impact to the 2007 accumulated benefit obligation and an approximate $136 million positive or negative impact to the 2007 projected benefit obligation.

- A 25 basis point change in the expected rate of return on assets would have an approximate $2 million positive or negative impact on 2007 pension expense.

Assumed Health Care Cost Trend Rates. For measurement purposes, a 9% annual increase in the per capita cost of covered health care benefits was assumed for 2007. The rate was assumed to decrease gradually to 5% by 2015 and remain flat thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have resulted in an increase or decrease of $1 million on the 2007 total of service and interest costs components and an increase of $7 million or decrease of $6 million in year-end 2007 postretirement benefit obligations.

Expected Future Benefit Payments and Medicare Subsidy Receipts. The following table provides the amount of expected future benefit payments, which reflect expected future service and the estimated gross amount of Medicare subsidy receipts (in millions of $):

	Pension Plans	Other Benefits	Medicare Subsidy Receipts
2008	$50	$14	$(1)
2009	49	15	(1)
2010	49	15	(1)
2011	49	16	(1)
2012	49	16	(1)
2013 - 2017	278	84	(3)

Plan Assets. The following table shows the Company's weighted-average asset allocations by asset category at December 31 (in millions of $):

	Target Range	2007	2006
Pension Plans:			
Equity securities	45%-75%	57%	61%
Debt securities	30%-50%	43%	39%
Totals		100%	100%

The investment policy of the pension plans was developed in conjunction with financial consultants, investment advisors and legal counsel. The goal of the investment policy is to preserve the capital of the fund and maximize investment earnings. The return objective is to exceed the benchmark return for the policy index comprised of the following: Russell 3000 Index, the MSCI-EAFE Index, Lehman Aggregate and Lehman Long Government Credit Bond Index in proportions equal to the targeted asset allocation.

Evaluation of performance focuses on a long-term investment time horizon of at least three to five years or a complete market cycle. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

To minimize the risk of large losses in a single asset class, no more than 5% of the portfolio will be invested in the securities of any one issuer with the exclusion of the U.S. government and its agencies. The equity portion of the fund is diversified among the market's various subsections to diversify risk, maximize returns and avoid undue exposure to any single economic sector, industry group or individual security. The equity subsectors include, but are not limited to growth, value, small capitalization and international.

In addition, the overall fixed income portfolio holdings may have an average weighted duration, or interest rate sensitivity which is within +/- 20% of the duration of overall fixed income benchmark. Foreign bonds in the aggregate shall not exceed 10% of the total fund. The portfolio may make a limited investment of up to 20% in below investment grade securities provided that the overall average portfolio quality remains "AA" or better. The below investment grade investments include, but are not limited to, medium-term notes, corporate debt, non-dollar and emerging market debt and asset backed securities. The cash investments should be in securities that either are of short maturities (not to exceed 180 days) or readily marketable with modest risk.

Derivative securities are permitted only to improve the portfolio's risk/return profile, modify the portfolio's duration or to reduce transaction costs and must be used in conjunction with underlying physical assets in the portfolio. Derivative securities that involve speculation, leverage, interest rate anticipation, or any undue risk whatsoever are not deemed appropriate investments.

The investment objective for the post-retirement benefit plan is to provide current income consistent with stability of principal and liquidity while maintaining a stable net asset value of $1.00 per share. The post-retirement funds held in VEBA trusts are invested in a prime cash money market fund that invests primarily in a portfolio of short-term, high-quality fixed income securities issued by banks, corporations and the U.S. government. The 401(h) plan provides for the payment of health benefits for covered individuals and is invested within the pension allocation.

Contributions. The Company made discretionary contributions to the pension plan of $2 million in April 2008 and $102 million in January 2007. As of December 31, 2007, the Company's pension plan assets are in excess of the accumulated benefit obligation. Contributions in 2006 totaled $25 million. See Note 19, Subsequent Events.

The Company made contributions to its other postretirement benefit plans of $14 million in 2007 and $20 million in 2006. In 2008, the Company plans on making voluntary contributions to fund the VEBA trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law. In March 2008, the Company made voluntary contributions totaling $4 million to its postretirement benefit plans through the VEBA trusts.

Pension Legislation. The Pension Protection Act of 2006 was enacted in August 2006. The new rules are generally effective for plan years beginning after 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate 100% funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains similar provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters.

Thrift Savings Plans. The Company has thrift savings plans under section 401(k) of the Internal Revenue

Code. Under these plans, eligible employees may defer and contribute to the plans a portion of current compensation in order to provide future retirement benefits. The Company makes contributions to the plans by matching a portion of the employee's contributions. The costs of this matching were approximately $8 million and $7 million for 2007 and 2006, respectively.

Note 11 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company or its designee. Also, income tax returns are filed in various state jurisdictions. With few exceptions, E.ON U.S. is no longer subject to U.S. federal income tax examinations for years before 2004. Statutes of limitations related to the 2004 and later returns are still open. Tax years 2005, 2006 and 2007, are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process." This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

E.ON U.S. adopted the provisions of FIN 48 effective January 1, 2007. At the date of adoption, the Company had $10 million of unrecognized tax benefits, $5 million related to federal income tax and $5 million related to state income tax. If recognized, the entire $10 million of unrecognized tax benefits would reduce the effective income tax rate.

The following table shows additions in and reductions of unrecognized tax benefits for the twelve months ended December 31, 2007 (in millions of $):

Balance at January 1, 2007	$10
Additions based on tax positions of prior years	1
Reductions due to lapse of statute of limitations	(1)
Balance at December 31, 2007	$10

Possible amounts of uncertain tax positions that may decrease within the next 12 months total $5 million and are based on the expiration of statutes during 2008.

E.ON U.S., upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, the Company recorded interest and penalties for income taxes on the income statement in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest is recorded as interest expense and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheets, on a pre-tax basis. Interest of less than $1 million was accrued for 2007 and 2006 based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. No penalties were accrued by the Company upon adoption of FIN 48 or through December 31, 2007.

Components of income tax expense are shown in the table below for the year ended December 31, (in millions of $):

	2007	2006
Current	$113	$114
Deferred	(54)	(9)
Investment tax credit - net	47	10
Total income tax expense	$106	$115

The offsetting changes in deferred tax expense and investment tax credit resulted from recording investment tax credits related to the construction of TC2.

In June 2006, LG&E and KU filed a joint application with the DOE requesting certification to be eligible for investment tax credits applicable to the construction of TC2. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. The application requested up to the maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying TC2 expenditures. In November 2006, the DOE and IRS announced that LG&E and KU were selected to receive the tax credit of $125 million over the construction period of TC2. Final IRS certification required to obtain the investment tax credit was received in August 2007. This tax credit will be amortized to income starting in 2010 over the life of the related property. Based on eligible construction expenditures incurred, the Company recorded investment tax credits of $52 million and $15 million in 2007 and 2006, respectively.

In September 2007, LG&E and KU received Order 2007-00179 from the Kentucky Commission approving the accounting of the investment tax credit. In March 2008, certain groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was violative of certain environmental laws and demanded relief, including suspension or termination of the program. The Company is not able to predict the ultimate outcome of this proceeding.

Deferred tax assets and liabilities which are mainly of a long-term nature are summarized below as of December 31, (in millions of $):

	2007	2006
Deferred tax liabilities:		
Fixed assets	$655	$655
Accruals and other assets	26	17
Investments and other financial assets	11	11
Liabilities	5	6
Total deferred tax liabilities	697	689
Deferred tax assets:		
Pensions and similar obligations	60	51
Investment tax credit	14	15
Income taxes due to customers	28	31
Investments and other financial assets	24	62
AMT, wind, and foreign tax credit carryforwards	123	32
Net operating loss carryforward	9	28
Accruals and other liabilities	17	36
	275	255
Valuation allowance	(35)	(63)
Total deferred tax assets	240	192
Net deferred income tax liability (current and noncurrent)	$457	$497
Balance-sheet classification:		
Current assets	$(12)	$(18)
Noncurrent liabilities	469	515
Net deferred income tax liability (current and noncurrent)	$457	$497

Based on the Company's net deferred tax liability position, past performance history of subsidiaries and expectations of similar performance in the future, and the extensive realization period for net operating loss carryforwards, future taxable income of the Company will more likely than not be sufficient to realize fully the deferred tax assets associated with the net operating losses. The net operating loss carryforwards start to expire in 2024. Foreign tax credits begin to expire in 2010; however, all are fully reserved through the valuation allowance discussed below. Alternative minimum tax credits do not expire, and wind energy, investment tax credits and other general business credits will not expire within five years.

Federal tax loss carryforwards equaled $29 million and $81 million as of December 31, 2007 and 2006, respectively. There were no material state tax loss carryforwards at those dates.

A valuation reserve has been established for deferred tax assets that are unlikely to be realized. The reserve primarily relates to tax benefits associated with the Company's Argentine investments and foreign tax credits.

The valuation reserve was reduced by $28 million in 2007 due to the reversal of a $40 million valuation allowance associated with one of the Company's Argentine investments, Gas BAN, which was sold in 2007, partially offset by a capital loss carryforward valuation allowance associated with the Gas BAN sale of $12 million. The valuation reserve was reduced less than $1 million in 2006 for expiring foreign tax credits.

A reconciliation of differences between the statutory U.S. federal income tax rate and the Company's effective income tax rate as a percentage of income from continuing operations before income taxes follows:

	2007	2006
Statutory federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	2.3	2.8
Sale of Gas BAN (Note 3)	(5.1)	0.0
Equity investments and other foreign	(2.0)	(2.6)
Investment and other tax credits	(1.3)	(1.6)
Increase (decrease) of income tax accruals	(0.2)	0.6
Other differences - net	(1.6)	0.3
Effective income tax rate	27.1%	34.5%

The decrease in the effective rate from 2006 is primarily due to the sale of the Company's Argentine investment, Gas BAN. The sale produced a pretax book gain of $38 million but resulted in a tax loss. Other differences result from permanent differences and a benefit for a capital loss carryback recorded in 2007.

Kentucky House Bill 272, also known as "Kentucky's Tax Modernization Plan," was signed into law in March 2005. This bill contains a number of changes in Kentucky's tax system, including repeal of the Corporate License Tax, repeal of the Intangible Personal Property Tax, reduction of the Corporate income tax rate from 8.25% to 7% effective January 1, 2005, and a further reduction to 6% effective January 1, 2007. These new income tax rates will impact both future income and the reversal of accumulated temporary differences at lower rates than originally provided. The Company recorded deferred tax charges of $1 million in 2006 for continuing operations relating to the lowering of the state income tax rate.

Note 12 - Other Income and Deductions

Other income and deductions consisted of the following at December 31, (in millions of $):

	2007	2006
Increase in cash surrender value of company-owned life insurance	$3	$2
Interest and dividend income	5	5
Other	(3)	3
Total other income and (deductions), net	$5	$10

Note 13 - Long-Term Debt

Long-term debt and the current portion of long-term debt, summarized below, consists primarily of pollution control bonds issued by LG&E and KU, loans from an affiliated company, and medium-term notes issued by Capital Corp. Utility debt expense is capitalized in deferred debits and amortized over the lives of the related bond issues for LG&E and KU, consistent with regulatory practices. Non-utility expense is amortized using the effective interest rate method. Interest rates and maturities in the table below are for the amounts outstanding at December 31, 2007, and include the impact of interest rate swaps in place.

	Stated Interest Rates	Weighted Average Interest Rate	Maturities	Principal Amounts (In Millions Of Dollars)
Current	Variable-6.46%	3.72%	2008-2032	$177
Noncurrent	Variable-7.47%	5.22%	2009-2037	3,202

Under the provisions for LG&E's and KU's variable-rate pollution control bonds classified as current portion of long-term debt, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt. The following bond series are subject to the tender for purchase:

LG&E:
September 1, 2026, variable %
Trimble Co. 2001 Series A, due September 1, 2026, variable %
Jefferson Co. 2001 Series B, due November 1, 2027, variable %
Trimble Co. 2001 Series B, due November 1, 2027, variable %

KU:
Carroll Co. 2002 Series A, due February 1, 2032, variable %
Carroll Co. 2002 Series B, due February 1, 2032, variable %
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %
Mercer Co. 2002 Series A, due February 1, 2032, variable %

The average annualized interest rate for these bonds were 3.66% and 3.72% for LG&E's and KU's bonds, respectively.

Redemptions of long-term debt in 2007 and 2006 are summarized below (in millions of $):

Year	Company	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2007	LG&E	Pollution control bonds	$31	Variable	Secured	2017
2007	LG&E	Pollution control bonds	$60	Variable	Secured	2017
2007	LG&E	Pollution control bonds	$35	Variable	Secured	2013
2007	LG&E	Mand. redeemable preferred	$20	5.88%	Unsecured	2008
2007	KU	Pollution control bonds	$54	Variable	Secured	2024
2007	KU	First mortgage bonds	$54	7.92%	Secured	2007
2007	E.ON U.S.	Due to Fidelia	$75	Variable	Unsecured	2007
2006	LG&E	Mand. redeemable preferred	$1	5.88%	Unsecured	2008
2006	KU	First mortgage bonds	$36	5.99%	Secured	2006
2006	E.ON U.S.	Due to Fidelia	$100	2.80%	Unsecured	2006
2006	E.ON U.S.	Due to Fidelia	$50	2.88%	Unsecured	2006
2006	Capital Corp.	Medium-term notes	$126	6.46%	Unsecured	2008
2006	Capital Corp.	Medium-term notes	$148	7.47%	Unsecured	2011

Issuances of long-term debt in 2007 and 2006 are summarized below (in millions of $):

Year	Company	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2007	LG&E	Pollution control bonds	$31	Variable	Unsecured	2033
2007	LG&E	Pollution control bonds	$60	4.60%	Unsecured	2033
2007	LG&E	Pollution control bonds	$35	Variable	Unsecured	2033
2007	LG&E	Due to Fidelia	$70	5.98%	Unsecured	2037
2007	LG&E	Due to Fidelia	$68	5.93%	Unsecured	2031
2007	LG&E	Due to Fidelia	$47	5.72%	Unsecured	2022
2007	KU	Pollution control bonds	$54	Variable	Unsecured	2034
2007	KU	Pollution control bonds	$18	Variable	Unsecured	2026
2007	KU	Pollution control bonds	$9	Variable	Unsecured	2037
2007	KU	Due to Fidelia	$53	5.69%	Unsecured	2022
2007	KU	Due to Fidelia	$75	5.86%	Unsecured	2037
2007	E.ON U.S.	Due to Fidelia	$50	Variable	Unsecured	2009
2007	E.ON U.S.	Due to Fidelia	$100	5.52%	Unsecured	2012
2007	E.ON U.S.	Due to Fidelia	$50	Variable	Unsecured	2014
2007	E.ON U.S.	Due to Fidelia	$76	5.71%	Unsecured	2017
2006	KU	Pollution control bonds	$17	Variable	Secured	2036
2006	KU	Pollution control bonds	$17	Variable	Secured	2036
2006	KU	Due to Fidelia	$50	5.68%	Unsecured	2016
2006	KU	Due to Fidelia	$50	6.33%	Unsecured	2036
2006	E.ON U.S.	Due to Fidelia	$80	Variable	Unsecured	2009
2006	E.ON U.S.	Due to Fidelia	$300	Variable	Unsecured	2011
2006	E.ON U.S.	Due to Fidelia	$50	Variable	Unsecured	2016

The proceeds of the 2007 LG&E loans were used to refinance first mortgage bonds and to fund capital expenditures, the redemption of preferred stock, and pension contributions. The proceeds of the 2007 KU loans were used to refinance first mortgage bonds and to fund capital expenditures. E.ON U.S. proceeds were used to fund equity contributions to KU and LG&E and to fund discontinued operations.

The proceeds of the 2006 KU loans were used to refinance a maturing first mortgage bond and to fund capital expenditures while the E.ON U.S. proceeds were used to refinance maturing loans and to fund the tender offer for two E.ON U.S. Capital Corp. medium term notes.

In January 2007, the Kentucky Commission issued an Order approving LG&E's application for certain financial transactions, including arrangements which provided a source of funds for the redemption of LG&E's preferred stock. In April 2007, LG&E redeemed all of its outstanding shares of its series of preferred stock at the following redemption prices, respectively, plus an amount equal to accrued and unpaid dividends to the redemption date:

- 860,287 shares of 5% cumulative preferred stock (par value $25 per share) at $28 per share;
- 200,000 shares of $5.875 cumulative preferred stock (without par value) at $100 per share; and
- 500,000 shares of auction rate, series A, cumulative preferred stock (without par value) at $100 per share.

Dividends on the shares of preferred stock ceased to accumulate on the redemption date and no further dividends will be paid or will accrue on such preferred stock thereafter.

In April 2007, LG&E agreed with Fidelia to eliminate the lien on two secured intercompany loans totaling $125 million. LG&E entered into two long-term borrowing arrangements with Fidelia in an aggregate principal amount of $138 million. The loan proceeds were used to fund the preferred stock redemption and to repay certain short-term loans incurred to fund the pension contribution made by the Company during the first quarter. LG&E also completed a series of financial transactions impacting its periodic reporting requirements. The pollution control revenue bonds issued by certain governmental entities secured by the $31 million Pollution Control Series S, the $60 million Pollution Control Series T and the $35 million Pollution Control Series U bonds were refinanced and replaced with new unsecured tax-exempt bonds of like amounts. Pursuant to the terms of the bonds, an underlying lien on substantially all of LG&E's assets was released following the completion of these steps. LG&E no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

In February 2007, KU completed a series of financial transactions impacting its periodic reporting requirements. The $54 million Pollution Control Series 10 bond was refinanced and replaced with a new unsecured tax-exempt bond of the same amount maturing in 2034. The $53 million Series P bond was defeased and replaced with an intercompany loan totaling $53 million from Fidelia. In conjunction with the defeasance, the Company terminated the related interest rate swap. Fidelia also agreed to eliminate the second lien on its two secured loans. Pursuant to the terms of the remaining tax-exempt bonds, the first mortgage bonds were cancelled and the underlying lien on substantially all of KU's assets was released following the completion of these steps. KU no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

Several of the LG&E and KU pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At December 31, 2007, LG&E and KU had an aggregate $907 million of outstanding pollution control indebtedness of which $694 million is in the form of insured auction-rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and LG&E and KU have experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture which can be as high as 15%. During 2007, the average rate on LG&E's auction-rate bonds was

3.77%, whereas the average rate on these bonds in January and February of 2008 was 4.58%. Also during 2007, the average rate on KU's auction-rate bonds was 3.96%, whereas the average rate on these bonds in January and February of 2008 was 4.72%. The instruments governing these auction rate bonds permit LG&E and KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first quarter of 2008, the ratings of the Carroll County 2004 Series A bonds were downgraded from AAA to AA and subsequently to BBB+ by S&P and from Aaa to A2 by Moody's, and the Carroll County 2006 Series C bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P due to downgrades of the bond insurer. In the first quarter of 2008, the ratings of the Louisville Metro 2003 Series A bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P due to downgrades of the bond insurer.

In February 2008, KU issued a notice to bondholders of its intention to convert the Carroll County 2007 Series A bonds and the Trimble County 2007 Series A bonds from the auction rate mode to a fixed interest rate mode, as permitted under the loan documents. In February 2008, LG&E issued a notice to bondholders of its intention to convert the Louisville Metro 2005 Series A, 2007 Series A and 2007 Series B bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In March 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2006 Series C bonds and the Mercer County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. In March 2008, LG&E issued notices to bondholders of its intention to convert the Jefferson County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents.

LG&E and KU expect to purchase such bonds and hold some or all such bonds until a later date, including potential further conversion, remarketings or refinancings. Uncertainty in markets relating to auction rate securities or steps LG&E and KU have taken or may take to mitigate such uncertainty, such as additional conversions, subsequent restructurings or redemptions and refinancings, could result in LG&E and KU incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures. See Note 19, Subsequent Events.

During 2006 Capital Corp. completed a tender offer for its outstanding medium term notes. A total of $274 million out of a total outstanding balance of $300 million was tendered by bondholders. As part of this tender offer, virtually all covenants of the medium term note program were eliminated. The Company recognized a loss of $23 million as a result of completing the offer, and of this amount $18 million was included in interest expense in the accompanying income statement for 2006 and $5 million was included in operation and maintenance expense.

The lenders under the medium-term notes for Capital Corp. are entitled to the benefits of a Support Agreement with E.ON U.S. The Support Agreement generally provides that E.ON U.S. will provide Capital Corp. with the necessary funds and financial support to meet its obligations under the medium-term notes.

All covenants at E.ON U.S. subsidiaries were satisfied at December 31, 2007.

Long-term debt maturities for E.ON U.S. are shown below:

	External	Affiliated	Totals
2008	$177	$-	$177
2009	-	255	255
2010	-	183	183
2011	2	300	302
2012	-	250	250
After 2012	754	1,458	2,212
Totals	$933	$2,446	$3,379

The amount for repayments of external long-term debt in 2008 in the above table includes amounts totaling $153 million classified as current because they represent bonds subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. Maturity dates for these bonds range from 2026 to 2032. The Company does not expect to pay these amounts in 2008.

In March 2008, the Company entered into a new variable rate loan with Fidelia in the amount of $75 million with a term of March 2015. See Note 19, Subsequent Events.

Note 14 - Notes Payable

At December 31, 2007, E.ON U.S. had a line of credit with E.ON North America, an affiliate of E.ON, totaling $150 million. The line of credit is available for working capital needs. Unused capacity under the line totaled $88 million at December 31, 2007. The average interest rate on outstanding balances under this line of credit at December 31, 2007, was 4.97%. In February 2007, this line was extended to February 2008. In March 2008, the amount of the facility was increased to $311 million.

In June 2007, LG&E's five existing lines of credit totaling $185 million expired and were replaced with short-term bilateral line-of-credit facilities totaling $125 million. During the third quarter of 2007, LG&E extended the maturity date of these facilities through June 2012. There was no outstanding balance under any of these facilities at December 31, 2007. The covenants under these revolving lines of credit require that (1) LG&E keep its debt-to-total-capitalization ratio under 70%, (2) E.ON directly or indirectly own at least two-thirds of LG&E's voting stock, (3) LG&E maintain credit ratings of BBB- and Baa3 or better as determined by S&P and Moody's, and (4) LG&E cannot dispose of assets totaling more than 15% of total assets as of December 31, 2006.

During June 2007, KU entered into a short-term bilateral line of credit totaling $35 million. During the third quarter of 2007, KU extended the maturity date on this facility to June 2012. There was no outstanding balance under this facility at December 31, 2007. The covenants under this revolving line of credit requires that (1) KU keep its debt-to-total-capitalization ratio under 70%, (2) E.ON directly or indirectly own at least two-thirds of KU's voting stock, (3) KU maintain credit ratings of BBB- and Baa3 or better as determined by S&P and Moody's, and (4) KU cannot dispose of assets totaling more than 15% of total assets as of December 31, 2006.

All covenants at E.ON U.S. subsidiaries were satisfied at December 31, 2007.

Note 15 - Commitments and Contingencies

Purchased Power

LG&E has a contract for purchased power with OVEC, terminating in 2026, for various Mw capacities. LG&E has an investment of 5.63% ownership in OVEC's common stock, which is accounted for on the cost method of accounting. LG&E's share of OVEC's output is 5.63%, approximately 124 Mw of generation capacity.

KU has purchased power arrangements with OMU and OVEC. Under the OMU agreement, which could last through January 1, 2020, KU purchases all of the output of an approximately 400-Mw coal-fired generating station not required by OMU. The amount of purchased power available to KU during 2008-2010, which is expected to be approximately 6% of KU's total Kwh native load energy requirements, is dependent upon a number of factors including the OMU units' availability, maintenance schedules, fuel costs and OMU requirements. Payments are based on the total costs of the station allocated per terms of the OMU agreement. Included in the total costs is KU's proportionate share of debt service requirements on $246 million of OMU bonds outstanding at December 31, 2007. The debt service is allocated to KU based on its annual allocated share of capacity, which averaged approximately 39% in 2007. KU does not guarantee the OMU bonds, or any requirements therein, in the event of default by OMU.

KU has a contract for purchased power with OVEC, terminating in 2026, for various Mw capacities. KU has an investment of 2.5% ownership in OVEC's common stock, which is accounted for on the cost method of accounting. KU's share of OVEC's output is 2.5%, approximately 55 Mw of generation capacity.

Future obligations for power purchases are shown in the following table:

2008	$39
2009	43
2010	35
2011	27
2012	28
After 2012	465
Totals	$637

Construction Program

LG&E had $104 million of commitments in connection with its construction program at December 31, 2007, and KU had $392 million of commitments in connection with its construction program as of the same date.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit

The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division of Air Quality in November 2005. The

filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E and KU administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. An agency decision on the final permit revisions may occur during 2008. The Company is currently unable to determine the final outcome of this matter.

Mine Safety Compliance Costs

In March 2006, the Mine Safety and Health Administration enacted Emergency Temporary Standards regulations and has issued additional regulations as the result of the passage of the Mine Improvement and New Emergency Response Act of 2006, which was signed into law in June 2006. At the state level, Kentucky and other states that supply coal to LG&E and KU, have passed new mine safety legislation. These pieces of legislation require all underground coal mines to implement new safety measures and install new safety equipment. Under the terms of some of the coal contracts LG&E and KU have in place, provisions are made to allow for price adjustments for compliance costs resulting from new or amended laws or regulations. LG&E and KU have begun to receive information from the mines they contract with regarding price adjustments related to these compliance costs and have hired a consultant to review all supplier claims for validity and reasonableness. At this time LG&E and KU have not been notified of claims by all mines and are reviewing those claims they have received. Adjustments will be made to the values of LG&E's, KU's and WKE's coal inventories once the amounts are determinable, however, all of these amounts cannot be estimated at this time. LG&E and KU expect to recover these costs through the FAC.

Letters of Credit

Subsidiaries of Capital Corp. have provided letters of credit securing on- and off-balance sheet commitments totaling $2 million at December 31, 2007. The underlying obligations are performance guarantees. LG&E has also issued letters of credit as of December 31, 2007, for off-balance sheet obligations totaling $3 million, and KU has issued letters of credit as of the same date for off-balance sheet obligations of less than $1 million.

Argentina Matters

In December 2001, the Company commenced arbitration proceedings against the Republic of Argentina under the U.S.-Argentina Bilateral Investment Treaty before the International Council for the Settlement of Investment Disputes. The arbitration presents claims relating to the diminution in value of investments of the Company in Argentina and certain prejudicial actions of the Argentine government in connection therewith, both prior to and during the current economic and financial difficulties in that country. In October 2006, the arbitration panel issued a decision upholding E.ON U.S.'s claim on the merits and entitlement to damages, except for a partial emergency period. In November 2006, the panel issued a follow-up procedural order which proposed a damages methodology based upon estimated lost dividends for historical periods. In July 2007, the panel issued an order awarding E.ON U.S. $57.4 million (including interest) for the period through February 2005. In August 2007, E.ON U.S. filed a request for a supplementary decision for additional damages of approximately $56.2 million (including interest) for the period March 2005-July 2007. The Argentine government has filed defenses to such request. Further decisions of the arbitration panel are anticipated during 2008, including a ruling on the request for supplementary decision. Thereafter, both parties have rights to make various post-award filings, including filings for annulment.

Operating Leases

The Company leases office space, office equipment and vehicles and accounts for these leases as operating leases. See also Note 4, Discontinued Operations, for a discussion of the Big Rivers operating lease. Lease expense equaled $11 million in 2007 and $4 million in 2006. The Company had no rental income in 2007 or 2006. Commitments under operating leases as of December 31, 2007, are presented below (in millions of $):

2008	$11
2009	9
2010	7
2011	5
2012	5
After 2012	9
Totals	$46

LG&E and KU are participants in a sale and leaseback transaction involving their two jointly-owned CTs at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, LG&E and KU entered into a tax-efficient, 18-year lease of the CTs. LG&E and KU have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is the same as if LG&E and KU had retained their ownership interests. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

In case of default under the lease, LG&E and KU are obligated to pay to the lessor their share of certain fees or amounts. Primary events of default include loss or destruction of the CTs, failure to insure or maintain the CTs and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the CTs reverts jointly to LG&E and KU.

At December 31, 2007, the maximum aggregate amount of default fees or amounts was $10 million. Of this amount, LG&E would be responsible for approximately $4 million (38%) and KU would be responsible for approximately $6 million (62%). LG&E and KU have made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay any default fees that LG&E or KU may incur.

Owensboro Contract Litigation

In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in that court denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction on matters. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. A motion to reconsider that ruling is presently pending before the Court. The parties are continuing various

discovery proceedings, as well as settlement negotiations. A trial date has been set for October 2008. In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding. The Company is currently unable to determine the final outcome of this matter.

Environmental

The Company's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to the Company's business operations are described below.

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local non-attainment areas into compliance with the new ozone and fine particulate standards, the Company's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. LG&E's and KU's weighted-average company-wide emission rates for SO_2 in 2007 were approximately .50 lbs./MMBtu and 1.33 lbs./MMBtu of heat input, respectively, with every generating unit below its emission limit established by the Kentucky Division for Air Quality and the Louisville Metro Air Pollution Control District (with respect to LG&E).

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase

cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In February 2008, a federal appellate court issued a decision in one of the proceedings vacating the current CAMR, an outcome that may have the effect of resulting in more stringent mercury reduction rules. However, the ruling could be subject to further appeal. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In 2005, the local air agency in Jefferson County, Kentucky adopted a regulation aimed at regulating additional hazardous air pollutants from sources including power plants. A similar regulation was proposed by the Kentucky air agency in 2006, but it was withdrawn in 2007. To the extent those rules are final, they are not expected to have a material impact on the Company's power plant operations.

Acid Rain Program. The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its Clean Air Visibility Rule detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR will result in more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective.

LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emissions allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions.

KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's combined strategy for its Phase II SO_2 requirements, which commenced in 2000, include the installation of additional FGD equipment, as well as using accumulated emissions allowances and fuel switching to defer certain additional capital expenditures.

In order to achieve the NOx emission reductions and associated obligations, LG&E and KU installed additional NOx controls, including SCR technology, during the 2000-to-2007 time period. LG&E's costs to install the controls totaled $197 million, and KU's costs totaled $220 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by LG&E and KU for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, LG&E and KU expect to incur additional capital expenditures totaling approximately $130 million and $675 million, respectively, during the 2008-through-2010 time period for pollution controls including FGD and SCR equipment and incur additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by LG&E and KU for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E and KU believe their costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's and KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E and KU will continue to monitor these developments to ensure that their environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In addition, litigation is currently pending before various courts to determine whether the EPA and the states have the authority to regulate GHG emissions under existing law. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. LG&E and KU are monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and are assessing potential impacts of such programs and strategies to mitigate those impacts. LG&E and KU are unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As companies with significant coal-fired generating assets, LG&E and KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E and KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging KU had exceeded heat input values in violation of the air permit for the unit. During 2006, KU provided data responses to the EPA with respect to the allegations in the NOVs. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint seeks civil penalties, including potential per-day fines, remedial measures and injunctive relief. In April 2007, KU filed an answer in the civil suit denying the allegations. In July 2007, a July 2009 date for trial on the merits was scheduled. The parties continue periodic settlement discussions and a $2 million accrual has been recorded based on the current status of those discussions, however, KU cannot determine the overall outcome or potential effects of these matters, including whether substantial fines, penalties or remedial construction may result.

Section 114 Requests. In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain construction and maintenance activities at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's Ghent 2 generating unit. LG&E and KU are complying with the information requests and are not able to predict further proceedings in this matter at this time.

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain

provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have commenced initial discussions on this matter. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial construction may result.

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations for former MGP sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station; and ongoing claims regarding GHG emissions from LG&E's and KU's generating stations. With respect to the former MGP sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of the other matters is also not expected to have a material impact on the operations of LG&E and KU.

KU has recently settled certain environmental matters. During 2005 and 2006, final judicial and administrative approvals were received regarding a consent decree relating to the October 1999 leak of approximately 38,000 gallons of diesel fuel (of which 34,000 gallons were recovered) from an underground pipeline at KU's E.W. Brown Station. Under the terms of the settlement, KU paid a civil penalty in 2006 and has agreed to construct a supplemental environmental project and maintain the project for ten years, each at a cost of less than $1 million. During 2006 final judicial and administrative approval were received regarding a settlement associated with a former transformer scrap-yard which had been the subject of April 2002 correspondence to KU and other potentially responsible parties. Under the terms of the settlement, the parties bore aggregate cleanup costs of approximately $2 million, of which KU's share was less than $1 million, which was paid in December 2006.

Coal and Gas Purchase Commitments

The following table summarizes the Company's coal and gas purchase commitments for periods after December 31, 2007 (in millions of $):

2008	$574
2009	343
2010	293
2011	269
2012	124
After 2012	5
Total	$1,608

Note 16 - Jointly Owned Electric Utility Plants

Trimble County Unit 1

LG&E owns a 75% undivided interest in Trimble County Unit 1, which the Kentucky Commission has allowed to be reflected in customer rates. Of the remaining 25% of the unit, IMEA owns a 12.12% undivided interest, and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate ownership share of fuel cost, operation and maintenance expenses, and incremental assets. The following data represents shares of the jointly owned property:

	LG&E	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	383	66	62	511
(in millions of $):				
Cost	$633			
Accumulated depreciation	246			
Net book value	$387			
Construction work in progress (included above)	$27			

Trimble County Unit 2

LG&E and KU have begun construction of a jointly-owned unit at the Trimble County site (Trimble County Unit 2). LG&E and KU own undivided interests of 14.25% and 60.75%, respectively, in the unit. Of the remaining 25% of the unit, IMEA owns a 12.12% undivided interest and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction, and fuel, operation and maintenance costs when the unit begins operation, which is expected to occur in 2010. The following data represents shares of the jointly owned property:

	LG&E And KU	IMPA	IMEA	Total
Ownership interest	75%	12.88%	12.12%	100%
Mw capacity	562	97	91	750
Construction work in progress	$406			

Note 17 - Accumulated Other Comprehensive Income

Accumulated other comprehensive income consisted of the following (in millions of $):

	Minimum Pension Liability Adjustment		Funded Status Of Postretirement And Pension Plans		Accumulated Derivative Gain or Loss		Foreign Currency Translation Adj.		Totals		
	Pretax	Tax	Pretax	Tax	Pretax	Tax	Pretax	Tax	Pretax	Tax	Net
Balance at December 31, 2005	$(63)	$23	$-	$-	$(9)	$4	$17	$(3)	$(55)	$24	$(31)
Minimum pension liability adjustment	36	(13)	-	-	-	-	-	-	36	(13)	23
Adoption of FAS 158	27	(10)	(27)	10	-	-	-	-	-	-	-
Change in funded status of defined-benefit postretirement and pension plans			(20)	8					(20)	8	(12)
Gains and losses on derivative instruments designated and qualifying as cash flow hedging instruments	-	-	-	-	5	(2)	-	-	5	(2)	3
Foreign currency translation adjustment	-	-	-	-	-	-	(4)	1	(4)	1	(3)
Balance at December 31, 2006	-	-	(47)	18	(4)	2	13	(2)	(38)	18	(20)
Change in funded status of defined-benefit postretirement and pension plans	-	-	15	(6)	-	-	-	-	15	(6)	9
Gains and losses on derivative instruments designated and qualifying as cash flow hedging instruments	-	-	-	-	(7)	2	-	-	(7)	2	(5)
Foreign currency translation adjustment	-	-	-	-	-	-	9	(2)	9	(2)	7
Balance at December 31, 2007	$-	$-	$(32)	$12	$(11)	$4	$22	$(4)	$(21)	$12	$(9)

Note 18 - Stock Appreciation Rights and Share Performance Plan

Certain officers of the Company participated in the E.ON Stock Appreciation Rights (SAR) program, a stock-based compensation plan based on E.ON's shares. The table below shows the number of SARs issued, exercised, and outstanding under the program relating to Company officers and employees:

Balance at December 31, 2005	114,453
Exercised	(69,886)
Balance at December 31, 2006	44,567
Exercised	(44,567)
Balance at December 31, 2007	-

E.ON stopped issuing SARs to officers after the 2005 grant, and there were no SARs outstanding at December 31, 2007.

Following the expiration of a two-year blackout period following issuance, qualified executives could exercise

all or a portion of the SARs issued to them within predetermined annual exercise windows. The terms of the SARs were limited to seven years.

The amount paid to executives when they exercised their SARs represented the difference between the E.ON stock price at the time of exercise and the underlying stock price at issuance multiplied by the numbers of SARs exercised. In accordance with SFAS 123(R), the SARs were measured at fair value for the first time in 2006. The Company recorded SARs expense of less than $1 million in 2007 and $2 million in 2006.

In 2006, a new stock-based compensation system, the E.ON Share Performance Plan, was introduced, and virtual shares were granted under the Plan to certain officers of the Company for the first time. The E.ON Share Performance Plan is a stock-based compensation plan based on E.ON's shares, and it entitles each participant to receive a payment at the end of a three-year period equal to a target value per share times the number of virtual shares granted. The number of virtual shares can not change during the three-year period, but the target value per share can change based on the change in the price of E.ON's stock during the three-year period compared to the change in the Dow Jones STOXX Utilities Index (Total Return EUR). The Company uses the fair-value method to account for the Plan.

The table below shows the number of virtual shares issued and outstanding under the E.ON Share Performance Plan. No virtual shares have been eligible for exercise since the inception of the plan.

Balance at December 31, 2005	-
Issued	8,725
Balance at December 31, 2006	8,725
Issued	6,820
Balance at December 31, 2007	15,545

Target values per virtual share issued equaled €96.52 and €79.22 in 2007 and 2006, respectively. These amounts represent values of the virtual shares when issued.

The Company recorded expense related to the Plan of $2 million in 2007 and less than $1 million in 2006.

Note 19 – Subsequent Events

On January 18, 2008, the Kentucky Commission issued an Order approving the charges and credits billed by LG&E and KU through the FAC during the review period of November 1, 2006 through April 30, 2007.

On January 31, 2008 and February 14, 2008, the ratings of KU's Carroll County 2004 Series A bonds were downgraded from AAA to AA by S&P and from Aaa to A2 by Moody's, respectively, due to downgrades of the bond insurer. On February 25, 2008, the bonds were subsequently downgraded from AA to A by S&P, due to a further downgrade of the insurer. On March 28, 2008, the bonds were downgraded again to BBB+ by S&P due to another downgrade of the insurer.

On February 1, 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by LG&E and KU for implementation within approximately eight months, for their large commercial and industrial customers.

On February 7, 2008 and February 25, 2008, the ratings of the Louisville Metro 2003 Series A bonds were

downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P, due to downgrades of the bond insurer.

On February 7, 2008 and February 25, 2008, KU's Carroll County 2006 Series C bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P, due to downgrades of the bond insurer.

On February 26, 2008, KU commenced steps, including notice to relevant parties, to convert the Carroll County 2007 Series A bonds and the Trimble County 2007 Series A bonds, from the auction rate mode to a fixed interest rate mode. The conversions occurred on April 3, 2008. The new interest rates are 5.75% and 6.00%, respectively.

On February 26, 2008, LG&E commenced steps, including notice to relevant parties, to convert the Louisville Metro 2005 Series A bonds from the auction rate mode of interest to a weekly interest rate mode. Such conversion occurred on March 24, 2008. In connection with the conversion, LG&E purchased the bonds from the remarketing agent.

On February 27, 2008, LG&E commenced steps, including notice to relevant parties to convert the Louisville Metro 2007 Series A and 2007 Series B bonds from the auction rate mode of interest to a weekly interest rate mode. The conversions occurred on April 4 and then LG&E purchased the bonds from the remarketing agent.

On March 4, 2008, the FERC issued an Order approving the MISO exit fee recalculation agreement which provides LG&E and KU with an immediate recovery of less than $1 million each and an estimated $2 million and $3 million, respectively, over the next eight years for credits realized from other payments the MISO will receive, plus interest.

On March 17, 2008, KU commenced steps, including notice to relevant parties, to convert the Carroll County 2006 Series C bonds from the auction rate mode to a weekly interest rate mode. Such conversion is scheduled to occur on April 16, 2008.

Beginning in late 2007, the interest rates on these insured bonds, wherein interest rates are reset either weekly or every 35 days via an auction process, began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture which can be as high as 15%. During 2007, the average rate on LG&E's auction-rate bonds was 3.77%, whereas the average rate on these bonds in January and February 2008 was 4.58%. Also during 2007, the average rate on KU's auction-rate bonds was 3.96%, whereas the average rate on these bonds in January and February 2008 was 4.72%.

On March 20, 2008, the Company increased the size of its credit facility with E.ON North America to $311 million.

On March 25, 2008 LG&E commenced steps, including notice to relevant parties, to convert the Jefferson County 2000 Series A bonds from the auction mode to a weekly mode. Such conversion is scheduled to occur on May 1, 2008.

On March 25, 2008 KU commenced steps, including notice to relevant parties, to convert the Mercer County 2000 Series A bonds from the auction mode to a weekly mode. Such conversion is scheduled to occur on May 1, 2008.

On March 25, 2008, the Company borrowed $75 million from Fidelia in a variable-rate loan that matures in March 2015.

On March 28, 2008, the Kentucky Commission issued Orders in the six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of LG&E's and KU's environmental surcharge, approving the charges and credits billed through the ECR during the review period , as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

On March 31, 2008, the Kentucky Commission issued an Order approving the proposed DSM programs and allowing the mechanism to continue in its current form.

On April 9, 2008, the Company made a discretionary contribution to the pension plan in the amount of $2 million. As of December 31, 2007, the Company's pension plan assets are in excess of the accumulated benefit obligation.

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Report of Independent Auditors

To the Shareholder of E.ON U.S. LLC and Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and statements of capitalization and the related consolidated statements of operations, of comprehensive income, of retained earnings, and of cash flows present fairly, in all material respects, the financial position of E.ON U.S. LLC and its subsidiaries at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 6 to the financial statements, E.ON U.S. LLC changed the manner in which it accounts for defined benefit pension and other postretirement benefit plans as of December 31, 2006.

PricewaterhouseCoopers LLP

April 11, 2008

Exhibit 3.17 to the Company Disclosure Schedule

E.ON U.S. LLC
Intercompany Payments Received
July 2007 - December 2007

Company	Expat/Activity	2007	Comments
E.ON Sverige	Snowberger	8,488.74	EUS employee sent to E.ON Sverige as Expat
	Holstrom	5,577.96	Graduate Program student sent to EUS
		14,066.70	
E.ON UK	UMS Contract	128,597.31	Reimbursement for E.ON UK's share of contract for generation benchmarking consulting
		128,597.31	
E.ON AG	Blank	1,295.14	Graduate Program student sent to EUS
	Phillips	518.63	Graduate Program student sent to EUS
	Mukundan	3,880.01	EUS employee sent to Germany for Emerging Leaders' Forum
	Hall	2,710.50	EUS employee sent to Germany for Emerging Leaders' Forum
	Segbers	4,846.19	EUS employee sent to Germany for Emerging Leaders' Forum
		13,250.47	
E.ON Ruhrgas	Himes	142,218.48	EUS employee sent to E.ON Rurhgas as Expat
	Stewart	52,579.52	EUS employee sent to E.ON Rurhgas as Expat
		194,798.00	
E.ON Energie	Cornefert	9,979.00	Graduate Program student sent to EUS
	Schlitt	4,461.08	E.ON Energie employee sent to EUS as Expat
	Wigge	4,604.49	E.ON Energie employee sent to EUS as Expat
		19,044.57	
E.ON Kraftwerke	UMS Contract	158,978.29	Reimbursement for E.ON Kraftwerke's share of contract for generation benchmarking consulting
	Borgmann	4,336.25	E.ON Kraftwerke employee sent to EUS as Expat
		163,314.54	
	Total:	**533,071.59**	

E.ON U.S. LLC
Intercompany Payments Received
January 2008 - December 2008

Company	Expat/Activity	2008	Comments
E.ON Sverige	Snowberger	3,500.00	EUS employee sent to E.ON Sverige as Expat
	Holstrom	3,179.98	Graduate Program student sent to EUS
		6,679.98	
E.ON UK	UMS Contract	94,430.83	Reimbursement for E.ON UK's share of contract for generation benchmarking consulting
	Farmer	15,712.06	E.ON UK employee sent to EUS as Expat
		110,142.89	
E.ON AG	Kernan	6,486.83	EUS employee sent to Germany as Expat
	Sebourn	42,520.84	EUS employee sent to Germany as Expat
	Segbers	4,468.18	Graduate Program student sent to EUS
	Gallus	603,443.36	EUS employee sent to EET as Expat
	Flaiban	159,431.88	Centro/Argentina employee sent to E.ON AG as Expat
	Hayden	218,938.91	EUS employee sent to Germany as Expat
	Kraus	5,111.78	E.ON AG employee sent to EUS for international exchange
	Shuffett	170,744.43	EUS employee sent to Germany as Expat
	Laughlin	4,951.12	EUS employee sent to Germany for Employer Brand Meeting
	Making Friends	3,679.61	Children of EUS employees sent to Germany for Making Friends Program
	Standard & Poors	7,350.00	Reimbursement from E.ON AG for S&P Ratings Direct Service
	Street Sense	169,802.97	Reimbursement from E.ON AG for Street Sense Project
	Senior Mgmt Potentials	6,654.81	EUS employees sent to Germany for Emerging Leaders/Senior Mgmt Potentials program
		1,403,584.72	
E.ON Rurhgas	Himes	30,326.30	EUS employee sent to E.ON Rurhgas as Expat
		30,326.30	
E.ON Energie	Cornefert	237.17	Graduate Program student sent to EUS
	Schlitt	2,236.34	E.ON Energie employee sent to EUS as Expat
	Wigge	4,231.53	E.ON Energie employee sent to EUS as Expat
		6,705.04	

E.ON Kraftwerke	UMS Contract	62,559.45	Reimbursement for E.ON Kraftwerke's share of contract for generation benchmarking consulting
	Süttman	5,129.50	E.ON Kraftwerke employee sent to EUS as Expat
	Borgmann	463.20	E.ON Kraftwerke employee sent to EUS as Expat
	Tummonds	220,606.02	EUS employee sent to E.ON Kraftwerke as Expat
		288,758.17	
	Total:	**1,846,197.10**	

E.ON U.S. LLC
Intercompany Payments Received
January 2009-December 2009

Company	Expat/Activity	Amount	Comments
E.ON Sverige	Snowberger	2,300.00	EUS employee sent to E.ON Sverige as Expat
	Akesson	11,046.70	E.ON Graduate Program student sent to EUS
	Wramsjo	3,294.85	E.ON Sverige employee in the US as participant in E.ON's Senior Management Potential program
		16,641.55	
E.ON UK	UMS Contract	6,602.79	Reimbursement for E.ON UK's share of contract for generation benchmarking consulting
		6,602.79	
E.ON AG	Sebourn	52.34	EUS employee sent to Germany as Expat
	Gallus	1,243,283.82	EUS employee sent to EET as Expat
	Hayden	26,804.02	EUS employee sent to Germany as Expat
	Shuffett	141,311.94	EUS employee sent to Germany as Expat
	Laughlin	124.19	EUS employee sent to Germany for Employer Brand Meeting
	Ignat	10,311.78	E.ON Graduate Program student sent to EUS
	Making Friends	29,769.23	Children of EUS employees sent to Germany for Making Friends Program
	Personal Awareness	10,333.17	E.ON Academy reimbusement of costs for PAI training
	Standard & Poors	7,575.21	Reimbursement from E.ON AG for S&P Ratings Direct Service
	Senior Mgmt Potentials	30,936.81	EUS employees sent to Germany for Emerging Leaders/Senior Mgmt Potentials program
		1,500,502.51	
E.ON Rurhgas	Himes	38,457.93	EUS employee sent to E.ON Rurhgas as Expat
	Stewart	4,934.41	EUS employee sent to Germany as Expat
	Kadgien	10,281.26	E.ON Graduate Program student sent to EUS
		53,673.60	
E.ON Energie	Pratsch	8,482.80	E.ON Graduate Program student sent to EUS
		8,482.80	

Company	Expat/Activity	Amount	Comments
			Reimbursement for E.ON Kraftwerke's share of contract for generation benchmarking consulting
E.ON Kraftwerke	UMS Contract	6,602.79	
	Tummonds	249,006.23	EUS employee sent to E.ON Kraftwerke as Expat
		255,609.02	
	Total:	**1,841,512.27**	

A/P Invoices Charged to E.ON Vendors
July - December 2007

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
EON	Servco	070120224	IMD COURSE	9,871.46
EON	Servco	070120225	IMD COURSE/STEVEN TURNER	2,326.33
EON	Servco	070120229	PROGRAM PERSONAL AWARNESS & IMPACT, DEBO	2,354.95
EON	Servco	070120230	NELSON MAYNARD	2,411.50
EON	Servco	070120231	SHARON JOHNSON	2,411.50
EON	Servco	070120232	K. BUTLER	2,411.50
EON	Servco	070120244	THOMAS TROOST	2,345.24
EON	Servco	070120313	PERSONAL COSTS E.ON	90,531.92
EON	Servco	070120363	PKI CHARGES	9,981.44
EON	Servco	070120368	TREMA CHARGES	9,562.16
EON	Servco	070120378	CRYPTOGUIDE CHARGES	675.88
EON	Servco	070120386	GDS CHGS FOR Q1/2007 & Q2/2007	17,264.75
EON	Servco	070120387	RMS CHARGES	790.70
EON	Servco	070120603	SHARE COST TRANSFER CERA	5,559.33
EON	Servco	070120610	CERA RETAINER	31,486.66
EON	Servco	070120731	PAI	24,517.04
EON	Servco	070120793	GEL PYMTS	524,837.18
EON	Servco	070120816	ASSIGNMENT HILKE RICHMER	15,020.89
EON	Servco	070120899	RWD SOFTWARE & MAINTENANCE 3 & 4 QTR	208,467.83
EON	Servco	070120900	ADOBE FOR SOFTWARE & MAINTENANCE 3 & 4 Q	178,442.59
EON	Servco	070120968	CRYPTOGUIDE CHARGES	725.61
EON	Servco	070120969	PKI CHARGES	10,715.84
EON	Servco	070120970	GDS CHARGES	9,261.44
EON	Servco	070120983	RMS CHARGES	855.17
EON	Servco	070120990	TREMA CHARGES	10,235.70
EON	Servco	070121022	PARTICIPATION FEE P. THOMPSON	3,698.13
EON	Servco	070121029	PARTICIPATION FEE J. VOYLES	3,698.13
EON	Servco	070121091	EXPAT COST	192,881.05
EON	Servco	070121128	TREMA CHARGES FOR 4TH QTR	10,077.96
EON	Servco	070121163	PKI CHARGES	9,007.21
EON	Servco	070121164	RMS CHARGES	1,561.86
EON	Servco	070121165	GDS CHARGES	9,190.28
EON	Servco	070121166	CRYPTOGUIDE CHARGES	720.04
EON	Servco	85660880	W. WILBERT	19,020.69
EON	Servco	EONAG103007	M. KERNEN U.S. TAX REFUND DUE EON AG	58,113.00
EON	Servco	EONAG112907SRV	M SEBOURN 2006 TAX RETURN	2,059.00
EON	Servco	EONUKP100507SRV	REIMB. ON DUP PYMT MADE TO EON US SER.	1,500.00
EON	Servco	EONUKP112907SRV	SHERIDAN OVERPAYMENT	1,500.00

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
EON ENGINEERING CORP	Servco	500101	E.ON Engineering Corp - Ghent #1 SO3 Tes	16,725.00
EON ENGINEERING CORP	Servco	500196	CATALYST TESTING	16,000.00
EON ENGINEERING CORP	Servco	500206	Testing, MARA, for 3rd catalyst layer at	119,862.13
EON ENGINEERING CORP	Servco	500207	AMMONIA SLIP TESTING	6,500.00
EON ENGINEERING CORP	Servco	500220	Mill Creek Catalyst Testing (Catalyst Te	48,000.00
EON ENGINEERING CORP	Servco	500244	Boiler Assessment at Coleman	9,720.00
EON IS GMBH	Servco	85660181	CUST #991785	80,866.27
EON IS GMBH	Servco	85660182	CUST #991785	14,631.90
EON IS GMBH	Servco	85661812	W. WILBERT	25,060.55
EON IS GMBH	Servco	85661813	W. WILBERT TRAVEL COST	6,515.93
EON IS GMBH	Servco	85662284	FRANK JAPEL	7,133.52
EON IS GMBH	Servco	85662297	WORKING/TRAVEL COST-WERNER WILBERT	62,112.49
EON IS GMBH	Servco	85662298	TRAVEL COST-WERNER WILBERT	5,570.45
EON IS GMBH	Servco	85662300	GDS IMPLEMENTATION	6,082.95
EON NORTH AMERICA INC	Servco	EONNOR062807SRV	FACILITY FEE	4,363.01
EON NORTH AMERICA INC	Servco	EONNOR070207	JUN INTEREST & 2Q COMMITMENT FEES	407,887.07
EON NORTH AMERICA INC	Servco	EONNOR080107LLC	JULY INTEREST ON OVERNIGHT FACILITY	248,359.45
EON NORTH AMERICA INC	Servco	EONNOR083107LLC	AUGUST INTEREST	428,853.66
EON NORTH AMERICA INC	Servco	EONNOR083107LLCA	INTEREST DUE	1,152,327.00
EON NORTH AMERICA INC	Servco	EONNOR092807LLC	SEP INTEREST & QUARTERLY COMMITMENT FEES	411,221.13
EON NORTH AMERICA INC	Servco	EONNOR100207SRV	FACILITY FEE	4,315.07
EON NORTH AMERICA INC	Servco	EONNOR102907LLC	INTEREST DUE	1,157,500.00
EON NORTH AMERICA INC	Servco	EONNOR103107LLC	INTEREST ON OVERNIGHT FACILITY	380,523.23
EON NORTH AMERICA INC	Servco	EONNOR120307LLC	INT ON OVERNIGHT FACILITY	312,087.91
EON RUHRGAS AG	Servco	22007331052007	MARCUS KORTHALS	4,483.50
EON US INVESTMENTS CORP	Servco	EONUSI091207LLC	INCOME TAXES	7,450,000.00
EON US INVESTMENTS CORP	Servco	EONUSI121307LLC	DIVIDEND, INCOME TAXES, AR EUSIC	55,597,000.00
FIDELIA CORPORATION *	KU	ITCSOU051107KU	FFC: 6728020621	0.00
FIDELIA CORPORATION *	KU	ITCSOU070507KU	INTEREST PAYMENT LOAN	1,183,750.00
FIDELIA CORPORATION *	KU	ITCSOU071007KU	INTEREST PAYMENT	1,097,500.00
FIDELIA CORPORATION *	KU	ITCSOU080107KU	INTEREST PAYMENT	1,991,250.00
FIDELIA CORPORATION *	KU	ITCSOU080107KUA	INTEREST PAYMENT	1,507,850.00
FIDELIA CORPORATION *	KU	ITCSOU091907KU	INTEREST PAYMENT	2,197,500.00
FIDELIA CORPORATION *	KU	ITCSOU100407KU	INTEREST PAYMENT	1,418,750.00
FIDELIA CORPORATION *	KU	ITCSOU100407KUA	INTEREST PAYMENT	2,275,000.00
FIDELIA CORPORATION *	KU	ITCSOU110807KU	INTEREST PAYMENT	699,600.00
FIDELIA CORPORATION *	KU	ITCSOU120307KU	FFC: 3728020621	2,010,000.00
FIDELIA CORPORATION *	KU	ITCSOU120307KUA	FFC: 6728020621	1,495,000.00
FIDELIA CORPORATION *	KU	ITCSOU120307KUB	FFC: 6728020621	1,582,500.00
FIDELIA CORPORATION *	LGE	ITCSOU071007LGE	INTEREST PAYMENT	541,250.00
FIDELIA CORPORATION *	LGE	ITCSOU080107LGE	INTEREST PAYMENT	2,655,000.00

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
FIDELIA CORPORATION *	LGE	ITCSOU100407LGE	INTEREST PAYMENT	4,109,200.00
FIDELIA CORPORATION *	LGE	ITCSOU100407LGEA	INTEREST PAYMENT	2,275,000.00
FIDELIA CORPORATION *	Servco	ITCSOU070207	INTEREST PMT ON LOAN MAT DATE 7/5/11	1,421,000.00
FIDELIA CORPORATION *	Servco	ITCSOU070207LLC	FFC: 6728020621 / FIDELIA CORP	995,000.00
FIDELIA CORPORATION *	Servco	ITCSOU070507LLC	INTEREST PAYMENT	1,519,000.00
FIDELIA CORPORATION *	Servco	ITCSOU080307LLC	FFC:6728020621	1,171,466.67
FIDELIA CORPORATION *	Servco	ITCSOU080307LLCA	FFC: 6728020621-FIDELIA CORP	1,094,708.33
FIDELIA CORPORATION *	Servco	ITCSOU082807LLC	INTEREST PAYMENT	1,570,000.00
FIDELIA CORPORATION *	Servco	ITCSOU090507LLC	FFC: 6728020621/FIDELIA	761,555.56
FIDELIA CORPORATION *	Servco	ITCSOU090507LLCA	FFC: 6728020621/FIDELIA	1,052,250.00
FIDELIA CORPORATION *	Servco	ITCSOU090507LLCB	FFC: 6728020621/FIDELIA CORP	742,388.89
FIDELIA CORPORATION *	Servco	ITCSOU091407LLC	INTEREST PAYMENT	1,504,375.00
FIDELIA CORPORATION *	Servco	ITCSOU100407LLC	FFC: 6728020621	2,141,250.00
FIDELIA CORPORATION *	Servco	ITCSOU100407LLCA	FFC: 6728020621	3,480,000.00
FIDELIA CORPORATION *	Servco	ITCSOU100907LLC	FFC: 6728020621	1,562,173.25
FIDELIA CORPORATION *	Servco	ITCSOU110807LLC	FFC: 6728020621/FIDELIA CORP	1,215,422.22
FIDELIA CORPORATION *	Servco	ITCSOU110807LLCA	INT PMT $75 MILLION LOAN/11/19/2012	1,088,208.33
FIDELIA CORPORATION *	Servco	ITCSOU110807LLCB	FFC: 6728020621/FIDELIA CORP	1,224,416.67
FIDELIA CORPORATION *	Servco	ITCSOU120307LLC	FFC: 6728020621/FIDELIA CORP. 75 MILL LO	1,085,838.54
FIDELIA CORPORATION *	Servco	ITCSOU120307LLCA	FFC: 6728020621/FIDELIA CORP	763,072.92
FIDELIA CORPORATION *	Servco	ITCSOU120307LLCB	FFC: 6728020621/FIDELIA CORP	1,526,250.00
FIDELIA CORPORATION *	Servco	ITCSOU120707LLC	FFC: 6728020621/FIDELIA CORP	783,295.14
Totals				123,210,615.70

Actual vendor name = ITS SOUTH AND EAST DEPOSITORY ACCT

A/P Invoices Charged to E.ON Vendors
January – December 2008

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
EON	Servco	070120760	TICKET 1385783, INCOME STMT REPORT	1,741.94
EON	Servco	070121336	SHARED COST FOR EON TRADING ACADEMY	6,275.26
EON	Servco	070121485	SUPPORT MARTIN KEUSCHNIK	8,826.73
EON	Servco	070121497	EXPAT PERSONNEL COSTS-RICHMER, KORTHAIS,	65,010.43
EON	Servco	070130058	C. LANDSMANN	1,859.40
EON	Servco	080120141	EMPLOYEE OPINION SURVEY 2007	21,226.12
EON	Servco	080120297	MERCER SOFTWARE FOR EXPAT	6,010.37
EON	Servco	080120492	CANCELATION FEE M. MILLER	2,793.77
EON	Servco	080120493	SR MANAGERS PRG 08- C. WHELAN	3,725.04
EON	Servco	080120769	PERSONAL AWARENESS & IMPACT	17,936.97
EON	Servco	080120770	07/08 SUMMER ACADEMY, GOSMAN, SCHWARTZ,	12,165.76
EON	Servco	080121037	RMS CHARGES	1,902.70
EON	Servco	080121038	CRYTOGUIDE CHARGES 01/01-06/30/08	1,420.52
EON	Servco	080121039	PKI CHARGES FOR 01/01-06/30/08	19,821.79
EON	Servco	080121040	GDS CHARGES FOR 01/01/08	21,664.23
EON	Servco	080121045	TREMA CHARGES 1ST HALF 08	20,456.05
EON	Servco	080121360	CERA GLOBAL OIL	15,507.00
EON	Servco	080121361	CERA RETAINER	37,220.00
EON	Servco	080121579	EON EXEC PROG MIT	2,376.24
EON	Servco	080121622	EXEC PROGRAM-MIKE BEER	3,214.67
EON	Servco	080121963	SHARE EON SAP GEL	1,179,990.51
EON	Servco	080121983	CRYPTOGUIDE CHARGES	1,377.70
EON	Servco	080121990	GDS CHARGES	21,011.15
EON	Servco	080121994	PKI CHARGES	19,224.26
EON	Servco	080122005	RMS CHARGES	1,953.69
EON	Servco	080122039	TREMA CHGS 2ND HALF 2008	19,706.43
EON	Servco	08048	2008 CONSULTING FEES	83,613.09
EON	Servco	1200863	EXTERNAL SALES-REST OF THE WORLD	13,362.65
EON	Servco	1201066	JEFF CHANDLER	13,487.10
EON	Servco	1201476	K MARTIN -GRADUATE EXPENSES	18,094.77

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
EON	Servco	1201477	B PEERS - EXPAT	37,003.23
EON	Servco	1201942	B. PEERS - EXPAT	20,004.07
EON	Servco	1201947	K. MARTIN - GRADUATE EXPENSES	85.87
EON	Servco	1202112	B PEERS/K MARTIN SECONDMENT RECHARGES FO	6,761.48
EON	Servco	19955	CONTRACT 19955	95,602.73
EON	Servco	EONAG060308SRV	INV #070120608 & #070120600	27,852.03
EON	Servco	EONAG120408SRV	REFUND FOR I/C EXPENSES CANCELLED TO GE	3,064.94
EON	Servco	EONSVE030608	TOM SNOWBERGER TAX REFUND EXPAT STATUS	76,394.00
EON	Servco	EONUKP062508SRV	REFUND FOR OVERPAYMENT	5,027.04
EON	Servco	SO08003	EIM CONSULTING FEES	25,689.61
EON ENERGIE AG	Servco	92005755991785	BEST PRACTICE MEETING 05/08 /J.MALLOY	71,753.72
EON ENERGIE AG	Servco	991785	INTL. BEST PRACTICE MEETING 05/08	453.75
EON ENERGIHANDLE NORDIC AB	Servco	71918	FEE FOR TRAINING CONF IN MALMO	6,165.00
EON ENGINEERING CORP	Servco	500102	TC SO3 Catalyst Testing; E.ON Engineerin	10,320.00
EON ENGINEERING CORP	Servco	500216	long term resolution of gypsum fines stu	37,367.42
EON ENGINEERING CORP	Servco	500217	additional scope - Case 3A & 3B	5,940.00
EON ENGINEERING CORP	Servco	500219	Ghent - Catalyst testing CPA #15306	60,000.00
EON ENGINEERING CORP	Servco	500242	TC1 CATALYST TESTING	24,000.00
EON ENGINEERING CORP	Servco	500246	FGD SVCE FOR COLEMAN	2,160.00
EON ENGINEERING CORP	Servco	500263	Ghent - Catalyst Testing CPA #15306	41,200.00
EON ENGINEERING CORP	Servco	500275	Determine the most probable cause for de	13,916.12
EON ENGINEERING CORP	Servco	500301	Mill Creek, Catalyst testing under CPA 1	52,800.00
EON ENGINEERING CORP	Servco	500316	WKE Wilson Station, Catalyst testing und	22,000.00
EON ENGINEERING CORP	Servco	500317	Mill Creek Unit 4 MARA Testing (Inv# 500	75,151.16
EON ENGINEERING CORP	Servco	500338	GHENT Catalyst testing, EON Engineering	17,600.00
EON ENGINEERING CORP	Servco	500350	Trimbly County Unit 1 MARA Testing (Inv#	76,672.73
EON ENGINEERING CORP	Servco	EEN000533	WILSON OLVMS 08/09 PYMT R. GREGORY	11,133.22
EON ENGINEERING CORP	WKE	500257	121261	8,640.00
EON ENGINEERING CORP	WKE	500376	127050	1,000.00
EON ENGINEERING LIMITED	Servco	EEN000514	AXIAL FAN TECHNICAL SUPPORT	5,547.67
EON IS GMBH	Servco	85662898	iPass Services provided from February to	8,411.86
EON IS GMBH	Servco	85662976	WERNER WILBERT	957.40
EON IS GMBH	Servco	85662977	WERNER WILBERT	17,248.02

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
EON IS GMBH	Servco	85663217	W. WILBERT	700.72
EON IS GMBH	Servco	85663221	W. WILBERT	2,058.70
EON IS GMBH	Servco	85663222	GDS IMPLEMENTATION - LUAN BERISA	2,467.84
EON IS GMBH	Servco	85663698	GDS IMPLEMENTATION	1,106.27
EON IS GMBH	Servco	85664384	SUPPORT FOR GDS IMPLEMENTATION	142.62
EON IS GMBH	Servco	85665496	SERVICES PROVIDED	3,235.48
EON IS GMBH	Servco	85665946	GDS IMPLEMENTATION	1,855.30
EON IS GMBH	Servco	85666265	SUPPORT FOR GDS IMPLEMENTATION	652.62
EON IS GMBH	Servco	85666266	PROJ: ID.4314 BETRIEB LAN-RAS IND.INTERN	382.45
EON IS GMBH	Servco	85666267	PROJ: ID.4314 BETRIEB LAN-RAS IND.INTERN	617.83
EON IS GMBH	Servco	85667219A	SUPPORT FOR GDS IMPLEMENTATION	1,159.37
EON IS GMBH	Servco	85667689	SLA IPASS	430.62
EON IS GMBH	Servco	85667690	PROJ: IC:4314 BETRIEB LAN-RAS IND. INTER	457.00
EON IS GMBH	Servco	85668463	PROJECT IC 3798	1,032.01
EON KRAFTWERKE	Servco	86448696	DEBORAH DOWD	13,732.56
EON KRAFTWERKE	Servco	86449241	RENT FOR SHAINA STEWARD	4,964.17
EON KRAFTWERKE	Servco	86449597	CREDIT FOR (STEWARD)	(422.81)
EON NORTH AMERICA INC	Servco	EONNOR010208SRV	FEES & COSTS	4,506.85
EON NORTH AMERICA INC	Servco	EONNOR013108LLC	JANUARY INTEREST	218,260.73
EON NORTH AMERICA INC	Servco	EONNOR022908LLC	FEBRUARY INTEREST	144,627.05
EON NORTH AMERICA INC	Servco	EONNOR032508LLC	SETTLEMENT PYMT	2,514,462.00
EON NORTH AMERICA INC	Servco	EONNOR033108LLC	INTEREST/1ST QTR COMMITMENT FEES	219,439.48
EON NORTH AMERICA INC	Servco	EONNOR040208SRV	FACILITY FEES	4,351.22
EON NORTH AMERICA INC	Servco	EONNOR040908LLC	INTEREST DUE LONG TERM	1,157,500.00
EON NORTH AMERICA INC	Servco	EONNOR041108LLC	AMENDED STATE INCOME TAX	90,321.00
EON NORTH AMERICA INC	Servco	EONNOR050208LLC	APRIL INTEREST	357,386.81
EON NORTH AMERICA INC	Servco	EONNOR060208LLC	INTEREST ON OVERNIGHT FACILITY	216,693.45
EON NORTH AMERICA INC	Servco	EONNOR070108LLC	INT & COMMITMENT FEES	146,398.40
EON NORTH AMERICA INC	Servco	EONNOR070108SRV	FEES	4,351.09
EON NORTH AMERICA INC	Servco	EONNOR081908LLC	FED INCOME TAX SETTLEMENT	205,926.00
EON NORTH AMERICA INC	Servco	EONNOR082908EUS	INT OVERNIGHT FACILITY	128,239.68
EON NORTH AMERICA INC	Servco	EONNOR093008LLC	INTEREST & COMMITMENT FEES	177,911.98
EON NORTH AMERICA INC	Servco	EONNOR100608LLC	INTEREST PAYMENT	1,157,500.00
EON NORTH AMERICA INC	Servco	EONNOR100808SRV	FACILITY COMMITMENT FEE	4,398.91

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
EON NORTH AMERICA INC	Servco	EONNOR103108LLC	INTEREST ON OVERNIGHT FACILITY	180,915.51
EON NORTH AMERICA INC	Servco	EONNOR120108LLC	INTEREST ON OVERNIGHT FACILITY	69,314.30
EON NORTH AMERICA INC	Servco	EONNOR123107LLC	DEC INT/COMMITMENT FEE	262,476.42
EON NORTH AMERICA INC	Servco	EONOR080108	INTEREST / OVERNIGHT FACITLITY	124,912.02
EON RUHRGAS AG	Servco	EONRUH022008SRV	TAX REFUND RELATED TO EXPAT ELLIOTT STEW	53,035.00
EON US INVESTMENTS CORP	ECC	EONUSI121008EUS	TAXES	4,570,000.00
EON US INVESTMENTS CORP	Servco	EONUSI021508LLC	DIVIDENDS	19,000,000.00
EON US INVESTMENTS CORP	Servco	EONUSI030608LLC	DIVIDEND	7,100,000.00
EON US INVESTMENTS CORP	Servco	EONUSI032808LLC	TAXES	9,500,000.00
EON US INVESTMENTS CORP	Servco	EONUSI061708LLC	DIVIDEND AND TAXES	3,800,000.00
EON US INVESTMENTS CORP	Servco	EONUSI062408LLC	DIVIDEND	18,800,000.00
EON US INVESTMENTS CORP	Servco	EONUSI091508LLC	DIVIDEND & TAXES	4,000,000.00
EON US INVESTMENTS CORP	Servco	EONUSI091508LLCA	DIVIDEND	18,700,000.00
FIDELIA CORPORATION *	ECC	ITCSOU121008	INT PMT $50 MILLION	3,222,899.31
FIDELIA CORPORATION *	ECC	ITCSOU121008A	INT PMT $50 MILLION	1,988,043.40
FIDELIA CORPORATION *	ECC	ITCSOU121008LLC	FFC: 6728020621/FIDELIA CORP	1,207,329.86
FIDELIA CORPORATION *	ECC	ITCSOU121008LLCA	FFC: 6728020621/FIDELIA CORP	924,072.92
FIDELIA CORPORATION *	ECC	ITCSOU121708LLC	P&I PMT ST $50,000,000 LOAN	50,139,553.82
FIDELIA CORPORATION *	ECC	ITCSOU121708LLCA	P&I PMT ST $48,106,380 LOAN 1/7/09	12,953,073.65
FIDELIA CORPORATION *	KU	ITCSOU012908KU	FFC: 6728020621/FIDELIA CORP	1,991,250.00
FIDELIA CORPORATION *	KU	ITCSOU012908KUA	FFC: 6728020621/FIDELIA CORP	1,507,850.00
FIDELIA CORPORATION *	KU	ITCSOU030308KU	INTEREST PAYMENT	2,980,000.00
FIDELIA CORPORATION *	KU	ITCSOU030308KUA	INTEREST PAYMENT	2,197,500.00
FIDELIA CORPORATION *	KU	ITCSOU040908KU	FFC: 6728020621	2,275,000.00
FIDELIA CORPORATION *	KU	ITCSOU040908KUA	FFC: 6728020621	3,417,250.00
FIDELIA CORPORATION *	KU	ITCSOU051208KU	INTEREST PAYMENT	699,600.00
FIDELIA CORPORATION *	KU	ITCSOU060508KU	FFC: 6728020621/FIDELIA CORP	2,010,000.00
FIDELIA CORPORATION *	KU	ITCSOU060508KUA	FFC: 6728020621/FIDELIA CORP	4,220,000.00
FIDELIA CORPORATION *	KU	ITCSOU060508KUB	FFC: 6728020621/FIDELIA CORP	1,582,500.00
FIDELIA CORPORATION *	KU	ITCSOU070308KU	INTEREST PYMT	1,183,750.00
FIDELIA CORPORATION *	KU	ITCSOU070308KUA	INTEREST PAYMENT	1,097,500.00
FIDELIA CORPORATION *	KU	ITCSOU080108KU	FFC: 6728020621/FIDELIA CORP	1,507,850.00
FIDELIA CORPORATION *	KU	ITCSOU080108KUA	FFC: 6728020621/FIDELIA CORP	1,991,250.00
FIDELIA CORPORATION *	KU	ITCSOU082808KU	INTEREST PAYMENT	2,980,000.00

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
FIDELIA CORPORATION *	KU	ITCSOU082808KUA	INTEREST PAYMENT	2,197,500.00
FIDELIA CORPORATION *	KU	ITCSOU100608KU	INTEREST PAYMENT	3,417,250.00
FIDELIA CORPORATION *	KU	ITCSOU100608KUA	INTEREST PAYMENT	2,275,000.00
FIDELIA CORPORATION *	KU	ITCSOU110508KU	INTEREST PYMT	2,193,750.00
FIDELIA CORPORATION *	KU	ITCSOU110508KUA	INTEREST PYMT	699,600.00
FIDELIA CORPORATION *	KU	ITCSOU121008KU	INT PMT LOAN	2,010,000.00
FIDELIA CORPORATION *	KU	ITCSOU121008KUA	INT PMT LOAN	4,220,000.00
FIDELIA CORPORATION *	KU	ITCSOU121008KUB	INT PMT LOAN	1,582,500.00
FIDELIA CORPORATION *	KU	ITCSOU123107KU	INTEREST PAYMENT	1,183,750.00
FIDELIA CORPORATION *	KU	ITCSOU123107KUA	FIDELIA CORP 6728020621	1,097,500.00
FIDELIA CORPORATION *	LGE	ITCSOU012908LGE	FFC: 6728020621 FIDELIA CORP	2,655,000.00
FIDELIA CORPORATION *	LGE	ITCSOU040908LGE	FFC: 6728020621	4,109,200.00
FIDELIA CORPORATION *	LGE	ITCSOU040908LGEA	FFC: 6728020621	2,275,000.00
FIDELIA CORPORATION *	LGE	ITCSOU051208LGE	INTEREST PAYMENT	1,344,200.00
FIDELIA CORPORATION *	LGE	ITCSOU070308LGE	FFC: 6728020621/FIDELIA CORP	541,250.00
FIDELIA CORPORATION *	LGE	ITCSOU080108LGE	INTEREST PAYMENT	2,655,000.00
FIDELIA CORPORATION *	LGE	ITCSOU100608LGE	INTEREST PAYMENT	4,109,200.00
FIDELIA CORPORATION *	LGE	ITCSOU100608LGEA	INTEREST PAYMENT	2,275,000.00
FIDELIA CORPORATION *	LGE	ITCSOU110508LGE	INTEREST PYMT	1,344,200.00
FIDELIA CORPORATION *	LGE	ITCSOU123107LGE	INTEREST PYMT FFC: 6728020621	541,250.00
FIDELIA CORPORATION *	Servco	ITCSOU010708LLC	INTEREST PAYMENT	1,376,000.00
FIDELIA CORPORATION *	Servco	ITCSOU012908LLC	FFC: 6728020621/FIDELIA CORP	736,000.00
FIDELIA CORPORATION *	Servco	ITCSOU012908LLCA	FFC: 6728020621/FIDELIA CORP	984,208.33
FIDELIA CORPORATION *	Servco	ITCSOU012908LLCB	FFC: 6728020621/FIDELIA CORP	1,073,206.58
FIDELIA CORPORATION *	Servco	ITCSOU020708LLC	FFC: 6728020621/FIDELIA	864,208.33
FIDELIA CORPORATION *	Servco	ITCSOU030308LLC	INTEREST PAYMENT	700,352.43
FIDELIA CORPORATION *	Servco	ITCSOU030308LLCA	FFC: 6728020621/FIDELIA CORP	679,498.26
FIDELIA CORPORATION *	Servco	ITCSOU030408LLC	FFC: 6728020621	950,506.50
FIDELIA CORPORATION *	Servco	ITCSOU040408LLC	FFC: 6728020621	869,333.33
FIDELIA CORPORATION *	Servco	ITCSOU040908LLC	INTEREST PYMT	2,141,250.00
FIDELIA CORPORATION *	Servco	ITCSOU040908LLCA	INTEREST PYMT	3,480,000.00
FIDELIA CORPORATION *	Servco	ITCSOU050708LLC	FFC: 6728020621/FIDELIA CORP	793,572.92
FIDELIA CORPORATION *	Servco	ITCSOU050908LLC	FFC: 6728020621/FIDELIA CORP	434,461.50
FIDELIA CORPORATION *	Servco	ITCSOU051208LLC	FFC: 6728020621/FIDELIA CORP	687,500.00

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
FIDELIA CORPORATION *	Servco	ITCSOU051208LLCA	FFC: 6728020621/FIDELIA CORP	481,541.67
FIDELIA CORPORATION *	Servco	ITCSOU051208LLCB	FFC: 6728020621/FIDELIA CORP	617,812.50
FIDELIA CORPORATION *	Servco	ITCSOU060508LLC	FFC: 6728020621/FIDELIA CORP	3,166,173.61
FIDELIA CORPORATION *	Servco	ITCSOU060508LLCA	FFC: 6728020621/FIDELIA CORP	1,908,545.78
FIDELIA CORPORATION *	Servco	ITCSOU060508LLCB	FFC: 6728020621/FIDELIA CORP	808,833.33
FIDELIA CORPORATION *	Servco	ITCSOU060508LLCC	FFC: 6728020621	754,375.00
FIDELIA CORPORATION *	Servco	ITCSOU060508LLCD	FFC: 6728020621	337,446.13
FIDELIA CORPORATION *	Servco	ITCSOU062708LLC	FFC: 6728050621/FIDELIA CORP	995,000.00
FIDELIA CORPORATION *	Servco	ITCSOU070808LLC	FFC: 6728020621/FIDELIA CORP	805,666.67
FIDELIA CORPORATION *	Servco	ITCSOU070808LLCA	FFC: 6728020621/FIDELIA CORP	375,590.83
FIDELIA CORPORATION *	Servco	ITCSOU080108LLC	INTEREST PAYMENT	318,120.00
FIDELIA CORPORATION *	Servco	ITCSOU080108LLCA	FFC: 6728020621-FIDELIA CORP	623,173.24
FIDELIA CORPORATION *	Servco	ITCSOU080108LLCB	INTEREST PAYMENT	124,208.33
FIDELIA CORPORATION *	Servco	ITCSOU080108LLCC	INTEREST PAYMENT	559,033.85
FIDELIA CORPORATION *	Servco	ITCSOU080108LLCD	FFC: 6728020621/FIDELIA CORP	425,694.21
FIDELIA CORPORATION *	Servco	ITCSOU082808LLC	INTEREST PYMT	755,312.50
FIDELIA CORPORATION *	Servco	ITCSOU082808LLCA	INTEREST PYMT	387,706.67
FIDELIA CORPORATION *	Servco	ITCSOU082808LLCB	FFC: 6728020621/FIDELIA CORP	279,753.85
FIDELIA CORPORATION *	Servco	ITCSOU082808LLCC	INTEREST PAYMENT	846,089.50
FIDELIA CORPORATION *	Servco	ITCSOU082808LLCD	INTEREST PAYMENT	1,050,174.89
FIDELIA CORPORATION *	Servco	ITCSOU082808LLCE	INTEREST PYMT	424,631.94
FIDELIA CORPORATION *	Servco	ITCSOU082808LLCF	INTEREST PYMT	435,562.50
FIDELIA CORPORATION *	Servco	ITCSOU082808LLCG	INTEREST PYMT	109,379.54
FIDELIA CORPORATION *	Servco	ITCSOU091508LLC	FFC: 6728020621	761,407.50
FIDELIA CORPORATION *	Servco	ITCSOU091508LLCA	INTEREST PAYMENT	354,517.19
FIDELIA CORPORATION *	Servco	ITCSOU091508LLCB	FFC: 6728020621	291,933.87
FIDELIA CORPORATION *	Servco	ITCSOU091608LLC	FFC: 6728020621	114,088.75
FIDELIA CORPORATION *	Servco	ITCSOU100608LLC	INTEREST PAYMENT	3,480,000.00
FIDELIA CORPORATION *	Servco	ITCSOU100608LLCA	INTEREST PAYMENT	2,141,250.00
FIDELIA CORPORATION *	Servco	ITCSOU102008SRV	FFC: 6728020621/FIDELIA CORP	16,719,903.18
FIDELIA CORPORATION *	Servco	ITCSOU110308LLC	INTEREST PAYMENT	1,178,645.83
FIDELIA CORPORATION *	Servco	ITCSOU110408LLC	FFC: 6728020621/FIDELIA CORP	499,484.44
FIDELIA CORPORATION *	Servco	ITCSOU110408LLCA	INTEREST PYMT	209,722.22
FIDELIA CORPORATION *	Servco	ITCSOU110508LLC	FFC: 6728020621/FIDELIA CORP	541,039.40

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
FIDELIA CORPORATION *	Servco	ITCSOU110508LLCA	INTEREST PYMT	582,068.67
FIDELIA CORPORATION *	Servco	ITCSOU110508LLCB	INTEREST PAYMENT	648,984.36
FIDELIA CORPORATION *	Servco	ITCSOU110508LLCC	FFC: 6728020621/FIDELIA CORP	452,333.33
FIDELIA CORPORATION *	Servco	ITCSOU110508LLCD	FFC: 6728020621/FIDELIA CORP	852,500.00
FIDELIA CORPORATION *	Servco	ITCSOU112608LLC	FFC: 6728020621/FIDELIA CORP	86,865,301.98
FIDELIA CORPORATION *	Servco	ITCSOU120208LLC	INTEREST PAYMENT	9,324,263.96
FIDELIA CORPORATION *	Servco	ITCSOU120707LLCA	INTEREST PYMT	1,494,458.33
FIDELIA CORPORATION *	Servco	ITCSOU123107LLC	INTEREST PAYMENT	995,000.00
	Total			400,127,650.75

* Actual vendor name = ITC SOUTH AND EAST DEPOSITORY ACCT

A/P Invoices Charged to E.ON Vendors
January - December 2009

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
EON	Servco	080122040	CISCO TELEPRESENCE HARDWARE & IMPLEMENTATION	278,769.18
EON	Servco	080122042	C. HULSMAN & H. RICHMER	276,067.40
EON	Servco	080122096	MERCER SOFTWARE 01/12/08	3,680.94
EON	Servco	090120095	C. LANDSMANN	32,161.80
EON	Servco	090120401	MERCER SOFTWARE 2009	3,728.18
EON	Servco	090120998	CERA RETAINER	32,567.00
EON	Servco	09054	2008 CONSULTING FEES	65,148.26
EON	Servco	1202472	B PEERS EXPAT	11,674.12
EON	Servco	1202631	B.PEERS=EXPAT & K. MARTIN-GRAD	6,032.04
EON	Servco	1202803	B. PEERS-EXPAT	7,106.83
EON	Servco	1203065	B. PEERS	6,392.78
EON	Servco	1203359	B. PEERS-EXPAT & R. CHACKO-GRAD	9,295.51
EON	Servco	1203619	B. PEERS - EXPAT	8,842.97
EON	Servco	1203969	B.PEERS, K. MARTIN, & R. CHACKO	7,787.68
EON	Servco	1204284	B. PEERS - EXPAT & R. CHACKO - GRAD	14,282.44
EON	Servco	1204549	B.PEERS & R. CHACKO	7,124.90
EON	Servco	EONAG052609SRV	EXPATS FOR MIKE SEBOURN & JOHN HAYDEN	7,218.00
EON	Servco	EONSVE052609SRV	TOM SNOWBERGER	26,227.00
EON	WKE	11198		460.00
EON	WKE	11199		400.00
EON	WKE	11200		2,431,367.30
EON	WKE	11201		104,609.06
EON AG	Servco	090120351	C. LANDSMANN	44,360.73
EON AG	Servco	090120997	SHARE COST TRANSFER CERA GLOBAL OIL	15,506.00
EON AG	Servco	090121704	TREMA CHARGES	14,919.28
EON AG	Servco	090121705	RMS CHARGES 2009	4,014.96
EON ENERGY TRADING SE	Servco	90051364991785	MEGAN KUHL	7,868.81
EON ENGINEERING CORP	Servco	500243	WKE Henderson Station Catalyst Testing and Sa	16,000.00

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
EON ENGINEERING CORP	Servco	500444	WKE Wilson Station, Catalyst Testing and Samp	26,400.00
EON ENGINEERING CORP	Servco	500462	WILSON Station - MARA Testing	3,398.40
EON ENGINEERING CORP	Servco	500462	WKE Wilson Station, MARA Testing to improve N	62,000.00
EON ENGINEERING CORP	Servco	500463	TC U1 Catalyst Testing E.ON Engineering Invoi	26,400.00
EON ENGINEERING CORP	Servco	500464	Ghent Catalyst Testing E.ON Engineering Invoi	61,600.00
EON ENGINEERING CORP	Servco	500548	MC U4 Catalyst Testing for Year 2009 (KOLLER)	26,400.00
EON ENGINEERING CORP	Servco	500548	MC U3 Catalyst Testing for Year 2009 (KOLLER)	26,400.00
EON ENGINEERING CORP	Servco	500549	Provide all labor and equipment needed for t	100,000.00
EON ENGINEERING CORP	Servco	500549	Increase PO 36620 at plant's request. EEC inv	13,400.50
EON ENGINEERING LIMITED	Servco	85501667	PROJ: DC.861172	11,523.11
EON ENGINEERING LIMITED	Servco	85502352*	R GREGORY	10,684.51
EON ENGINEERING LIMITED	Servco	85504420	E.ON ENGINEERING: MOFFETT: Conduct a detailed	7,083.01
EON IS GMBH	Servco	85668893	SUPPORT FOR GDS IMPLEMENTATION	4,786.17
EON IS GMBH	Servco	85668893A	SUPPORT FOR GDS IMPLEMENTATION	4,702.04
EON IS GMBH	Servco	85669206	ID.4314 BETRIEB LAN-RAS	442.98
EON IS GMBH	Servco	85675757	GDS IMPLEMENTATION J. WEIDLE & H. RATSCHER	664.03
EON IS GMBH	Servco	85677065	GDS IMPLEMENTATION FOR S. HALL & J. WEIDLE	360.38
EON IS GMBH	Servco	85677487	SERVICES PROVIDED	906.82
EON IS GMBH	Servco	85678094	JENIFER WEIDLE & BERNHARD ERDMANN	1,633.60
EON IS GMBH	Servco	85678096	JENIFER WEIDLE	985.81
EON IS GMBH	Servco	85679617	J WEIDLE & B ERDMANN	1,690.50
EON IS GMBH	Servco	85683974	SERVICES PROVIDED	104.60
EON IS GMBH	Servco	85684243	GDS IMPLEMENTATION: H RATSCHER, R FORSTER, P	4,409.72
EON KRAFTWERKE	Servco	86454936	BENCHMARKETING 2009-BREAKDOWN OF UMS COSTS	36,895.91
EON NORTH AMERICA INC	ECC	EONNOR010209LLC	INTEREST	49,821.78
EON NORTH AMERICA INC	ECC	EONNOR020209LLC	INTEREST	32,210.22
EON NORTH AMERICA INC	ECC	EONNOR022709LLC	INTEREST ON OVERNIGHT FACILITY	15,753.07
EON NORTH AMERICA INC	ECC	EONNOR033109LLC	INTEREST & COMMITMENT FEES	51,197.29
EON NORTH AMERICA INC	ECC	EONNOR042009LLC	INTEREST DUE	1,157,500.00
EON NORTH AMERICA INC	ECC	EONNOR043009LLC	INTEREST ON OVERNIGHT FACILITY	76,681.77
EON NORTH AMERICA INC	ECC	EONNOR052909LLC	INTEREST ON OVERNIGHT FACILITY	78,923.40
EON NORTH AMERICA INC	ECC	EONNOR063009LLC	INTEREST & COMMITMENT FEES	114,014.88
EON NORTH AMERICA INC	ECC	EONNOR073109LLC	INTEREST FEE	86,695.64
EON NORTH AMERICA INC	ECC	EONNOR083109LLC	INTEREST FEE ON OVERNIGHT FACILITY	49,959.19

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
EON NORTH AMERICA INC	ECC	EONNOR093009LLC	INTEREST FEE	75,695.65
EON NORTH AMERICA INC	ECC	EONNOR100209	BANK FEES	12,602.74
EON NORTH AMERICA INC	ECC	EONNOR101409LLC	INTEREST	1,157,500.00
EON NORTH AMERICA INC	ECC	EONNOR110309LLC	INTEREST FEE ON OVERNIGHT FACILITY	51,056.17
EON NORTH AMERICA INC	ECC	EONNOR113009LLC	INTEREST	36,511.94
EON NORTH AMERICA INC	ECC	EONNOR121409CC	FACILITY FEES	7,671.23
EON NORTH AMERICA INC	Servco	EONNOR010709SRV	40653778	7,595.63
EON NORTH AMERICA INC	Servco	EONNOR040109SRV	FACILITY FEE	12,328.39
EON NORTH AMERICA INC	Servco	EONNOR070209SRV	FACILITY FEE	12,465.75
EON RUHRGAS AG	Servco	EONRUH052609SRV	EXPAT FOR KAREN HIMES	17,213.00
EON US INVESTMENTS CORP	ECC	EONUSI031809LLC	DIVIDEND	2,350,000.00
EON US INVESTMENTS CORP	ECC	EONUSI031909EUS	DIVIDEND	11,500,000.00
EON US INVESTMENTS CORP	ECC	EONUSI062309LLC	DIVIDEND	10,160,908.00
EON US INVESTMENTS CORP	ECC	EONUSI090909LLC	DIVIDEND	1,100,000.00
EON US INVESTMENTS CORP	ECC	EONUSI090909LLCA	DIVIDEND	7,000,000.00
EON US INVESTMENTS CORP	ECC	EONUSI121008LLC	TAXES	26,180,000.00
EON US INVESTMENTS CORP	ECC	EONUSI121709LLC	DIVIDEND	700,000.00
EON US INVESTMENTS CORP	ECC	EONUSS061609LLC	DIVIDEND	2,000,000.00
FIDELIA CORPORATION	ECC	FIDELI042909LLC	INTEREST	272,541.67
FIDELIA CORPORATION	ECC	FIDELI050107LLC	INTEREST PYMT	116,401.09
FIDELIA CORPORATION	ECC	FIDELI050109LLC	INTEREST PAYMENT	430,333.87
FIDELIA CORPORATION	ECC	FIDELI050109LLCA	INTEREST PYMT 11/19/2012	272,098.96
FIDELIA CORPORATION	ECC	FIDELI050109LLCB	INTEREST PYMT 02/17/2016	989,500.00
FIDELIA CORPORATION	ECC	FIDELI051509LLC	INTEREST PAYMENT	244,750.00
FIDELIA CORPORATION	ECC	FIDELI052609LLC	INTEREST PAYMENT	242,812.50
FIDELIA CORPORATION	ECC	FIDELI060809LLC	INTEREST PAYMENT	3,002,698.56
FIDELIA CORPORATION	ECC	FIDELI060809LLCA	INTEREST PAYMENT	1,753,090.28
FIDELIA CORPORATION	ECC	FIDELI060809LLCB	INTEREST PYMT	542,836.42
FIDELIA CORPORATION	ECC	FIDELI060809LLCC	INTEREST PYMT	645,597.22
FIDELIA CORPORATION	ECC	FIDELI061809LLC	INTEREST PAYMENT	220,000.00
FIDELIA CORPORATION	ECC	FIDELI070609LLC	INTEREST PYMT	388,257.78
FIDELIA CORPORATION	ECC	FIDELI070609LLCA	INTEREST PYMT	107,081.18
FIDELIA CORPORATION	ECC	FIDELI070609LLCB	INTEREST PAYMENT	1,946,000.00
FIDELIA CORPORATION	ECC	FIDELI070709LLC	INTEREST PYMT	2,266,500.00

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
FIDELIA CORPORATION	ECC	FIDELI071509EUS		573,727.19
FIDELIA CORPORATION	ECC	FIDELI072109LLC	INTEREST PYMT	223,781.25
FIDELIA CORPORATION	ECC	FIDELI080409LLC	INTEREST PAYMENT	923,019.07
FIDELIA CORPORATION	ECC	FIDELI080409LLCA	INTEREST PAYMENT	207,839.50
FIDELIA CORPORATION	ECC	FIDELI080409LLCB	INTEREST PYMT	177,770.83
FIDELIA CORPORATION	ECC	FIDELI082009LLC	INTEREST PYMT	217,162.75
FIDELIA CORPORATION	ECC	FIDELI083109LLC	INTEREST PYMT	108,872.99
FIDELIA CORPORATION	ECC	FIDELI083109LLCA	INTEREST PYMT	377,066.67
FIDELIA CORPORATION	ECC	FIDELI090809LLC	INTEREST	157,972.22
FIDELIA CORPORATION	ECC	FIDELI090809LLCA	INTEREST	133,814.24
FIDELIA CORPORATION	ECC	FIDELI090809LLCB	INTEREST PYMT	387,006.94
FIDELIA CORPORATION	ECC	FIDELI090809LLCC	INTEREST PYMT	425,020.83
FIDELIA CORPORATION	ECC	FIDELI090809LLCD	INTEREST PAYMENT	497,254.78
FIDELIA CORPORATION	ECC	FIDELI092109LLC	INTEREST PYMT	217,666.67
FIDELIA CORPORATION	ECC	FIDELI093009LLC	INTEREST PYMT	2,628,750.00
FIDELIA CORPORATION	ECC	FIDELI093009LLCA	INTEREST PYMT	2,629,394.50
FIDELIA CORPORATION	ECC	FIDELI101409LLC	INTEREST	2,141,250.00
FIDELIA CORPORATION	ECC	FIDELI101409LLCA	INTEREST	514,634.33
FIDELIA CORPORATION	ECC	FIDELI101909LLC	INTEREST	3,480,000.00
FIDELIA CORPORATION	ECC	FIDELI101909LLCA	INTEREST	194,693.92
FIDELIA CORPORATION	ECC	FIDELI110209LLC	INTEREST	101,181.67
FIDELIA CORPORATION	ECC	FIDELI110209LLCA	INTEREST	365,580.66
FIDELIA CORPORATION	ECC	FIDELI110209LLCB	INTEREST	848,444.44
FIDELIA CORPORATION	ECC	FIDELI110209LLCC	INTEREST	126,381.17
FIDELIA CORPORATION	ECC	FIDELI111009LLC	INTEREST PYMT	141,161.22
FIDELIA CORPORATION	ECC	FIDELI111609LLC	INTEREST PYMT	200,875.00
FIDELIA CORPORATION	ECC	FIDELI120409LLC	INTEREST	2,872,723.72
FIDELIA CORPORATION	ECC	FIDELI120409LLCA	INTEREST	1,620,015.39
FIDELIA CORPORATION	ECC	FIDELI120409LLCB	INTEREST	342,435.53
FIDELIA CORPORATION	ECC	FIDELI120409LLCC	INTEREST PYMT	371,104.17
FIDELIA CORPORATION	ECC	FIDELI120409LLCD	INTEREST PYMT	400,180.08
FIDELIA CORPORATION	KU	FIDELI051509KU	INTEREST PYMT	2,193,750.00
FIDELIA CORPORATION	KU	FIDELI051509KUA	INTEREST PYMT	699,600.00
FIDELIA CORPORATION	KU	FIDELI060809KU	INTEREST PAYMENT	2,638,125.00

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
FIDELIA CORPORATION	KU	FIDELI060809KUA	INTEREST PAYMENT	2,010,000.00
FIDELIA CORPORATION	KU	FIDELI060809KUB	INTEREST PAYMENT	4,220,000.00
FIDELIA CORPORATION	KU	FIDELI060909KU	INTEREST PYMT	1,582,500.00
FIDELIA CORPORATION	KU	FIDELI070709KU	INTEREST PYMT	1,183,750.00
FIDELIA CORPORATION	KU	FIDELI070709KUA	INTEREST PYMT	1,097,500.00
FIDELIA CORPORATION	KU	FIDELI071409KU	INTEREST PYMT	1,540,000.00
FIDELIA CORPORATION	KU	FIDELI072409KU	INTEREST PYMT	1,507,850.00
FIDELIA CORPORATION	KU	FIDELI080409KU	INTEREST PYMT	1,991,250.00
FIDELIA CORPORATION	KU	FIDELI080409KUA	INTEREST PYMT	1,411,250.00
FIDELIA CORPORATION	KU	FIDELI083109KU	INTEREST PYMT	2,980,000.00
FIDELIA CORPORATION	KU	FIDELI090809KU	INTEREST PYMT	2,197,500.00
FIDELIA CORPORATION	KU	FIDELI101409KU	INTEREST PYMT	4,737,250.00
FIDELIA CORPORATION	KU	FIDELI101909KU	INTEREST	2,275,000.00
FIDELIA CORPORATION	KU	FIDELI110209KU	INTEREST PYMT	2,193,750.00
FIDELIA CORPORATION	KU	FIDELI111009KU	INTEREST PYMT	699,600.00
FIDELIA CORPORATION	KU	FIDELI120409KUA	INTEREST PYMT	2,638,125.00
FIDELIA CORPORATION	KU	FIDELI120409KUB	INTEREST PYMT	2,010,000.00
FIDELIA CORPORATION	KU	FIDELI120409KUC	INTEREST	4,220,000.00
FIDELIA CORPORATION	KU	FIDELI120409KUD	INTEREST	1,582,500.00
FIDELIA CORPORATION	LGE	FIDELI051509LGE	INTEREST PYMT	1,620,000.00
FIDELIA CORPORATION	LGE	FIDELI051509LGEA	INTEREST PYMT	1,344,200.00
FIDELIA CORPORATION	LGE	FIDELI070709LGE	INTEREST PYMT	541,250.00
FIDELIA CORPORATION	LGE	FIDELI071509LGE		776,250.00
FIDELIA CORPORATION	LGE	FIDELI080409LGE	INTEREST PYMT	2,655,000.00
FIDELIA CORPORATION	LGE	FIDELI093009LGE	INTEREST PYMT	4,109,200.00
FIDELIA CORPORATION	LGE	FIDELI101909LGE	INTEREST PYMT	2,275,000.00
FIDELIA CORPORATION	LGE	FIDELI111009LGE	INTEREST PYMT	1,620,000.00
FIDELIA CORPORATION	LGE	FIDELI111009LGEA	INTEREST PYMT	1,344,200.00
FIDELIA CORPORATION *	ECC	ITCSOU010609LLC	INTEREST PAYMENT	995,000.00
FIDELIA CORPORATION *	ECC	ITCSOU010609LLCA	INTEREST PYMT	215,504.61
FIDELIA CORPORATION *	ECC	ITCSOU010609LLCB	INTEREST PYMT	772,520.00
FIDELIA CORPORATION *	ECC	ITCSOU012609LLC	FFC: 6728020621	240,760.42
FIDELIA CORPORATION *	ECC	ITCSOU020909LLC	INTERES PYMT	472,697.92
FIDELIA CORPORATION *	ECC	ITCSOU020909LLCA	INTEREST PAYMENT	528,305.56

Vendor Name	AP Module	Invoice Num	Invoice Description	Net Amount
FIDELIA CORPORATION *	ECC	ITCSOU021909LLC	INTEREST PAYMENT	370,395.83
FIDELIA CORPORATION *	ECC	ITCSOU022309LLC	INTEREST PAYMENT	228,522.00
FIDELIA CORPORATION *	ECC	ITCSOU030609	INT PMT ST $128 MILLION LOAN	434,666.67
FIDELIA CORPORATION *	ECC	ITCSOU030609LLC	INTEREST PAID	125,126.90
FIDELIA CORPORATION *	ECC	ITCSOU030909LLC	INTEREST PAYMENT	272,187.50
FIDELIA CORPORATION *	ECC	ITCSOU030909LLCA	INTEREST PAYMENT	241,388.89
FIDELIA CORPORATION *	ECC	ITCSOU031309LLC	INTEREST PAYMENT	691,875.00
FIDELIA CORPORATION *	ECC	ITCSOU031609LLC	INTEREST PAYMENT	570,388.02
FIDELIA CORPORATION *	ECC	ITCSOU032309LLC	INTEREST PAYMENT	272,864.58
FIDELIA CORPORATION *	ECC	ITCSOU040909LLC	INTEREST PAYMENT	2,628,750.00
FIDELIA CORPORATION *	ECC	ITCSOU042009LLC	INTEREST PAYMENT	2,141,250.00
FIDELIA CORPORATION *	ECC	ITCSOU042009LLCA	INTEREST PYMT	3,480,000.00
FIDELIA CORPORATION *	ECC	ITCSOU121008LLCB	INTEREST PAYMENT	679,593.75
FIDELIA CORPORATION *	KU	ITCSOU010609KU	INTEREST PYMT	1,183,750.00
FIDELIA CORPORATION *	KU	ITCSOU010909KU	INTEREST PAYMENT	1,097,500.00
FIDELIA CORPORATION *	KU	ITCSOU011609KU	FFC: 6728020621/FIDELIA CORP	1,540,000.00
FIDELIA CORPORATION *	KU	ITCSOU020309KU	FFC: 6728020621/FIDELIA CORP	1,507,850.00
FIDELIA CORPORATION *	KU	ITCSOU020909KU	INTEREST PYMT	1,991,250.00
FIDELIA CORPORATION *	KU	ITCSOU021909KU	INTEREST PAYMENT	1,411,250.00
FIDELIA CORPORATION *	KU	ITCSOU030909KU	INTEREST PAYMENT	2,980,000.00
FIDELIA CORPORATION *	KU	ITCSOU030909KUA	INTEREST PAYMENT	2,197,500.00
FIDELIA CORPORATION *	KU	ITCSOU042009KU	INTEREST PYMT	3,417,250.00
FIDELIA CORPORATION *	KU	ITCSOU042009KUA	INTEREST PYMT	2,275,000.00
FIDELIA CORPORATION *	LGE	ITCSOU010909LGE	INTEREST PAYMENT	541,250.00
FIDELIA CORPORATION *	LGE	ITCSOU011609LGE	FFC: 6728020621/FIDELIA CORP	776,250.00
FIDELIA CORPORATION *	LGE	ITCSOU020909LGE	INTEREST PAYMENT	2,655,000.00
FIDELIA CORPORATION *	LGE	ITCSOU040909LGE	INTEREST PAYMENT	2,016,200.00
FIDELIA CORPORATION *	LGE	ITCSOU040909LGEA	INTEREST PAYMENT	2,093,000.00
FIDELIA CORPORATION *	LGE	ITCSOU042009LGE	INTEREST PAYMENT	2,275,000.00
	Total			**214,232,319.91**

* Actual vendor name = ITC SOUTH AND EAST DEPOSITORY ACCT

EXECUTION COPY
CONFIDENTIAL

PURCHASER DISCLOSURE SCHEDULE

This Purchaser Disclosure Schedule is being delivered by PPL Corporation, a Pennsylvania corporation ("Purchaser") pursuant to that certain Purchase and Sale Agreement (the "Agreement"), dated as of April 28, 2010, by and between the Purchaser, E.ON US Investments Corp., a Delaware corporation ("Seller") and for certain provisions thereof, E.ON AG. Capitalized terms used but not defined herein shall have the same meanings given to them in the Agreement.

There may be included in this Purchaser Disclosure Schedule items and information, the disclosure of which is not required either in response to an express disclosure requirement contained in a provision of the Agreement or as an exception to one or more representations or warranties or covenants contained in the Agreement. Inclusion of any items or information in this Purchaser Disclosure Schedule shall not be deemed to be an acknowledgment or agreement that any such item or information (or any non-disclosed item or information of comparable or greater significance) is material or is reasonably likely to affect the interpretation of such terms for purposes of the Agreement.

No part of this Purchaser Disclosure Schedule shall constitute or be interpreted or construed as an admission or characterization by the Purchaser or any of its Subsidiaries or any Affiliate, regarding any obligation to any third party or any liability under any federal, state or local Law, including but not limited to whether the Purchaser, any Subsidiary or other Affiliate is in violation of, or has ever violated, any federal, state or local Laws, rules or regulations or is in default of any Contract.

This Purchaser Disclosure Schedule sets forth items of disclosure with specific reference to the particular section or subsection of the Agreement to which the items or information in this Purchaser Disclosure Schedule relates; provided, however, that any information set forth in one section or subsection pertaining to representations, warranties and covenants of this Purchaser Disclosure Schedule shall be deemed to apply to each other section or subsection of the Agreement to the extent that it is reasonably apparent that it is relevant to such other section or subsection.

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Section 1.1(b)
Knowledge

James H. Miller
William H. Spence
Jeremy R. McGuire
Elizabeth S. Duane
Paul A. Farr
Stephen C. May

Section 4.4(a)
Purchaser Required Regulatory Approvals

1. To the extent that Purchaser issues unsecured Indebtedness at Subsidiaries of Purchaser, such issuance may require the approval of the Pennsylvania Public Utility Commission.

2. To the extent Purchaser causes LG&E or KU to issue securities, such issuance may require the approval of the FERC, the KPSC, the Virginia State Commission and/or the Tennessee Regulatory Authority.

Section 4.7
Litigation

None.

Section 4.11
Knowledge

James H. Miller
William H. Spence
Jeremy R. McGuire

Execution Version

BANC OF AMERICA SECURITIES LLC
BANK OF AMERICA, N.A.
One Bryant Park
New York, New York 10036

CREDIT SUISSE SECURITIES (USA) LLC
CREDIT SUISSE AG
Eleven Madison Avenue
New York, New York 10010

CONFIDENTIAL

April 28, 2010

PPL Corporation
Two North Ninth Street
Allentown, Pennsylvania 18101
Attention: Paul A. Farr, Executive Vice President and Chief Financial Officer

PROJECT ATLANTIS
$6.50 Billion 364-Day Senior Bridge Term Loan Credit Facility
Commitment Letter

Ladies and Gentlemen:

PPL Corporation ("***you***" or "***PPL***") have advised Credit Suisse AG (acting through such of its affiliates or branches as it deems appropriate, "***CS***"), Credit Suisse Securities (USA) LLC ("***CS Securities***" and, together with CS and their respective affiliates, "***Credit Suisse***"), Bank of America, N.A. ("***BofA***") and Banc of America Securities LLC ("***BAS***" and, together with BofA and its respective affiliates, "***Bank of America***"; Credit Suisse and Bank of America are collectively herein referred to as "***we***", "***us***", "***our***" or the "***Commitment Parties***") that you, directly or through one of your wholly owned domestic subsidiaries, intend to acquire (the "***Acquisition***") from E.ON US Investments Corp., a Delaware corporation and a wholly owned subsidiary of E.ON AG (the "***Seller***"), all of the equity interests of E.ON US, LLC, a Kentucky limited liability company (the "***Company***"), the owner of certain subsidiaries that conduct the Seller's U.S. regulated electric and gas utility businesses principally located in Kentucky and Virginia, and to consummate the other Transactions (such term and each other capitalized term used but not defined herein having the meaning assigned to such term in the Summary of Principal Terms and Conditions attached hereto as Exhibit A (the "***Term Sheet***")).

You have further advised us that, in connection therewith, you intend that the Borrower will obtain the 364-day senior bridge term loan credit facility (the "***Bridge Facility***") described in the Term Sheet, in an aggregate principal amount of up to $6.50 billion.

1. Commitments.

In connection with the foregoing, each of CS and BofA (each, in such capacity, an "***Initial Lender***") is pleased to advise you of its commitment to provide 50% of the entire principal amount of the Bridge Facility, upon the terms and subject to the conditions set forth or referred to in this commitment letter (including the Term Sheet and other attachments hereto, this "***Commitment Letter***"). The commitments of the Initial Lenders hereunder are several and not joint.

2. Titles and Roles.

You hereby appoint (a) CS Securities and BAS (each in such capacity, an "***Arranger***") to act, and the Arrangers hereby agree to act, as joint bookrunners and joint lead arrangers for the Bridge Facility, and (b) BofA to act, and BofA hereby agrees to act, as sole administrative agent for the Bridge Facility, in each case upon the terms and subject to the conditions set forth or referred to in this Commitment Letter. Each of the Arrangers and the Initial Lenders, in such capacities, will perform the duties and exercise the authority customarily performed and exercised by it in such roles. You agree that Bank of America will have "left" placement in any and all marketing materials or other documentation used in connection with the Bridge Facility. You further agree that no other titles will be awarded and no compensation (other than that expressly contemplated by this Commitment Letter and the Fee Letter referred to below) will be paid in connection with the Bridge Facility unless you and we shall so agree.

3. Syndication.

We reserve the right, prior to and/or after the execution of the Bridge Facility Documentation (as defined below), to syndicate all or a portion of the Initial Lenders' commitments with respect to the Bridge Facility to a group of banks, financial institutions and other institutional lenders (together with the Initial Lenders, the "***Lenders***") identified by us in consultation with you (which syndication shall not reduce the commitments of the Initial Lenders hereunder, except as provided for in Section 9), and you agree to provide us with a period of at least 45 consecutive days following the delivery by you in good faith of a draft confidential information memorandum containing, at a minimum, all financial information and data relating to PPL, the Company and the Transactions that is customarily included in such information memorandum (*provided* that such period shall not include any day from and including August 20, 2010 through and including September 6, 2010, from and including December 17, 2010 through and including January 3, 2011 and from and including August 19, 2011 through and including September 5, 2011). In connection with the syndication of the Bridge Facility, up to three Lenders, excluding the Arrangers, mutually acceptable to you and us (such acceptance, in either case, not to be unreasonably withheld or delayed) may be given the role of joint lead arrangers and/or bookrunners in connection with the Bridge Facility; *provided* that each of the Arrangers shall be entitled to not less than 20% of the total compensatory economics payable with respect to the Bridge Facility. We intend to commence syndication efforts promptly upon the execution of this Commitment Letter and public announcement of the Transactions, and you agree to actively assist us in completing a Successful Syndication (as defined in the Fee Letter). Such assistance shall include (a) your using commercially reasonable efforts to ensure that any syndication efforts benefit materially from your existing lending and investment banking relationships and the existing lending and investment banking relationships of the Company, (b) direct contact between senior management, representatives and advisors of you and the Borrower (and your using commercially reasonable efforts to cause direct contact between senior management, representatives and advisors of the Company) and the proposed Lenders, (c) assistance by you and the Borrower (and your using commercially reasonable efforts to cause the assistance by the Company) in the preparation of a customary confidential information memorandum for the Bridge Facility and other marketing materials and presentations to be used in connection with the syndication (the "***Information Materials***"), (d) your providing or causing to be provided customary projections of PPL and its subsidiaries, (e) prior to the launch of the syndication, having a Public Debt Rating from each of Standard & Poor's Ratings Service ("***S&P***") and Moody's Investors Service, Inc. ("***Moody's***"), (f) the hosting, with the Arrangers, of one or more meetings of prospective Lenders, and (g) your using commercially reasonable efforts to execute and deliver definitive documentation with respect to the Bridge Facility (including, without

limitation, the execution and delivery by PPL of the Guarantee), consistent with the terms set forth herein and in the Term Sheet and otherwise reasonably satisfactory to you and the Arrangers (the "***Bridge Facility Documentation***") or, if applicable, one or more Joinder Agreements (as defined below), in each case as soon as reasonably practicable following commencement of syndication of the Bridge Facility. Without limiting your obligations to assist with syndication efforts as set forth above, each Initial Lender agrees that none of the commencement of the syndication by the Arrangers, the expiration of the syndication period described in the first sentence of this paragraph, the completion of a Successful Syndication (as defined in the Fee Letter) or the delivery of the information and documents referred to in the last paragraph of this Section 3 is a condition to the initial funding under the Bridge Facility.

You agree, at the request of the Arrangers, to assist in the preparation of a version of the Information Materials to be used in connection with the syndication of the Bridge Facility, consisting exclusively of information and documentation that is either (i) publicly available (or, if applicable, contained in the prospectus or other offering memorandum for the Senior Notes) or (ii) not material with respect to PPL, the Company, the Seller or their respective subsidiaries or any of their respective securities for purposes of United States Federal and state securities laws (all such Information Materials being "***Public Lender Information***"). Any information and documentation that is not Public Lender Information is referred to herein as "***Private Lender Information***". Before distribution of any Information Materials, you agree to execute and deliver to the Arrangers, either (i) a letter in which you authorize distribution of the Information Materials to Lenders' employees willing to receive Private Lender Information or (ii) a separate letter in which you authorize distribution of Information Materials containing solely Public Lender Information and represent that such Information Materials do not contain any Private Lender Information. You further agree that each document to be disseminated by the Arrangers to any Lender in connection with the Bridge Facility will, at the request of the Arrangers, be identified by you as either (i) containing Private Lender Information or (ii) containing solely Public Lender Information. You acknowledge that the following documents contain solely Public Lender Information (unless you notify us promptly prior to their intended distribution that any such document contains Private Lender Information): (a) drafts and final Bridge Facility Documentation, including term sheets; (b) administrative materials prepared by the Commitment Parties for prospective Lenders (such as a lender meeting invitation, bank allocation, if any, and funding and closing memoranda); and (c) notification of changes in the terms of the Bridge Facility.

The Arrangers will manage all aspects of any syndication in consultation with you, including decisions as to the selection of institutions to be approached and when they will be approached, when their commitments will be accepted, which institutions will participate, the allocation of the commitments among the Lenders, any naming rights and the amount and distribution of fees among the Lenders. To assist the Arrangers in their syndication efforts, you agree promptly to prepare and provide (and to use commercially reasonable efforts to cause the Company promptly to provide) to the Arrangers all customary information with respect to PPL, the Company and their respective subsidiaries, the Transactions and the other transactions contemplated hereby, including all financial information and projections (the "***Projections***"), as the Arrangers may reasonably request.

You further agree to use commercially reasonable efforts to deliver to the Investment Bank, not later than 15 Business Days prior to the Closing Date (or as soon thereafter as reasonably practicable), a complete printed preliminary prospectus or preliminary offering memorandum or preliminary private placement memorandum (collectively, an "***Offering Document***") suitable for use in a customary offering registered under the Securities Act of 1933,

as amended, or pursuant to Rule 144A relating to the Permanent Financing, which contains all financial statements and other data to be included therein (including all audited financial statements, all unaudited financial statements (which shall have been reviewed by your independent accountants as provided in the procedures specified by the Public Company Accounting Oversight Board in AU 722) and all required pro forma financial statements prepared in accordance with, or reconciled to, generally accepted accounting principles in the United States and prepared in accordance with Regulation S X under the Securities Act of 1933, as amended), and all other data (including selected financial data) that the Securities and Exchange Commission would require in a registered offering of the applicable Permanent Financing or that would be necessary for the Investment Bank to receive customary "comfort" (including "negative assurance" comfort) from independent accountants in connection with the applicable Permanent Financing and (i) if any portion of the applicable Permanent Financing has been issued, then in connection with such issuance, you shall use commercially reasonable efforts to concurrently deliver to the Investment Bank (A) a customary comfort letter (which shall provide "negative assurance" comfort) from your independent accountants (and any predecessor accountant or acquired company accountant to the extent financial statements of PPL, the Borrower or any acquired company audited or reviewed by such accountants are or would be included in any Offering Document) and (B) a customary "10b-5" legal opinion or disclosure letter from your counsel and (ii) if no portion of the applicable Permanent Financing has been issued, prior to the Closing Date, you shall use commercially reasonable effort to cause the following to be delivered to the Investment Bank (A) drafts of customary comfort letters by auditors of PPL and the Company which such auditors are prepared to issue upon completion of customary procedures (provided that the auditors shall have been afforded an opportunity to review a draft underwriting agreement prior to such date) and (B) drafts of a customary negative assurances, or "10b-5" letter by PPL's counsel, addressing such draft offering memorandum, which such counsel would be prepared to issue on the date of delivery thereof if the securities were being issued as of such date, subject to satisfactory completion of customary bring-down due diligence and completion of the terms of the securities and information derived therefrom (including any changes to other sections of the offering memorandum) that would be necessary in such counsel's judgment as a result of completion of the terms of the securities; it being understood for the avoidance of doubt that such counsel and auditors need not be required to deliver executed versions of letters at such time (and the drafts may clearly indicate that delivery of such draft does not and shall not be deemed as the making of the statements contained therein at such time).

4. Information.

You hereby represent and covenant that (with respect to Information (as defined below) and Projections relating to the Company and its affiliates, to the best of your knowledge) (a) all written information and all oral communications made in Lender meetings and due diligence sessions held in connection with the syndication of the Bridge Facility, taken as a whole, other than the Projections and information of a general economic or industry nature (the "***Information***") that has been or will be made available to us by or on behalf of you or any of your representatives is or will be, when furnished, complete and correct in all material respects and does not or will not, when furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are made and (b) the Projections that have been or will be made available to us by or on behalf of you or any of your representatives have been or will be prepared in good faith based upon accounting principles consistent in all material respects with the historical audited financial statements of PPL (except as otherwise expressly disclosed in such Projections) and upon assumptions that are reasonable at the time made and at the time the related Projections are made available to us (it being understood

that projections are subject to significant uncertainties and that no assurances can be given that any projections will be realized, and the variances between actual results and projected results may be material). You agree that if at any time prior to the later of (i) the closing of the Bridge Facility and (ii) completion of a Successful Syndication (as defined in the Fee Letter), any of the representations in the preceding sentence would be incorrect if the Information and Projections were being furnished, and such representations were being made, at such time, then you will promptly supplement the Information and the Projections so that such representations will be correct under those circumstances. In arranging and syndicating the Bridge Facility, we will be entitled to use and rely primarily on the Information and the Projections without responsibility for independent verification thereof.

5. Fees.

As consideration for the Initial Lenders' commitments hereunder, and the Arrangers' agreements to perform the services described herein, you agree to pay (or to cause the Borrower to pay) to us the fees set forth in this Commitment Letter and in the fee letter dated the date hereof and delivered herewith with respect to the Bridge Facility (the "***Fee Letter***").

6. Conditions Precedent.

Each Initial Lenders' commitment hereunder, and each of our agreements to perform the services described herein, are subject to (a) except as set forth on Disclosure Schedule 3.8(b) to the Purchase Agreement as in effect on the date hereof, and except as may be reflected in the audited consolidated financial statements of the Company as of and for the years ended December 31, 2007, December 31, 2008 and December 31, 2009 (including the notes thereto, but excluding any statement therein that is cautionary, risk factor, predictive or forward-looking in nature), since December 31, 2009, there has been no Company Material Adverse Effect (as defined below), (b) our satisfaction that, prior to Successful Syndication (as defined in the Fee Letter), there shall be no other issues of debt securities or commercial bank or other credit facilities of PPL, the Company or their respective subsidiaries (other than Western Power Distribution Holdings Limited and its subsidiaries and PPL Electric Utilities Corporation) announced, offered, placed or arranged (other than (i) the Permanent Debt Financing, (ii) debt set forth in the "Anticipated Debt Schedule" delivered to the Arrangers prior to the date hereof, (iii) indebtedness of the Company and its subsidiaries permitted to be incurred pursuant to the terms of the Purchase Agreement (as in effect on the date hereof without giving effect to any consents granted thereunder), (iv) the Revolving Credit Facilities (as defined in Exhibit C) and (v) any other financing reasonably agreed by the Arrangers, (c) the negotiation, execution and delivery of the Bridge Facility Documentation, (d) one or more investment banks reasonably satisfactory to the Arrangers (collectively, the "***Investment Bank***") shall have been engaged to publicly sell or privately place the Permanent Financing and other debt and equity securities for the purpose of replacing or refinancing the Bridge Facility, and (e) the other conditions set forth on Exhibit B.

For the purposes hereof, "***Company Material Adverse Effect***" means any change, effect, event, circumstance, occurrence, fact, condition, or development that, taken together with all other changes, effects, events, circumstances, occurrences, facts, conditions, and developments, (i) is materially adverse to the condition (financial or otherwise), businesses, assets, liabilities or results of operations of the Company and its Subsidiaries, taken as a whole or (ii) would impede, impair or prevent consummation of the transactions contemplated by the Purchase Agreement; *provided, however*, that none of the following shall constitute or be taken into account in determining whether there has been or is a Company Material Adverse Effect: (a) any changes, events or developments in the international, national, regional, state or local economy or

financial, securities or credit markets (including changes in prevailing interest rates); (b) any changes, events or developments in the international, national, regional, state or local (x) electric generating, transmission or distribution industries or natural gas transmission or distribution industries (including any changes in the operations thereof), (y) engineering or construction industries, or (z) wholesale or retail markets for commodities, materials or supplies (including equipment supplies, steel, concrete, electric power, fuel, coal, natural gas, water or coal transportation) or the hedging markets therefor; (c) any changes, events or developments in any political conditions (including acts of war (whether or not declared), armed hostilities or terrorism or changes imposed by a Governmental Authority associated with national security) or the regulatory environment generally to the extent that any such changes, events or developments do not cause physical damage or destruction, or render unusable, any facility or property of the Company or any of its Subsidiaries; (d) any changes that result from natural disasters or "acts of God" or other "force majeure" events to the extent that any such changes do not cause physical damage or destruction, or render unusable, any facility or property of the Company or any of its Subsidiaries; (e) any changes in weather conditions to the extent that any such changes do not cause physical damage or destruction, or render unusable, any facility or property of the Company or any of its Subsidiaries; (f) any changes in customer usage patterns; (g) any performance by PPL, Seller or any of their respective Affiliates of their respective obligations, covenants or agreements contained in the Purchase Agreement (including any actions taken by PPL, the Seller or any of their respective Affiliates, to the extent expressly required by the Purchase Agreement, to facilitate the Debt Financing or any Alternative Permanent Financing or to settle the Rate Cases as permitted by Section 5.18 of the Purchase Agreement or to obtain any Purchaser Required Regulatory Approval or Company Required Regulatory Approval and any action by any Governmental Authority that requires PPL or the Company or any of their respective Subsidiaries to accept the Regulatory Commitments and agreements to implement the Regulatory Commitments as a condition of any approval of the Purchase); *provided* that, actions taken to comply with the obligation in the first sentence of Section 5.1(a) of the Purchase Agreement to act in the Company Ordinary Course of Business shall not be included in the scope of this clause (g); (h) any action taken by the Seller at the express written request of PPL and with the consent of the Arrangers (not to be unreasonably withheld); (i) any effects or conditions (including any loss of, or adverse change in, the relationship of the Company or any of its Subsidiaries with their respective customers, employees (including any employee departures or labor union or labor organization activity), regulators, financing sources or suppliers) demonstrated by the Seller as proximately caused by, or resulting from, the announcement of the Purchase Agreement, and the transactions contemplated by the Purchase Agreement, or the identity of PPL or any of its Affiliates; (j) any changes in (x) any Law (including Environmental Laws and any final, binding interpretation or enforcement of Laws by any Governmental Authority), regulatory policies or industry standards or (y) GAAP (including any final, binding interpretation thereof by any applicable Governmental Authority) or regulatory accounting requirements applicable to U.S. utilities organizations generally; or (k) any reduction in the credit rating of the Company or any of its Subsidiaries to the extent attributable to any action of PPL or its Affiliates or the acquisition of the Company by PPL pursuant to the Purchase Agreement; *provided, further,* that, with respect to the matters included in clauses (a), (b), (c), (f) and (j), such matters may constitute or be taken into account in determining whether there has been a Company Material Adverse Effect to the extent such matters affect the Company and/or its Subsidiaries in a manner that is materially disproportionate to other similarly situated companies operating in the utility industry. The capitalized terms used in this paragraph and not otherwise defined in this Commitment Letter shall have the meanings set forth in the Purchase Agreement as in effect on the date hereof.

Notwithstanding anything in this Commitment Letter, the Fee Letter or the Bridge Facility Documentation to the contrary, (a) the only representations relating to PPL, the Company and their respective subsidiaries and their respective businesses the making of which shall be a condition to availability of the Bridge Facility on the Closing Date shall be (i) such of the representations made by or on behalf of the Seller, the Company and its subsidiaries in the Purchase Agreement as are material to the interests of the Lenders, but only to the extent that you have (or a subsidiary has) the right to terminate your (or its) obligations under the Purchase Agreement as a result of a breach of such representations in the Purchase Agreement, and (ii) the Specified Representations (as defined below) and (b) the terms of the Bridge Facility Documentation shall be in a form such that they do not impair availability of the Bridge Facility on the Closing Date if the conditions set forth in this Section 6 and Exhibit B are satisfied. For purposes hereof, "***Specified Representations***" means the representations and warranties set forth in the Term Sheet relating to corporate power and authority, due authorization, execution and delivery, in each case as they relate to the entering into and performance of the Bridge Facility Documentation, the enforceability of such documentation, Federal Reserve margin regulations, the Investment Company Act, no conflicts of the Bridge Facility Documentation, status of the Bridge Facility as senior debt, solvency (assuming no default under the Bridge Facility Documentation) and financial statements fairly present, in all material respects in conformity with GAAP (to the extent material to the Lenders or the Arrangers), the financial position, results of operation and cash flow of PPL and its subsidiaries for the applicable period.

7. Indemnification; Expenses.

You agree (a) to indemnify and hold harmless each of us and our respective officers, directors, employees, agents, advisors, controlling persons, members and successors and assigns (each, an "***Indemnified Person***") from and against any and all losses, claims, damages, liabilities and expenses, joint or several, to which any such Indemnified Person may become subject arising out of or in connection with this Commitment Letter, the Fee Letter, the Transactions, the Bridge Facility or any related transaction or any claim, litigation, investigation or proceeding relating to any of the foregoing, regardless of whether any such Indemnified Person is a party thereto (and regardless of whether such matter is initiated by a third party or by the Company or any of their respective affiliates or equity holders), and to reimburse each such Indemnified Person upon demand for any reasonable legal or other expenses incurred in connection with investigating or defending any of the foregoing; *provided* that the foregoing indemnity will not, as to any Indemnified Person, apply to losses, claims, damages, liabilities or related expenses to the extent they are found in a final, non-appealable judgment of a court of competent jurisdiction to have arisen from the bad faith, willful misconduct or gross negligence of such Indemnified Person, and (b) to reimburse each of us from time to time, upon presentation of a summary statement, for all reasonable out-of-pocket expenses (including, but not limited to, expenses of our due diligence investigation, consultants' fees, syndication expenses, travel expenses and fees, disbursements and other charges of counsel identified in the Term Sheet (and, if reasonably necessary, of one regulatory counsel and one local counsel in any relevant jurisdiction for all Indemnified Persons unless, in the reasonable opinion of an Indemnified Person, representation of all Indemnified Persons by such counsel would be inappropriate due to the existence of an actual or potential conflict of interest)), in each case, incurred in connection with the Bridge Facility and the preparation, negotiation and enforcement of this Commitment Letter, the Fee Letter, the Bridge Facility Documentation and any ancillary documents in connection therewith. Notwithstanding any other provision of this Commitment Letter, no Indemnified Person shall be liable for any indirect, special, punitive or consequential damages in connection with its activities related to the Bridge Facility.

8. Sharing Information; Absence of Fiduciary Relationship; Affiliate Activities.

You acknowledge that each Commitment Party may be providing debt financing, equity capital or other services (including financial advisory services) to other companies in respect of which you may have conflicting interests regarding the transactions described herein or otherwise. We will not furnish confidential information obtained from you by virtue of the transactions contemplated by this Commitment Letter or our other relationships with you to other companies. You also acknowledge that we do not have any obligation to use in connection with the transactions contemplated by this Commitment Letter, or to furnish to you, confidential information obtained by us from other companies.

You further acknowledge and agree that (a) no fiduciary, advisory or agency relationship between you and any of us is intended to be or has been created in respect of any of the transactions contemplated by this Commitment Letter, irrespective of whether any of us have advised or is advising you on other matters, (b) each of us, on the one hand, and you, on the other hand, have an arm's-length business relationship that does not directly or indirectly give rise to, nor do you rely on, any fiduciary duty on the part of any of us, (c) you are capable of evaluating and understanding, and you understand and accept, the terms, risks and conditions of the transactions contemplated by this Commitment Letter, (d) you have been advised that each of us is engaged in a broad range of transactions that may involve interests that differ from your interests and that none of us has any obligation to disclose such interests and transactions to you by virtue of any fiduciary, advisory or agency relationship and (e) you waive, to the fullest extent permitted by law, any claims you may have against any of us for breach of fiduciary duty or alleged breach of fiduciary duty and agree that none of us shall have any liability (whether direct or indirect) to you in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of you, including your stockholders, employees or creditors. Additionally, you acknowledge and agree that each of us is not advising you as to any legal, tax, investment, accounting or regulatory matters in any jurisdiction (including, without limitation, with respect to any consents needed in connection with the transactions contemplated hereby). You shall consult with your own advisors concerning such matters and shall be responsible for making your own independent investigation and appraisal of the transactions contemplated hereby (including, without limitation, with respect to any consents needed in connection therewith), and we shall have no responsibility or liability to you with respect thereto. Any review by us of PPL, the Borrower, the Company, the Transactions, the other transactions contemplated hereby or other matters relating to such transactions will be performed solely for our benefit and shall not be on behalf of you or any of your affiliates.

You further acknowledge that each of us is a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, each of us may provide investment banking and other financial services to, and/or acquire, hold or sell, for its own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of, you, the Borrower, the Company and other companies with which you, the Borrower or the Company may have commercial or other relationships. With respect to any securities and/or financial instruments so held by any of us or any of our customers, all rights in respect of such securities and financial instruments, including any voting rights, will be exercised by the holder of the rights, in its sole discretion.

9. Assignments; Amendments; Governing Law, Etc.

This Commitment Letter shall not be assignable by you without the prior written consent of each Initial Lender and each Arranger (and any attempted assignment without such consent shall be null and void), is intended to be solely for the benefit of the parties hereto (and Indemnified Persons), and is not intended to confer any benefits upon, or create any rights in favor of, any person other than the parties hereto (and Indemnified Persons).

Each Commitment Party may assign all or a portion of its commitment hereunder to one or more prospective Lenders (i) that are acceptable to you, or (ii) that you have identified to us in writing on or prior to the date hereof (each, a "***Permitted Assignee***"), whereupon such Commitment Party shall be released from all or the portion of its commitment hereunder so assigned; *provided* that no such assignment shall relieve the Commitment Parties of their obligations hereunder, except to the extent such assignment is evidenced by, at our election, (i) a customary joinder agreement (a "***Joinder Agreement***") pursuant to which such lender agrees to become party to this agreement and extend commitments directly to you on the terms set forth herein, and which shall not add any conditions to the availability of the Bridge Facility or change the terms of the Bridge Facility or increase compensation payable by you in connection therewith except as set forth in the Commitment Letter and the Fee Letter and which shall otherwise be reasonably satisfactory to you and us, or (ii) the Bridge Facility Documentation. The Joinder Agreements will include a provision allowing PPL, at PPL's expense, to replace any such additional Lender party thereto that has (or is controlled by or under common control with any person or entity that has) been deemed insolvent or become subject to a bankruptcy, insolvency, receivership, conservatorship or other similar proceeding, or that refuses to execute, or materially delays in executing, the Bridge Facility Documentation agreed with the Arrangers with respect to the Bridge Facility, with another financial institution selected by PPL in consultation with the Arrangers. Any and all obligations of, and services to be provided by, a Commitment Party hereunder (including, without limitation, Initial Lenders' commitment) may be performed and any and all rights of such Commitment Party hereunder may be exercised by or through any of their respective affiliates or branches and, in connection with such performance or exercise, such Commitment Party may exchange with such affiliates or branches information concerning you and your affiliates that may be the subject of the transactions contemplated hereby and, to the extent so employed, such affiliates and branches shall be entitled to the benefits afforded to such Commitment Party hereunder. This Commitment Letter may not be amended or any provision hereof waived or modified except by an instrument in writing signed by each of us and you. This Commitment Letter may be executed in any number of counterparts, each of which shall be an original and all of which, when taken together, shall constitute one agreement. Delivery of an executed counterpart of a signature page of this Commitment Letter by facsimile or other electronic transmission shall be effective as delivery of a manually executed counterpart hereof. Section headings used herein are for convenience of reference only, are not part of this Commitment Letter and are not to affect the construction of, or to be taken into consideration in interpreting, this Commitment Letter. You acknowledge that information and documents relating to the Bridge Facility may be transmitted through SyndTrak, Intralinks, the internet, e-mail or similar electronic transmission systems, and that none of us shall be liable for any damages arising from the unauthorized use by others of information or documents transmitted in such manner. The Arrangers may place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web as it may choose, and circulate similar promotional materials, after the closing of the Transactions in the form of a "tombstone" or otherwise describing the names of you, the Borrower and your and their affiliates (or any of them), and the amount, type and closing date of such Transactions, all at the expense of the Arrangers; *provided* that you shall have been given a

reasonable opportunity to review such tombstone prior to its initial publication. This Commitment Letter and the Fee Letter supersede all prior understandings, whether written or oral, between us with respect to the Bridge Facility. **THIS COMMITMENT LETTER AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS COMMITMENT LETTER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

10. Jurisdiction.

Each of the parties hereto hereby irrevocably and unconditionally (a) submits, for itself and its property, to the exclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in the Borough of Manhattan in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Commitment Letter, the Fee Letter or the transactions contemplated hereby or thereby, and agrees that all claims in respect of any such action or proceeding may be heard and determined only in such New York State court or, to the extent permitted by law, in such Federal court, (b) waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Commitment Letter, the Fee Letter or the transactions contemplated hereby or thereby in any New York State court or in any such Federal court, (c) waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court and (d) agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Service of any process, summons, notice or document by registered mail addressed to you at the address above shall be effective service of process against you for any suit, action or proceeding brought in any such court.

11. Waiver of Jury Trial.

EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM BROUGHT BY OR ON BEHALF OF ANY PARTY RELATED TO OR ARISING OUT OF THIS COMMITMENT LETTER, THE FEE LETTER OR THE PERFORMANCE OF SERVICES HEREUNDER OR THEREUNDER.

12. Confidentiality.

This Commitment Letter is delivered to you on the understanding that neither this Commitment Letter nor the Fee Letter nor any of their terms or substance, nor the activities of any of us pursuant hereto, shall be disclosed, directly or indirectly, to any other person except (a) to your officers, directors, employees, attorneys, agents, accountants and advisors on a confidential and need-to-know basis, (b) (i) in any legal, judicial or administrative proceeding, (ii) as otherwise required by applicable law, regulation or compulsory legal process or as requested by a governmental authority, or (iii) in the case of the Commitment Letter and the contents hereof (but not the Fee Letter and the contents thereof) as you may determine is reasonably advisable to comply with your obligations under securities and other applicable laws and regulations (in each case pursuant to this clause (b), you agree, to the extent permitted by law, to inform us promptly thereof prior to such disclosure), and (c) to the Company and the Seller and their officers, directors, employees, attorneys, accountants and advisors on a confidential and need-to-know basis (but not the Fee Letter and the contents thereof unless redacted in a form acceptable to the Commitment Parties in their absolute discretion); *provided* that you may disclose this

Commitment Letter and the contents hereof (but not the Fee Letter or the contents thereof) in any prospectus or other offering memorandum relating to any offering of the Permanent Financing; *provided, further*, that the foregoing restrictions shall cease to apply (except in respect of the Fee Letter and the contents thereof) after this Commitment Letter has been accepted by you and this Commitment Letter has become publicly available as a result of its disclosure in accordance with the terms of this paragraph.

Notwithstanding anything herein to the contrary, any party to this Commitment Letter (and any employee, representative or other agent of such party) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated by this Commitment Letter and the Fee Letter and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such tax treatment and tax structure, except that (i) tax treatment and tax structure shall not include the identity of any existing or future party (or any affiliate of such party) to this Commitment Letter or the Fee Letter and (ii) no party shall disclose any information relating to such tax treatment and tax structure to the extent nondisclosure is reasonably necessary in order to comply with applicable securities laws. For this purpose, the tax treatment of the transactions contemplated by this Commitment Letter and the Fee Letter is the purported or claimed U.S. Federal income tax treatment of such transactions and the tax structure of such transactions is any fact that may be relevant to understanding the purported or claimed U.S. Federal income tax treatment of such transactions.

13. Surviving Provisions.

The compensation, reimbursement, indemnification, confidentiality, syndication, jurisdiction, governing law and waiver of jury trial provisions contained herein and in the Fee Letter and the provisions of Section 8 of this Commitment Letter shall remain in full force and effect regardless of whether definitive financing documentation shall be executed and delivered and (other than in the case of the syndication provisions) notwithstanding the termination of this Commitment Letter or the Initial Lenders' commitments hereunder and our agreements to perform the services described herein; *provided* that your obligations under this Commitment Letter, other than those relating to confidentiality, compensation and to the syndication of the Bridge Facility (which shall remain in full force and effect), shall, to the extent covered by the Bridge Facility Documentation, automatically terminate and be superseded by the applicable provisions contained in such Bridge Facility Documentation upon the occurrence of the Closing Date. The commitments under the Bridge Facility may be terminated in whole or in part by you at any time subject to the provisions of the preceding sentence.

14. PATRIOT Act Notification.

We hereby notify you that, pursuant to the requirements of the USA PATRIOT Act, Title III of Pub. L. 107-56 (signed into law October 26, 2001) (the "***PATRIOT Act***"), each of us and each Lender is required to obtain, verify and record information that identifies the Borrower, which information includes the name, address, tax identification number and other information regarding the Borrower that will allow each of us or such Lender to identify the Borrower in accordance with the PATRIOT Act. This notice is given in accordance with the requirements of the PATRIOT Act and is effective as to each of us and each Lender. You hereby acknowledge and agree that we shall be permitted to share any or all such information with each other Lender.

15. Acceptance and Termination.

If the foregoing correctly sets forth our agreement with you, please indicate your acceptance of the terms of this Commitment Letter and of the Fee Letter by returning to us executed counterparts hereof and of the Fee Letter not later than 5:00 p.m., New York City time, on April 30, 2010. Each Initial Lenders' offer hereunder, and our agreements to perform the services described herein, will expire automatically and without further action or notice and without further obligation to you at such time in the event that we have not received such executed counterparts in accordance with the immediately preceding sentence. This Commitment Letter will become a binding commitment of the Initial Lenders only after it has been duly executed and delivered by you in accordance with the first sentence of this Section 15. Thereafter, all commitments and undertakings of each Commitment Party hereunder will expire on the earliest of (hereinafter, the "***Outside Date***") (a) the Termination Date (as defined in the Purchase Agreement as in effect on the date hereof, including as such date may be extended in accordance with Section 8.1(b) of the Purchase Agreement as in effect on the date hereof), (b) the closing of the Acquisition, (c) the date that the Purchase Agreement is terminated or expires or pursuit of the Acquisition is abandoned, and (d) receipt by the Commitment Parties of written notice from PPL of its election to terminate all commitments under the Bridge Facility in full.

[Remainder of this page intentionally left blank]

We are pleased to have been given the opportunity to assist you in connection with the financing for the Acquisition.

Very truly yours,

CREDIT SUISSE SECURITIES (USA) LLC

By _____
Name: Joseph Kieffer
Title: Director

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH

By _____
Name: BILL O'DALY
Title: DIRECTOR

By _____
Name: VIPUL DHADDA
Title: ASSOCIATE

BANC OF AMERICA SECURITIES LLC

By B. Timothy Keller
Name: B. Timothy Keller
Title: Principal

BANC OF AMERICA SECURITIES LLC

By_____
Name:
Title:

BANK OF AMERICA, N.A.

By_____
Name: Jacob Dowden
Title: Vice President

Accepted and agreed to as of
the date first above written:

PPL CORPORATION

By: James E. Abel
Name: James E. Abel
Title: Vice President - Finance
and Treasurer

CONFIDENTIAL

EXHIBIT A

PROJECT ATLANTIS
$6.50 Billion 364-Day Senior Bridge Term Loan Credit Facility
Summary of Principal Terms and Conditions

Borrower:	PPL Capital Funding, Inc., a Delaware corporation (the "***Borrower***").
Transactions:	PPL Corporation, a Pennsylvania corporation ("***PPL***"), intends to acquire (the "***Acquisition***") from E.ON US Investments Corp., a Delaware corporation and a wholly owned subsidiary of E.ON AG (the "***Seller***"), all of the equity interests of E.ON US, LLC, a Kentucky limited liability company (the "***Company***"), the owner of certain subsidiaries that conduct the Seller's U.S. regulated electric and gas utility businesses principally located in Kentucky and Virginia, pursuant to a purchase and sale agreement (the "***Purchase Agreement***") dated as of April 28, 2009 among PPL, the Seller and the Company for an aggregate cash consideration set forth in the Purchase Agreement as in effect on the date hereof ("***Acquisition Consideration***"). In connection with the Acquisition, the Borrower, a wholly owned subsidiary of PPL, and PPL intend to (a) obtain a 364-day senior bridge term loan credit facility described below under the caption "Bridge Facility" and (b) repay outstanding indebtedness of the Company and its Subsidiaries and pay the fees and expenses incurred in connection with the foregoing (the "***Transaction Costs***"). It is anticipated that some or all of the Bridge Facility will be replaced or refinanced by (i) the issuance of first mortgage bonds by one or more subsidiaries of PPL or the Company (the "***First Mortgage Bonds***"), (ii) the issuance of senior unsecured notes by one or more subsidiaries of PPL or the Company through a public offering or in a private placement (the "***Senior Notes***" and, together with the First Mortgage Bonds, the "***Permanent Debt Financing***"), and (iii) the issuance of equity or equity-linked securities in a public offering or private placement by PPL (other than any equity issued pursuant to PPL's Dividend Reinvestment Plan, any director or employee stock ownership plan or any other employee compensation plan, in each case, in effect as of the date hereof) (the "***Equity Offering***" and, together with the Permanent Debt Financing, the "***Permanent Financing***"). The transactions described in this paragraph are collectively referred to herein as the "***Transactions***".
Agent:	Bank of America, N.A., acting through one or more of

	its branches or affiliates ("***BofA***"), will act as sole administrative agent (collectively, in such capacities, the "***Agent***") for a syndicate of banks, financial institutions and other institutional lenders (together with BofA, the "***Lenders***"), and will perform the duties customarily associated with such roles.
Joint Bookrunners and Co-Lead Arrangers:	Credit Suisse Securities (USA) LLC and Banc of America Securities LLC will act as joint bookrunners and co-lead arrangers for the Bridge Facility described below (collectively, in such capacities, the "***Arrangers***"), and will perform the duties customarily associated with such roles.
Syndication Agent:	At the option of the Arrangers, one or more financial institutions identified by the Arrangers and acceptable to PPL (in such capacity, the "***Syndication Agent***").
Documentation Agent:	At the option of the Arrangers, one or more financial institutions identified by the Arrangers and acceptable to PPL (in such capacity, the "***Documentation Agent***").
Bridge Facility:	A 364-day senior bridge term loan credit facility in an aggregate principal amount of up to $6.50 billion (the "***Bridge Facility***").
Purpose:	The proceeds of the Bridge Facility will be used by the Borrower on the date of the initial borrowing under the Bridge Facility (the "***Closing Date***"), solely (a) to pay the Acquisition Consideration, and (b) to pay the Transaction Costs.
Availability:	The Bridge Facility must be drawn in a single drawing on the Closing Date which shall occur on or prior to the Outside Date. Amounts borrowed under the Bridge Facility that are repaid or prepaid may not be reborrowed.
Interest Rates and Fees:	As set forth on Annex I hereto.
Default Rate:	At any time when the Borrower is in default in the payment of any amount of principal due under the Bridge Facility, the overdue amount shall bear interest at 2% above the rate otherwise applicable thereto. Overdue interest, fees and other amounts shall bear interest at 2% above the rate applicable to ABR loans.
Final Maturity and Amortization:	The Bridge Facility will mature on the date that is 364 days after the Closing Date (the "***Maturity Date***"). There will be no scheduled amortization.
Guarantee:	All obligations of the Borrower under the Bridge Facility will be unconditionally guaranteed (the "***Guarantee***") by PPL.
Mandatory Prepayments and	On or prior to the Closing Date, the aggregate

Commitment Reductions:

commitments in respect of the Bridge Facility under the Commitment Letters or under the Credit Agreement (as applicable) shall be permanently reduced, and after the Closing Date, the aggregate loans under the Bridge Facility shall be prepaid, in each case, dollar-for-dollar, by the following amounts (in each case, other than any amounts issued, incurred or received by Western Power Distribution Holdings Limited and its subsidiaries (collectively, "***WPD***"), and PPL Electric Utilities Corporation ("***PPL Electric***"), Kentucky Utilities Company ("***KU***") and Louisville Gas and Electric Company ("***LG&E***" and together with WPD, KU and PPL Electric, the "***Excluded Subsidiaries***"), except to the extent such proceeds are distributed to PPL or other intermediate entity that is not "ring-fenced" and except for equity issued to a person other than PPL or a subsidiary of PPL):

(a) 100% of the net cash proceeds of all asset sales or other dispositions of property by PPL and its subsidiaries (including proceeds from the sale of stock of any subsidiary of a Borrower and insurance and condemnation proceeds) (an "***Asset Sale***") in excess (when taken together with all net cash proceeds in respect of all Asset Sales) of $50 million in the aggregate, subject to exceptions and reinvestment provisions to be agreed upon;

(b) 100% of the net cash proceeds received from any incurrence of debt for borrowed money (including, without limitation, any Permanent Debt Financing) other than (i) any intercompany debt of PPL or any of its subsidiaries, (ii) any debt of PPL or any of its subsidiaries incurred in the ordinary course under the Revolving Credit Facilities (iii) any debt incurred up to $300,000,000 in the aggregate, and (iv) the indebtedness set forth on the "Anticipated Debt Schedule" delivered to the Arrangers prior to the date hereof, (v) other debt for borrowed money to be agreed upon (the debt referred to in clauses (i) through (iv), the "***Excluded Debt***"); and

(c) 100% of the net cash proceeds received from any issuance of equity or equity-linked securities (in a public offering or private placement) by PPL or any of its subsidiaries, other than (i) any equity issued pursuant to PPL's Dividend Reinvestment Plan, any director or employee stock ownership plan or any other employee compensation plan, in each case, in effect as of the date hereof, and (ii) other exceptions to be agreed upon.

Voluntary Prepayments and Reductions in Commitments:	Voluntary reductions of the unutilized portion of the commitments under the Bridge Facility and prepayments of borrowings thereunder will be permitted at any time, in minimum principal amounts to be agreed upon, without premium or penalty, subject to reimbursement of the Lenders' redeployment costs in the case of a prepayment of Adjusted LIBOR borrowings other than on the last day of the relevant interest period.
Representations and Warranties:	Substantially the same as those contained in the Amended and Restated 364-Day Credit Agreement dated as of September 8, 2009 among PPL Energy Supply, LLC, the lenders from time to time a party thereto, Wachovia Bank, National Association, as Administrative Agent, Wells Fargo Securities, LLC, Banc of America Securities LLC and J.P. Morgan Securities Inc., as Joint lead Arrangers (as in effect on the date hereof and disregarding any amendment or modification thereto made after the date hereof) (the "***Existing 364-Day Credit Agreement***") except as set forth below, limited to the following: corporate status; authority; no conflict; legality; financial condition (including audited financial statements, interim financial statements and no material adverse change); rights to properties; litigation; no violation; ERISA; governmental approvals; Investment Company Act; tax returns and payments; compliance with laws (including PATRIOT Act, OFAC, FCPA and margin regulations); no default; environmental matters; guarantees; solvency; and treatment as senior debt under all subordinated debt and as sole designated senior debt thereunder.
Conditions Precedent to Initial Borrowing:	The initial borrowing under the Bridge Facility will be subject solely to the conditions precedent set forth in Section 6 of the Commitment Letter and Exhibit B to the Commitment Letter.
Covenants and Events of Default:	The Bridge Facility Documentation will contain only the following affirmative, negative and financial covenants and Events of Default which shall be applicable to PPL and its subsidiaries; *provided* that (i) a breach of such affirmative, negative or financial covenant or the occurrence of any event otherwise listed as a "default" shall not constitute an "Event of Default" until the later of the Closing Date (after giving effect to the funding under the Bridge Facility on such date) and the end of any applicable grace period (if such breach or default is then continuing) and (ii) only the financial covenants and the cross-event of default, cross-acceleration and bankruptcy

	defaults shall apply to the Excluded Subsidiaries. For the avoidance of doubt, compliance with such affirmative, negative and financial covenants and the absence of any Event of Default, in each case set forth in the Bridge Facility Documentation shall not be a condition precedent to funding the loans under the Bridge Facility.
Affirmative Covenants:	Substantially the same as those contained in the Existing 364-Day Credit Agreement (provided that to the extent any affirmative covenant identified below does not appear in the Existing 364-Day Credit Agreement, such affirmative covenant shall be on terms customary for transactions of this type), limited to the following: information (including, annual financial statements, quarterly financial statements, officers' certificates, default, change in the Borrower ratings, securities laws filings, ERISA matters, PATRIOT Act and other information); maintenance of property; maintenance of insurance; conduct of business and maintenance of existence; compliance with laws (including PATRIOT Act, OFAC, FCPA and margin regulations); books and records; use of proceeds; use of commercially reasonable efforts to maintain a Public Debt Rating from S&P and Moody's; and securities demand.
Negative Covenants:	Substantially the same as those contained in the Existing 364-Day Credit Agreement (provided that to the extent any negative covenant identified below does not appear in the Existing 364-Day Credit Agreement, such negative covenant shall be on terms customary for transactions of this type), limited to the following: limitations on liens; limitations on merger or consolidation; limitations on asset sales (subject to "Mandatory Prepayments and Commitment Reductions" above); restrictive agreements; limitations on debt of subsidiaries; limitations on dividends on, and redemptions and repurchases of, equity interests and other restricted payments (other than (i) ordinary cash dividends economically equivalent (on a per share basis after giving effect to the Acquisition) to the ordinary cash dividends historically paid by PPL plus any increase to such dividends that is consistent with historical practice, (ii) any payments made on any equity-linked securities, the issuance of which shall constitute an Equity Offering and shall have reduced the commitments or loans under the Bridge Facility in accordance with the caption "Mandatory Prepayments and Commitment Reductions" above, and (iii) any repurchase of PPL Electric preferred or preference

	stock in an aggregate principal amount of up to $250,000,000 (from the proceeds of a new issuance of indebtedness by PPL Electric); limitations on investments in non-wholly owned entities and acquisitions of entities or business units (other than investments and acquisitions in an aggregate principal amount not to exceed $300,000,000), in each case subject to additional exceptions to be agreed upon.
Financial Covenant:	PPL shall maintain a ratio of Consolidated Debt (as defined in the Existing 364-Day Credit Agreement) of PPL (excluding Western Power Distribution Holdings Limited) to Consolidated Capitalization (as defined in the Existing 364-Day Credit Agreement) of PPL (excluding Western Power Distribution Holdings Limited) not to exceed 70% at any time.
Events of Default:	Substantially the same as those contained in the Existing 364-Day Credit Agreement except as otherwise set forth below, limited to the following (subject, where appropriate, to thresholds and grace periods substantially the same as those contained in the Existing 364-Day Credit Agreement): nonpayment of principal, interest or other amounts; violation of covenants; incorrectness of representations and warranties in any material respect; cross event of default and cross acceleration; bankruptcy; material judgments; ERISA events; change of control; actual or asserted invalidity of the Guarantee.
Voting:	Amendments and waivers of the definitive credit documentation will require the approval of Lenders holding more than 50% of the aggregate amount of the loans and commitments under the Bridge Facility, except that the consent of each Lender shall be required with respect to, among other things, (a) increases in the commitment of such Lender, (b) reductions of principal, interest or fees payable to such Lender, (c) extensions of final maturity of the loans or commitments of such Lender, and (d) releases of all or substantially all of the value of the Guarantee.
Cost and Yield Protection:	Usual for facilities and transactions of this type, including customary tax gross-up provisions.
Assignments and Participations:	Prior to the Closing Date, the Lenders will be permitted to assign commitments under the Bridge Facility with the consent of the Borrower; *provided* that such consent of the Borrower shall not be required (i) if such assignment is made to another Lender under the Bridge Facility or an affiliate or approved fund of any such Lender or (ii) if such assignment is made to a Permitted Assignee. From

the Closing Date, the Lenders will be permitted to assign loans under the Bridge Facility without the consent of the Borrower. Each assignment will be in an amount of an integral multiple of $1,000,000. Assignments will be by novation.

The Lenders will be permitted to sell participations in loans and commitments without restriction. Voting rights of participants shall be limited to matters in respect of (a) increases in commitments of such participant, (b) reductions of principal, interest or fees payable to such participant, (c) extensions of final maturity of the loans or commitments in which such participant participates, and (d) releases of all or substantially all of the value of the Guarantee.

Defaulting Lenders: Usual for facilities and transactions of this type, including the suspension of voting rights and rights to receive certain fees, and the termination or assignment of commitments or loans of defaulting Lenders.

Expenses and Indemnification: The Borrower will indemnify the Arrangers, the Agent, the Syndication Agent, the Documentation Agent, the Lenders, their respective affiliates, successors and assigns and the officers, directors, employees, agents, advisors, controlling persons and members of each of the foregoing (each, an "***Indemnified Person***") and hold them harmless from and against all costs, expenses (including reasonable fees, disbursements and other charges of counsel) and liabilities of such Indemnified Person arising out of or relating to any claim or any litigation or other proceeding (regardless of whether such Indemnified Person is a party thereto and regardless of whether such matter is initiated by a third party or by PPL, the Company or any of their respective affiliates or equity holders) that relates to the Transactions, including the financing contemplated hereby, the Acquisition or any transactions in connection therewith; *provided* that no Indemnified Person will be indemnified for any cost, expense or liability to the extent determined in the final, non-appealable judgment of a court of competent jurisdiction to have resulted primarily from its bad faith, gross negligence or willful misconduct. In addition, the Borrower shall pay all reasonable out-of-pocket expenses (including, without limitation, reasonable fees, disbursements and other charges of counsel identified in the Term Sheet (and, if reasonably necessary, of one regulatory counsel and one local counsel in any relevant jurisdiction for all

	Indemnified Persons unless, in the reasonable opinion of an Indemnified Person, representation of all Indemnified Persons by such counsel would be inappropriate due to the existence of an actual or potential conflict of interest)) of (a) the Arrangers, the Agent, the Syndication Agent and the Documentation Agent in connection with the syndication of the Bridge Facility, the preparation and administration of the definitive documentation, and amendments, modifications and waivers thereto, and (b) the Arrangers, the Agent, the Syndication Agent, the Documentation Agent and the Lenders for enforcement costs associated with the Bridge Facility.
Governing Law and Forum:	New York.
Counsel to Agent and Arranger:	Davis Polk & Wardwell LLP.

Interest Rates:

The interest rates under the Bridge Facility will be, at the option of the Borrower, Adjusted LIBOR plus the Applicable Adjusted LIBOR Margin (as defined below) or ABR plus the Applicable ABR Margin (as defined below).

The Borrower may elect interest periods of 1, 2, 3 or 6 months for Adjusted LIBOR borrowings.

Calculation of interest shall be on the basis of the actual days elapsed in a year of 360 days (or 365 or 366 days, as the case may be, in the case of ABR loans based on the Administrative Agent's Prime Rate) and interest shall be payable at the end of each interest period and, in any event, at least every three months.

ABR is the Alternate Base Rate, which is the highest of (a) the Administrative Agent's Prime Rate, (b) the Federal Funds Effective Rate plus ½ of 1.0%, and (c) Adjusted LIBOR for a one-month interest period, plus 1.0%.

Adjusted LIBOR will at all times include statutory reserves, and shall be deemed to be not less than 1.50%.

Pricing Definitions:

For the purposes hereof, the terms "***Applicable Adjusted LIBOR Margin***" and "***Applicable ABR Margin***" mean, with respect to loans under the Bridge Facility, a percentage per annum on any date of determination during any period set forth in the table below.

	Level I		Level II		Level III		Level IV	
	Applicable Adjusted LIBOR Margin	Applicable ABR Margin	Applicable Adjusted LIBOR Margin	Applicable ABR Margin	Applicable Adjusted LIBOR Margin	Applicable ABR Margin	Applicable Adjusted LIBOR Margin	Applicable ABR Margin
Closing Date until 3-month anniversary thereof	2.75%	1.75%	4.50%	3.50%	5.00%	4.00%	6.00%	5.00%
3-month anniversary of Closing	3.25%	2.25%	5.00%	4.00%	5.50%	4.50%	6.50%	5.50%

Date until 6-month anniversary thereof								
6-month anniversary of Closing Date until 9-month anniversary thereof	3.75%	2.75%	5.50%	4.50%	6.00%	5.00%	7.00%	6.00%
9-month anniversary of Closing Date and thereafter	4.75%	3.75%	6.50%	5.50%	7.00%	6.00%	8.00%	7.00%

Level I Status pricing shall apply if, on any date of determination, the Public Debt Rating is BBB- or higher by S&P and is Baa3 or higher by Moody's.

Level II Status pricing shall apply if, on any date of determination, Level I Status does not exist and the Public Debt Rating is BB+ or higher by S&P and is Ba1 or higher by Moody's.

Level III Status pricing shall apply if, on any date of determination, Level I Status or Level II Status does not exist and the Public Debt Rating is BB or higher by S&P and is Ba2 or higher by Moody's.

Level IV Status pricing shall apply if, on any date of determination, Level I Status, Level II Status and Level III Status does not exist.

For the purposes hereof, the term "***Public Debt Rating***" means, as of any date of determination, the rating of S&P or Moody's for any class of non-credit enhanced (other than by PPL) long-term senior unsecured debt issued by the Borrower.

In the event of a split Public Debt Rating with respect to any Level Status, the higher of the S&P and Moody's Public Debt Rating will determine the applicable Level Status, unless one of the S&P or Moody's Public Debt Ratings is two or more levels lower than the other, in which case the applicable Level Status shall be determined by reference to the Public Debt Rating level one rating lower than the higher of the S&P or Moody's

Public Debt Ratings.

Duration Fees:

The Borrower will pay a fee (the "***Duration Fee***"), for the ratable benefit of the Lenders, in an amount equal to (i) 0.75% of the aggregate principal amount of the loans under the Bridge Facility outstanding on the date which is 90 days after the Closing Date, due and payable in cash on such 90th day (or if such day is not a business day, the next business day); (ii) 1.25% of the aggregate principal amount of the loans under the Bridge Facility outstanding on the date which is 180 days after the Closing Date, due and payable in cash on such 180th day (or if such day is not a business day, the next business day); and (iii) 1.75% of the aggregate principal amount of the loans under the Bridge Facility outstanding on the date which is 270 days after the Closing Date, due and payable in cash on such 270th day (or if such day is not a business day, the next business day).

Commitment Fees:

A percentage per annum on the undrawn portion of the commitments in respect of the Bridge Facility, payable upon the earlier of termination of the commitments under the Bridge Facility and the Closing Date, calculated based on the number of days elapsed in a 360-day year, as follows: (a) during the period from and including the date of execution of the Commitment Letter (the "***Signing Date***") to but excluding the date that is 180 days after the Signing Date, at a rate equal to 0.30% per annum, (b) from and including the date that is 180 days after the Signing Date to but excluding the date that is 360 days after the Signing Date, at a rate equal to 0.375% per annum, and (c) from and including the date that is 360 days after the Signing Date, at a rate equal to 0.50% per annum. For the avoidance of doubt, it is understood and agreed that the Commitment Fee shall replace the Ticking Fee (as defined in the Fee Letter) following the execution and delivery of the Bridge Facility Documentation.

PROJECT ATLANTIS
$6.50 Billion 364-Day Senior Bridge Term Loan Credit Facility
Summary of Additional Conditions Precedent[1]

The initial borrowing under the Bridge Facility shall be subject to the following additional conditions precedent:

1. The Acquisition and the other Transactions shall be consummated substantially concurrently with the closing under the Bridge Facility in accordance with the Purchase Agreement and the Purchase Agreement shall not have been amended or modified, and no condition shall have been waived or consent granted, in any respect that is materially adverse to the Lenders without the Arrangers' prior written consent (such consent not to be unreasonably withheld or delayed), it being understood and agreed that any material change to the transaction structure, and any increase or decrease in the Acquisition Consideration (other than as a result of any adjustment to the Acquisition Consideration as provided in the Purchase Agreement as in effect on the date hereof) and any condition relating to regulatory approvals set forth in Section 7 of the Purchase Agreement, shall in each case be deemed to be materially adverse to the Lenders.

2. After giving effect to the Transactions and the other transactions contemplated hereby, PPL and its subsidiaries (other than Western Power Distribution Holdings Limited and its subsidiaries and PPL Electric Utilities Corporation) shall have outstanding no indebtedness, credit facilities or preferred stock other than (a) the loans and other extensions of credit under the Bridge Facility, (b) the Permanent Debt Financing, (c) the indebtedness incurred or outstanding under the agreements and instruments set forth on Exhibit C attached hereto (the "***Existing Debt Instruments***"), including the Revolving Credit Facilities, (d) indebtedness of the Company and its subsidiaries permitted to be outstanding on the Closing Date under the Purchase Agreement (as in effect on the date hereof and without giving effect to any consents granted thereunder), (e) preferred stock issued as of the date hereof, (f) any Excluded Debt (g) indebtedness set forth in the "Anticipated Debt Schedule" delivered to the Arrangers prior to the date hereof and (h) other limited indebtedness to be agreed upon.

3. The Arrangers shall have received (a) U.S. GAAP audited consolidated balance sheets and related statements of income, stockholders' equity and cash flows of each of PPL and the Company for the three most recent fiscal years ended at least 90 days prior to the Closing Date and (b) U.S. GAAP unaudited consolidated and (to the extent available) consolidating balance sheets and related statements of income, stockholders' equity and cash flows of each of PPL and the Company for

[1] All capitalized terms used but not defined herein have the meanings given to them in the Commitment Letter to which this Exhibit B is attached, including Exhibits A thereto.

each subsequent fiscal quarter ended at least 60 days before the Closing Date, which financial statements shall meet the requirements of Regulation S-X under the Securities Act of 1933, as amended, and all other accounting rules and regulations of the SEC promulgated thereunder applicable to a registration statement under such Act on Form S-1.

4. The Arrangers shall have received a pro forma consolidated balance sheet and related pro forma consolidated statement of income of PPL as of and for the twelve-month period ending on the last day of the most recently completed four-fiscal quarter period for which financial statements have been delivered pursuant to paragraph 2 above, prepared after giving effect to the Transactions as if the Transactions had occurred as of such date (in the case of such balance sheet) or at the beginning of such period (in the case of the income statement), which pro forma financial statements shall meet the requirements of Regulation S-X under the Securities Act of 1933, as amended, and all other accounting rules and regulations of the SEC promulgated thereunder applicable to a registration statement under such Act on Form S-1.

5. The Agent shall have received legal opinions, corporate organizational documents, good standing certificates, resolutions and other customary closing certificates as are customary for transactions of this type and reasonably satisfactory to the Agent.

6. The Agent shall have received a certificate from the chief financial officer of PPL in form satisfactory to the Agent certifying that PPL and its subsidiaries, on a consolidated basis after giving effect to the Transactions and the other transactions contemplated hereby, are solvent. It is understood and agreed that the solvency certificate in the form attached hereto on Exhibit D shall be deemed to be in form satisfactory to the Agent.

7. The Borrower shall have a Public Debt Rating from each of S&P and Moody's.

8. The Arrangers, the Agent, the Syndication Agent, the Documentation Agent and the Lenders shall have received all fees and invoiced expenses required to be paid on or prior to the Closing Date pursuant to the Fee Letter or otherwise.

9. The Arrangers shall have received, at least five business days prior to the Closing Date, all documentation and other information required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including, without limitation, the PATRIOT Act.

EXHIBIT C

Existing Indebtedness of PPL and its Subsidiaries

Existing Debt Instruments as of March 31, 2010

PPL Energy Supply, LLC and Subsidiaries
Exempt Facilities Notes:

- Series 2009C Exempt Facilities Loan Agreement between Pennsylvania Economic Development Financing Authority (PEDFA) and PPL Energy Supply, LLC dated April 1, 2009, in connection with the PEDFA Exempt Facilities Revenue Refunding Bonds, Series 2009C (PPL Energy Supply, LLC Project) due 2037, in an aggregate principal amount of $80,570,000.

- Series 2009A Exempt Facilities Loan Agreement between PEDFA and PPL Energy Supply, LLC dated April 1, 2009, in connection with the PEDFA Exempt Facilities Revenue Refunding Bonds, Series 2009A (PPL Energy Supply, LLC Project) due 2038, in an aggregate principal amount of $100,000,000.

- Series 2009B Exempt Facilities Loan Agreement between PEDFA and PPL Energy Supply, LLC dated April 1, 2009, in connection with the PEDFA Exempt Facilities Revenue Refunding Bonds, Series 2009B (PPL Energy Supply, LLC Project) due 2038, in an aggregate principal amount of $50,000,000.

Senior Notes:

- PPL Energy Supply, LLC's Senior Notes, 6.40% Exchange Series A due 2011, in an aggregate principal amount of $500,000,000.

- PPL Energy Supply, LLC's Senior Notes, 6.30% Series due 2013, in an aggregate principal amount of $300,000,000.

- PPL Energy Supply, LLC's Senior Notes, 5.40% Series due 2014, in an aggregate principal amount of $300,000,000.

- PPL Energy Supply, LLC's Senior Notes, 6.20% Series due 2016, in an aggregate principal amount of $349,674,000.

- PPL Energy Supply, LLC's Senior Notes, 6.50% Series due 2018, in an aggregate principal amount of $400,000,000.

- PPL Energy Supply, LLC's 5.70% REset Put Securities due 2035, in an aggregate principal amount of $300,000,000.

- PPL Energy Supply, LLC's Senior Notes, 6.00% Series due 2036, in an aggregate principal amount of $200,418,000.

- PPL Energy Supply, LLC's Senior Notes, 7.00% Series due 2046 in an aggregate principal amount of $250,000,000.

- PPL Capital Funding, Inc.'s 6.85% Senior Notes due 2047, in an aggregate principal amount of $100,000,000.

- PPL Capital Funding, Inc.'s 6.70% 2007 Series A Junior Subordinated Notes due 2067, in an aggregate principal amount of $500,000,000.

- PPL Montana, LLC's 8.903% Pass Through Certificates (off balance sheet) amortizing through 2020, in an aggregate principal amount of $199,718,000.

- LMB Funding, Limited Partnership's 8.05% Senior Secured Notes, Series A due 2013, in an aggregate principal amount of $283,996,700.

- LMB Funding, Limited Partnership's 8.30% Senior Secured Notes, Series B due 2013, in an aggregate principal amount of $152,921,300.

Revolving Credit Facilities:

- PPL Energy Supply, LLC's Amended and Restated 364-Day Credit Agreement dated as of September 8, 2009, in an aggregate committed amount of $400,000,000.
  (Expiration date: September 2010)

- PPL Energy Supply, LLC's Second Amended and Restated Five-Year Credit Agreement dated as of May 4, 2007 (as amended on December 3, 2008), in an aggregate committed amount of $3,225,277,778.
  (Expiration date: June 2012)
  - $284,583,333.33 drawn as of March 31, 2010

- PPL Energy Supply, LLC's Five-Year Letter of Credit and Revolving Credit Agreement dated as of December 15, 2005 (as amended on December 29, 2006), in an aggregate committed amount of $300,000,000.
  (Expiration date: March 2011)

(the "**Existing Revolving Facilities**")

- Any renewal, replacement, extension, refinancing, amendment or amendment and restatement (a "Refinancing") of any Existing Revolving Facility with a new or amended revolving credit facility (including any refinancing that increases the committed amount of such Existing Revolving Facility) (together with the Existing Revolving Facilities, the "**Revolving Credit Facilities**").

Other Facilities:

- PPL Energy Supply, LLC's Reimbursement Agreement dated as of March 31, 2005 (as amended on March 31, 2010), in an aggregate committed amount of $200,000,000.
  (Expiration date: March 2013)

- PPL Receivables Corporation's (with PPL Electric Utilities Corporation, as Servicer) Revolving Credit and Security Agreement dated as of August 5, 2008 (as amended on July 28, 2009) in an aggregate committed amount of $150,000,000.
  (Expiration date: August 2010)

EXHIBIT D

Form of Solvency Certificate

SOLVENCY CERTIFICATE
OF
PPL CORPORATION AND ITS SUBSIDIARIES

[__], 2010

This Solvency Certificate (the "**Certificate**") of PPL Corporation, a Pennsylvania corporation ("**Holdings**"), and its Subsidiaries is delivered pursuant to Section [__] of the Bridge Loan Credit Agreement dated as of [__] (the "**Credit Agreement**") by and among the PPL Capital Funding, Inc. (the "**Borrower**"), Holdings, the Lenders from time to time party thereto, [__], as Administrative Agent, [__], as Documentation Agent, [__], as Syndication Agent, and Credit Suisse Securities (USA) LLC and Banc of America Securities LLC, as Joint Lead Arrangers. Unless otherwise defined herein, capitalized terms used in this Certificate shall have the meanings set forth in the Credit Agreement.[2]

I, [Paul A. Farr], the duly elected, qualified and acting [EVP and Chief Financial Officer] of Holdings and its Subsidiaries, DO HEREBY CERTIFY, as follows:

1. I have carefully reviewed the Credit Agreement and the other [Loan Documents] referred to therein (collectively, the "**Transaction Documents**") and such other documents as I have deemed relevant and the contents of this Certificate and, in connection herewith, have made such investigation as I have deemed necessary therefor. I further certify that the financial information and assumptions which underlie and form the basis for the representations made in this Certificate were fair and reasonable when made and were made in good faith and continue to be fair and reasonable as of the date hereof. Furthermore, I confirm and acknowledge that the Joint Lead Arrangers, the Administrative Agent and the Lenders are relying on the truth and accuracy of this Certificate in connection with the Commitments and Loans under the Credit Agreement. I am providing this certificate solely in my capacity as an officer of Holdings.

2. I have reviewed the *pro forma* consolidated balance sheet, attached hereto as Exhibit A, delivered to the Joint Lead Arrangers, the Administrative Agent and the Lenders pursuant to Section [__] of the Credit Agreement (the "**Balance Sheet**"). I am familiar with the financial performance and prospects of Holdings and its Subsidiaries and hereby confirm that the Balance Sheet was prepared in good faith and fairly presents, in all material respects, on a *pro forma* basis as of [__] (after giving effect to the transactions contemplated by the Transaction Documents), Holdings' and its Subsidiaries' consolidated financial condition, based on the information available to Holdings and its Subsidiaries at the time so furnished.

3. As of the date hereof, after giving effect to the Transactions, the fair value and the present fair saleable value of any and all property of Holdings and its Subsidiaries, on a consolidated basis, is greater than the probable liability on existing debts of Holdings and its Subsidiaries, on a consolidated basis, as they become absolute and matured (it being understood that the amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability).

4. As of the date hereof, after giving effect to the Transactions, Holdings and its Subsidiaries, on a consolidated basis are able to pay their debts (including, without limitation, contingent

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[2] Note: Description to be modified to reflect the description of the final Credit Agreement. Defined terms used herein shall also be modified to reflect the defined terms used in the Bridge Facility Documentation.

and subordinated liabilities) as they become absolute and mature and are otherwise "solvent" within the meaning given that term and similar terms under applicable laws relating to fraudulent transfers and conveyances.

5. Holdings and its Subsidiaries, on a consolidated basis, do not intend to, nor do they believe that they will, incur debts that would be beyond their ability to pay as such debts mature.

6. As of the date hereof, before and after giving effect to the Transactions, Holdings and its Subsidiaries are not engaged in businesses or transactions, nor about to engage in businesses or transactions, for which any property remaining would, on a consolidated basis, constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which they are engaged.

7. For the purpose of the foregoing, I have assumed there is no default under the Credit Facility on the date hereof and will be no default under the Credit Facility after giving effect to the funding under the Credit Agreement.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, I have executed this Certificate as of the date first written above.

By: _____
Name: [Paul A. Farr]
Title: [EVP and Chief Financial Officer]