DUKE ENERGY CORPORATION

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VIA OVERNIGHT DELIVERY

September 16, 2010

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd
Frankfort, KY 40601

Re: In the Matter of the Application of Duke Energy Kentucky, Inc. for an Order Authorizing the Issuance of Unsecured Debt and Long-Term Notes, Execution and Delivery of Long-Term Loan Agreements, and Use of Interest Rate Management Instruments
Case No. 2010- 00369

And

In the Matter of the Application of Duke Energy Kentucky, Inc. for an Order to Enter into up to $25,000,000 Principal Amount of Capital Lease Obligations
Case No. 2010-

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of the above-referenced Applications.

Please assign a separate case number for each enclosed Application and file-stamp and return two extra copies of each in the enclosed overnight envelope.

Feel free to contact me should you have any questions.

Sincerely,

Kristen Cocanougher

cc: Hon. Larry Cook

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of the Application of Duke Energy Kentucky, Inc. for an Order Authorizing the Issuance of Unsecured Debt and Long-Term Notes, Execution and Delivery of Long-Term Loan Agreements, and Use of Interest Rate Management Instruments.	))))))	Case No. 2010-00369

APPLICATION

Pursuant to KRS 278.300 and 807 KAR 5:001 Sections 8 and 11, Duke Energy Kentucky, Inc. (Duke Energy Kentucky) respectfully requests that the Commission authorize Duke Energy Kentucky to, effective upon approval, issue securities, assume obligations and enter into all necessary agreements relating thereto, to issue and sell up to $100 million principal amount, consisting of long-term debt that Duke Energy Kentucky may elect to issue pursuant to: (1) the Indenture between The Union Light, Heat and Power Company (n/k/a Duke Energy Kentucky) and Deutsche Bank Trust Company dated as of December 1, 2004, or any amendments thereto ("the Deutsche Bank Indenture"); (2) the Indenture between The Union Light, Heat and Power Company (n/k/a Duke Energy Kentucky) and The Fifth Third Bank (succeeded by The Bank of New York) dated July 1, 1995, or any amendments thereto (the BONY Indenture); or (3) other long-term debt, including conversion of short-term borrowings into long-term debt.

Duke Energy Kentucky also requests ability to borrow from Boone County Kentucky, or another authorized issuer of tax exempt bonds in the State of Kentucky (Authority), for a term not to exceed forty (40) years, the proceeds of up to a maximum of $26.72 million aggregate principal amount of Authority tax exempt revenue bonds that may be issued in one or more series (Authority Bonds).[1] Duke Energy Kentucky proposes to enter into one or more loan agreements (Loan Agreements) with the Authority to evidence and secure its obligations to repay such loan or loans. Duke Energy Kentucky will use the proceeds from any such loans to refinance existing tax-exempt Authority Bonds. The proceeds from the issuance of the securities will be used to refund existing obligations on currently outstanding tax exempt bonds, in particular, the $26,720,000 County of Boone, Kentucky Pollution Control Revenue Refunding Bonds (Duke Energy Kentucky, Inc. Project), due August 1, 2027, which were issued as series 2006B on August 2, 2006 (the Boone County Bonds). Duke Energy Kentucky requests such authority beginning upon approval by the Commission through the period ending December 31, 2012, unless amended by Commission Order.

In support of this Application, Duke Energy Kentucky states as follows:

1. **Address:** Duke Energy Kentucky is a Kentucky corporation with its principal place of business at 525 W. Fifth Street, Suite 228, Covington, Kentucky 41011. Duke Energy Kentucky's principal executive office is 139 East Fourth Street, Cincinnati, Ohio 45202.

[1] *In the Matter of: The Application of Duke Energy Kentucky, Inc., for an Order Amending its Financing Authority to Authorize Loan Agreements, The Issuance of Unsecured Debt and Long-Term Notes, Execution and Delivery of Long-Term Loan Agreements, and Use of Interest Rate Management Instruments,* Case No. 2008-00503, (Order)(February 5, 2009).

2. **Articles of Incorporation:** Pursuant to 807 KAR 5:001, Section 8(3), Duke Energy Kentucky states that a certified copy of its Articles of Incorporation, as amended, is on file with this Commission in Case No. 2009-202 and is hereby incorporated by reference.

3. **Statement of Business:** Duke Energy Kentucky is a utility as defined in KRS 278.010(3)(a) and (b), engaged in providing retail gas and electric service to its customers in Northern Kentucky in various municipalities and unincorporated areas of Kenton, Campbell, Boone, Gallatin, Grant, and Pendleton Counties. Duke Energy Kentucky is thus subject to the Commission's jurisdiction.

4. **807 KAR 5:001 Section 11(1)(a).** As of June 30, 2010, the original cost of Duke Energy Kentucky's property was $1,608,392,290. The Company's principal properties consist of electric generating plants, and gas and electric distribution facilities.

5. **807 KAR 5:001 Section 11(1)(b).** Duke Energy Kentucky proposes, with the necessary consent and authority of this Commission, to issue and sell, from time to time over a period ending December 31, 2012, up to $100 million principal amount of secured indebtedness ("Bonds") or unsecured indebtedness ("Debentures"), or any combination thereof. Duke Energy Kentucky also requests permission to convert to long-term debt: (a) borrowings under the Company's revolving credit facility; and (b) loans under the Utility Money Pool Agreement approved by the Commission in Case No. 2005-00228. The foregoing types of debt are referred to collectively as the "Securities." Duke Energy Kentucky also requests permission to borrow from time to time over a period ending December 31, 2012, up to $26.72 million principal amount of proceeds of tax-exempt Authority Bonds issued for a term not to exceed forty (40) years. Duke Energy

Kentucky proposes to enter into one or more Loan Agreements with the Authority to evidence and secure its obligations to repay such loan or loans. Duke Energy Kentucky will use the proceeds from any such loans to refinance existing tax-exempt financings.

Method of Issuance. Duke Energy Kentucky proposes to either: (a) sell the Securities to one or more purchasers or underwriters through negotiated offerings; (b) sell the Securities through a competitive bidding process; (c) convert to long-term debt and hold amounts borrowed under the revolving credit facility or Utility Money Pool Agreement. If the Securities are sold through a negotiated offering, the terms of each offering of the Securities will be negotiated by Duke Energy Kentucky either with one or more underwriters/managing underwriters, with one or more purchasers, for direct sale or for sale through agents. If the Securities are sold through competitive bidding, the Securities will be sold to the bidder(s) whose proposal results in the lowest annual cost of money, with Duke Energy Kentucky having the right to reject any or all bids. The bidders will be required to specify the coupon rate and the price, exclusive of accrued interest, to be paid for the Securities. After approval of the terms for each offering by Duke Energy Kentucky's Board of Directors, or by persons authorized by Duke Energy Kentucky's Board of Directors, it is anticipated that an agreement and other transaction documents setting forth the terms of the Securities would be concluded.

The Authority Bonds will be issued pursuant to one or more Indentures of Trust ("Indentures") to be entered into between the Authority and the trustee to be determined, which Indentures establish the terms of each series of the Authority Bonds. The Authority Bonds will be special obligations payable solely out of revenues derived from the payments by Duke Energy Kentucky under the Loan Agreements.

Pricing Parameters. Duke Energy Kentucky has developed parameters under which the Securities and Authority Bonds are to be sold. The parameters, as set forth in Exhibit A, are designed to provide a reasonable allowance for potential changes in financial market conditions between the time of Commission authorization and the actual sale of the Securities. The inclusion of the parameters within the Order would allow Duke Energy Kentucky to sell the Securities or Authority Bonds at any time when it believes it is prudent to do so, provided the terms are within the parameters. Exhibit B is a representative form of senior note.

Duke Energy Kentucky proposes that the Commission issue its order authorizing Duke Energy Kentucky to execute and deliver the Loan Agreements prior to the time Duke Energy Kentucky and the underwriters reach agreement with respect to the terms of the Authority Bonds.

It is anticipated the underwriters would offer the Authority Bonds to purchasers pursuant to one or more Official Statements. The proposed sale of the Authority Bonds will be exempt from registration under the Securities Act of 1933, as amended.

Security and Other Agreements. The Bonds will be issued under and secured by the Deutsche Bank Indenture, the BONY Indenture, or a new indenture or mortgage agreement with a trustee to be determined. If the Debentures are issued, they will be issued under the Deutsche Bank Indenture, the BONY Indenture, and to be supplemented by one or more supplemental indentures, or a new indenture with a trustee to be determined.

Duke Energy Kentucky's obligations under the Loan Agreements will be to provide the Authority with sufficient revenues to enable it to pay the principal of,

premium, if any, and interest on, the Authority Bonds as and when any and all payments are due. Duke Energy Kentucky may enter into letter of credit agreements to secure Duke Energy Kentucky's obligations under the Loan Agreements. Alternatively, such Loan Agreement obligations may be unsecured.

Duke Energy Kentucky would consider arranging an irrevocable letter of credit which would support future payments of interest and principal on the Authority's Bonds, if needed. Duke Energy Kentucky would use such credit enhancements if the projected interest savings from having such credit enhancements would exceed the cost of the credit enhancement. Each Loan Agreement will stand alone, allowing Duke Energy Kentucky the option of providing or not providing security, letters of credit or other credit enhancements under each Loan Agreement.

Accounting. Duke Energy Kentucky proposes to either credit premiums or charge discounts, if any, and to charge the expenses to be incurred in connection with each issue to the proper deferred accounts and amortize such amounts over the respective lives of the Securities or Authority Bonds respectively, in equal annual amounts to current income.

Request for Commission Approval. Duke Energy Kentucky requests that the Commission issue its order authorizing the issuance and sale of the Securities, authorizing the borrowing of proceeds of the issuance and sale of the Authority Bonds, and the described Loan Agreements as requested herein. The Commission's authorization would not relieve Duke Energy Kentucky of its responsibility to negotiate and obtain the best terms available for the structure selected and, therefore, it is

appropriate and reasonable for this Commission to authorize Duke Energy Kentucky to agree to such terms and prices consistent with these pricing parameters.

Use of Interest Rate Management Techniques. Duke Energy Kentucky requests that the Commission grant Duke Energy Kentucky authority to continue to utilize interest rate management techniques and enter into interest rate management agreements to manage its overall effective interest cost. Such authority will allow Duke Energy Kentucky sufficient alternatives and flexibility when striving to better manage its interest cost. Such authority was previously granted in Case Nos. 2004-00435, 2006-00563, 2008-118 and 2008-503.

Description of the Interest Rate Management Agreements. The interest rate management agreements will facilitate products commonly used in today's capital markets, consisting of interest rate swaps, caps, collars, floors, options, or hedging products such as forwards or futures, or similar products, the purpose of which being to manage interest costs. Duke Energy Kentucky expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed period and a stated principal amount, and may be for underlying fixed or variable obligations of Duke Energy Kentucky.

Pricing Parameters. Duke Energy Kentucky proposes that the pricing parameters for interest rate management agreements be governed by the parameters corresponding to the underlying obligation in effect at its original issuance as specified in the Order authorizing such obligation by this Commission, if applicable.

Net fees and commissions in connection with any interest rate management agreement will be in addition to the above parameters and will not exceed 10% of the amount of the underlying obligation involved.

Accounting. Duke Energy Kentucky proposes to account for these transactions in accordance with generally accepted accounting principles.

Request for Commission Approval. Since market opportunities for these interest rate management alternatives are transitory, Duke Energy Kentucky must be able to execute interest rate management transactions when the opportunity arises to obtain the most competitive pricing. Thus, Duke Energy Kentucky seeks approval to enter into any or all of the described transactions within the parameters discussed above prior to the time Duke Energy Kentucky reaches agreement with respect to the terms of such transactions.

The authorization of the interest rate management agreements consistent with the parameters does not relieve Duke Energy Kentucky of its responsibility to obtain the best terms available for the product selected and, therefore, it is appropriate and reasonable for this Commission to authorize Duke Energy Kentucky to agree to such terms and prices consistent with said pricing parameters.

Conversion of Short-Term Debt Borrowed Under Revolving Credit Agreement.

Duke Energy Kentucky is a borrower under a revolving credit agreement for the purpose of short-term borrowing. A copy of the revolving credit agreement was filed as an exhibit to the Duke Energy Corporation Form 8-K filed July 5, 2007 and an amendment thereto was filed as an exhibit to Duke Energy Corporation Form 8-K filed March 12, 2008.

Approval of this revolving credit agreement by the Kentucky Public Service Commission was not required with respect to borrowings of less than two years. Duke Energy Kentucky has not borrowed any funds under the revolving credit facility for a period longer than two years.

Request for Commission Approval. Duke Energy Kentucky requests approval to convert borrowings under the revolving credit facility to long-term debt, if Duke Energy Kentucky deems it prudent to do so. Duke Energy Kentucky does not have any borrowings under the revolving credit facility at this time, but Duke Energy Kentucky seeks advance approval to convert any such future borrowings to long term debt, in order to manage its financings in the most efficient manner. The authorization to make such conversions does not relieve Duke Energy Kentucky of its responsibility to obtain the best terms available for such borrowings because Duke Energy Kentucky may be required to demonstrate that the interest rates and transaction costs for such borrowings are reasonable in comparison to other available sources of long-term debt financing; therefore, it is appropriate and reasonable for this Commission to authorize Duke Energy Kentucky to enter into such transactions.

Conversion of Short-Term Loans Under Utility Money Pool Agreement.

Duke Energy Kentucky entered into a Utility Money Pool Agreement, for the purpose of making its funds available for short-term borrowing with its affiliated operating companies, and for borrowing funds from such affiliates. The Commission approved the Utility Money Pool Agreement in Case No. 2005-00228. The agreement only allows for short-term borrowings.

Request for Commission Approval. Duke Energy Kentucky requests approval to convert borrowings under the Utility Money Pool Agreement to long-term debt, if Duke Energy Kentucky deems it prudent to do so. Duke Energy Kentucky does not have any immediate plans to convert such borrowings to long-term debt, but Duke Energy Kentucky seeks advance approval to do so, in order to manage its financings in the most efficient manner. The authorization to make such conversions does not relieve Duke Energy Kentucky of its responsibility to obtain the best terms available for such borrowings because Duke Energy Kentucky may be required to demonstrate that the interest rates and transaction costs for such borrowings are reasonable in comparison to other available sources of long-term debt financing; therefore, it is appropriate and reasonable for this Commission to authorize Duke Energy Kentucky to enter into such transactions.

6. **807 KAR 5:001 Section 11(1)(c).** The Company seeks up to $100 million principal amount of financing authority through December 31, 2012. The proceeds from the issuance of the Securities are expected to be used: (a) to repay Duke Energy Kentucky's short-term or expiring long-term indebtedness; (b) to redeem early long-term debt of Duke Energy Kentucky, if market conditions are favorable; (c) to fund estimated future capital expenditures related to its gas delivery and electric generation, transmission and distribution businesses of approximately $64 million in 2010, $126 million in 2011 and $82 million in 2012; (d) for such additional expenditures as contemplated by KRS 278.300; or (e) for other lawful corporate purposes.

The Company currently projects that it will need to issue approximately $70 million in long-term debt by the end of 2012 in order to pay for planned capital

expenditures, in the normal course of the Company's business. Exhibit C sets forth the Company's projected capital expenditures during this period.

The financing authority requested herein is consistent with the proper performance by Duke Energy Kentucky of its services to the public, will not impair its ability to perform those services, and is reasonably necessary and appropriate for such purposes. As described above, the proceeds from the issuance of the Authority Bonds will be used to refund the Boone County Bonds.

Duke Energy Kentucky does not have any plans to acquire any specific property with the long-term debt financing authority that the Company seeks in this application. If the Commission grants Duke Energy Kentucky the financing authority it seeks, and if Duke Energy Kentucky later decides to acquire property and finance it by using such financing authority, Duke Energy Kentucky commits that it will provide the Commission with the details of such transaction.

7. **807 KAR 5:001 Section 11(1)(d).** See Exhibit C concerning estimated capital expenditures, attached hereto, and made a part hereof. Duke Energy Kentucky does not have any plans to acquire any specific property with the long-term debt financing authority that the Company seeks in this application. If the Commission grants Duke Energy Kentucky the financing authority it seeks, and if Duke Energy Kentucky later decides to acquire property and finance it by using such financing authority, Duke Energy Kentucky commits that it will provide the Commission with the details of such transaction.

8. **807 KAR 5:001 Section 11(1)(e).** Duke Energy Kentucky proposes to enter into one or more Loan Agreements with the Authority to evidence and secure its

obligations to repay such loan or loans. Duke Energy Kentucky will use the proceeds from any such loans to refinance existing tax-exempt Authority Bonds. The Boone County Bonds were issued for their principal amount, $26,720,000. The proceeds of the sale of the Boone County Bonds were used to refund previously outstanding securities, as further described on page 1 of the Official Statement attached hereto as Exhibit D. Such description also provides the requested information with respect to the previously refunded bonds for which the Boone County Bond proceeds were used. The Boone County Bonds were issued as auction rate securities, and therefore bear a rate of interest determined by the Auction Procedures described in Schedule C to the Official Statement.

The Company does not have any other present plans to discharge or refund any specific long-term indebtedness or notes.

9. **807 KAR 5:001 Section 6 and Section 11(1)(f).** In Case Nos. 2008-118 and 2008-503 the Commission approved the issuance and sale of up to $100 million principal amount of Securities for general business purposes, for a period ending December 31, 2010. In 2006, Duke Energy Kentucky issued the Boone County Bonds as insured auction-rate securities. In December 2008, Duke Energy Kentucky refunded $50 million of tax-exempt auction-rate bonds through the issuance of $50 million of tax-exempt variable-rate demand bonds which are supported by a direct pay letter of credit. As the auction-rate market continues to remain closed, Duke Energy Kentucky believes that it is prudent financial management to refund its remaining auction-rate bonds into tax-exempt securities of a different structure.

On September 22, 2009, Duke Energy Kentucky utilized the existing financing authority to issue $100 million of 4.65% Debentures due to mature on October 1, 2019.

The Company seeks a renewal of the $100 million principal amount approved in Case Nos. 2008-118 and 2008-503.

10. **807 KAR 5:001 Section 6 and Section 11(2)(a).** Duke Energy Kentucky is filing the following information in Exhibit E, which is incorporated herein and made a part of this application:

Exhibit E Page	Description	807 KAR 5:001 Section Reference
	Financial Exhibit	6 and 11(2)(a)
1	Amount and kinds of stock authorized	6(1)
1	Amount and kinds of stock issued and outstanding	6(2)
1	Terms of preference or preferred stock	6(3)
1	Brief description of each mortgage on property of Duke Energy Kentucky	6(4)
1-2	Amount of bonds authorized and issued and related information	6(5)
2	Notes outstanding and related information	6(6)
2-3	Other indebtedness and related information	6(7)
3	Dividend information	6(8)
3-5	Detailed Income Statement and Balance Sheet	6(9)

11. **807 KAR 5:001 Section 11(2)(b).** The requested deeds of trust or mortgage documents indicated are provided with this application at Exhibit F:

Indenture between The Union Light, Heat and Power Company and Deutsche Bank Trust Company Americas, Trustee dated as of December 1, 2004,

First Supplemental Indenture between The Union Light, Heat and Power Company and Deutsche Bank Trust Company Americas, Trustee dated as of March 7, 2006.

Indenture between The Union Light, Heat and Power Company (n/k/a Duke Energy Kentucky) and The Fifth Third Bank (succeeded by The Bank of New York) dated July 1, 1995, and the two active amendments thereto.

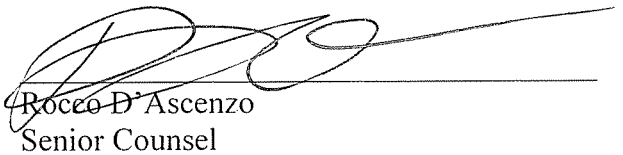
12. **807 KAR 5:001 Section 11(2)(c).** Duke Energy Kentucky does not have any plans to acquire any specific property with the long-term debt financing authority that the Company seeks in this application. If the Commission grants Duke Energy Kentucky the financing authority it seeks, and if Duke Energy Kentucky later decides to acquire property and finance it by using such financing authority, Duke Energy Kentucky commits that it will provide the Commission with the details of such transaction.

WHEREFORE, Duke Energy Kentucky respectfully requests that the Commission issue an order authorizing Duke Energy Kentucky to issue and sell up to $100 million principal amount of its Bonds or Debentures, or any combination thereof; to utilize Interest Rate Management Techniques; to convert short-term borrowings under the revolving credit agreement and Utility Money Pool Agreement, which shall be counted toward such principal amount; to include the ability to borrow the proceeds of tax exempt bonds from the Authority; to enter into one or more Loan Agreements with the Authority to evidence and secure its obligations to repay such loan or loans; and authorizing Duke Energy Kentucky to account for such transactions in the manner as herein set forth.

DUKE ENERGY KENTUCKY, INC.

By: _____
Stephen G. De May
Vice President and Treasurer

Its Attorneys:



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VERIFICATION

State of North Carolina)
) SS:
County of Mecklenburg)

Stephen G. De May, being first duly sworn, states that he is Vice President and Treasurer of Duke Energy Kentucky, Inc.; that he has read the foregoing application; and that the contents are true to the best of his knowledge, information and belief.

Stephen G. De May

Subscribed and sworn to before me, this 10 day of September, 2010.

Notary Public

My commission expires 7/6/2015

Duke Energy Kentucky, Inc.

Summary of Bonds/Debentures Pricing Parameters

Principal Amount:	Up to $100 million of first mortgage bonds (the "Bonds") or unsecured indebtedness (the "Debentures"), or any combination thereof, in one or more series. In addition, up to $26,720,000 of Authority's Pollution Control Revenue Refunding Bonds ('Authority's Bonds") in one or more series.
Maturity:	Up to 40 years for the Bonds and the Debentures.
Purpose:	To refund outstanding obligations, for construction expenditures, or for other general purposes. Also, to refinance existing tax-exempt Authority Bonds; $26,720,000 County of Boone, Kentucky, Pollution Control Revenue Refunding Bonds Series 2006B.
Lead Underwriters:	To be named.
Underwriting Commissions or Agents' Fees:	Not to exceed 3.50% of the principal amount.
Price to Public:	No higher than 102% nor less than 98% of the principal amount, plus accrued interest, if any.
Interest Rate:	Not to exceed those generally obtainable at the time of pricing or repricing of such Bonds and Debentures for securities having the same or reasonably similar maturities and having reasonably similar terms, conditions and features issued by utility companies or utility holding companies of the same or reasonably comparable credit quality.
Security:	The Authority's Bonds may include credit enhancements such as letters of credit or other security.

Duke Energy Kentucky, Inc.

No. _____ $_____

CUSIP NO. _____

Duke Energy Kentucky, Inc., a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to ....., or registered assigns, the principal sum of ..... Dollars on ..... [if the Security is to bear interest prior to Maturity, insert: , and to pay interest thereon from ..... or from the most recent Interest Payment Date to which interest has been paid or duly provided for, ... on ..... and ..... in each year, commencing ....., at the rate of ....% per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the ..... or ..... (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture].

[If the Security is not to bear interest prior to Maturity, insert: The principal of this Security shall not bear interest except in the case of a default in payment of principal upon acceleration, upon redemption or at Stated Maturity and in such case the overdue principal and any overdue premium shall bear interest at the rate of ....% per annum (to the extent that the payment of such interest shall be legally enforceable), from the dates such amounts are due until they are paid or made available for payment. Interest on any overdue principal or premium shall be payable on demand. Any such interest on overdue principal or premium which is not paid on demand shall bear interest at the rate of .....% per annum (to the extent that the payment of such interest on interest shall be legally enforceable), from the date of such demand until the amount so demanded is paid or made available for payment. Interest on any overdue interest shall be payable on demand.]

Payment of the principal of (and premium, if any) and [if applicable, insert: any such] interest on this Security will be made at the office or agency of the Company maintained for that purpose in ....., in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts [if applicable, insert: ;provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register].

Any payment on this Security due on any day which is not a Business Day in the City of New York need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on the due date and no interest shall accrue for the period from and after such date.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, [if subordinated, insert: including, without limitation, provisions subordinating the payment of the principal hereof and any premium and interest hereon to the payment in full of all Senior Debt as defined in the Indenture] which such further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

In Witness Whereof, the Company has caused this instrument to be duly executed.

DUKE ENERGY KENTUCKY, INC.

By_____

Duke Energy Kentucky
Capital Expenditures
($ in thousands)

Gas Department		2010		2011		2012
Smart Grid	$	1,021	$	16,600	$	562
Gas Distribution		25,298		12,254		17,387
Total Gas Department	$	26,319	$	28,854	$	17,949

Electric Department		2010		2011		2012
Transmission Plant	$	1,787	$	1,509	$	1,443
Distribution Improvements		15,602		15,655		17,764
Customer Service		13		-		-
General		-		-		297
Production Plant		16,293		32,741		43,670
Smart Grid		1,526		47,392		507
Software		-		-		-
Total Electric Department	$	35,221	$	97,297	$	63,681

Common Plant		2010		2011		2012
Common Plant	$	1,417	$	11	$	13
Common Distribution		256		9		11
Common Software		278		-		-
Non-Utility		48		-		-
Total Common Plant	$	1,999	$	20	$	24
Total Forecast Capital Expenditures	**$**	**63,539**	**$**	**126,171**	**$**	**81,654**

Notes:
1) Includes all additions (account 107000) and retirements (account 108000), including all AFUDC

Application
Exhibit D

New Issue--Book-Entry-Only

$76,720,000
County of Boone, Kentucky
Pollution Control Revenue Refunding Bonds
(Duke Energy Kentucky, Inc. Project)

$50,000,000	$26,720,000
Series 2006A	Series 2006B

Dated: Date of Issuance *Due: August 1, 2027*

The Series 2006A Bonds and the Series 2006B Bonds (the "Bonds") will be special and limited obligations of the County of Boone, Kentucky (the "Issuer"), a de jure county and political subdivision of the Commonwealth of Kentucky, and will be payable solely from and secured exclusively by payments, revenues and other amounts pledged thereto pursuant to separate, but substantially identical, Indentures (described herein). The Bonds do not represent or constitute a debt or pledge of the faith and credit or taxing power of the Issuer or the Commonwealth of Kentucky (the "State") or any political subdivision thereof and the holders and owners of the Bonds will have no right to have any taxes levied by the Issuer or the State or any political subdivision or other taxing authority of the State for the payment or redemption price of, and interest on, the Bonds. See "THE ISSUER" herein.

The Bonds will be issued to refund certain bonds previously issued by the Issuer to provide funds to finance a portion of the costs of the acquisition and construction of certain air and water pollution control facilities and solid waste disposal facilities owned by The Union Light, Heat and Power Company (doing business as Duke Energy Kentucky, Inc.). The Bonds will be payable solely, except to the extent paid out of moneys attributable to proceeds thereof, from and secured by an assignment of loan payments to be received under separate, but substantially identical Loan Agreements with The Union Light, Heat and Power Company, doing business as

Duke Energy Kentucky, Inc.

Payment of the principal of and interest on the Bonds when due will be insured by separate bond insurance policies to be issued by XL Capital Assurance Inc simultaneously with the delivery of the Bonds.

XL CAPITAL ASSURANCE®

Interest on each series of Bonds will accrue at the Auction Rate from the date of issuance and will be payable on the Business Day after the Auction Period, subject to certain exceptions. The initial Auction Period for the Bonds will end on September 7, 2006 and, unless changed in accordance with the Auction Procedures described in this Official Statement, the Bonds thereafter will continue to bear interest at Auction Rates for 35-day Auction Periods. The initial Auction Date for the Bonds will be September 7, 2006 and the initial Interest Payment Date will be September 8, 2006. The Auction Rate for all Bonds for the applicable Auction Period after the initial Auction Period will be the rate of interest per annum that the Auction Agent advises results from an Auction conducted in accordance with the Auction Procedures, subject to certain conditions. Deutsche Bank National Trust Company will serve as Trustee, Paying Agent and Registrar. Deutsche Bank Trust Company Americas will serve as the initial Auction Agent. Morgan Stanley & Co. Incorporated will serve as the initial Broker-Dealer and as Remarketing Agent for the Bonds.

The method for determining the interest rate to be borne by each series of the Bonds may be changed from an Auction Rate to a Daily Rate, Weekly Rate, Commercial Paper Rate or a Term Rate at the times and in the manner set forth in this Official Statement.

Prospective purchasers should carefully review the Auction Procedures described in this Official Statement and should note that (i) a Bid or a Sell Order constitutes a commitment to purchase or sell Auction Rate Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone or telefax communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Auction Rate Bonds may be transferred only pursuant to a Bid or a Sell Order placed in an Auction or to or through a Broker-Dealer. See also "THE BONDS – Auction Rate Period – Special Considerations Relating to Auction Rate Bonds."

The Bonds will be subject to optional, extraordinary optional and mandatory redemption and optional and mandatory tender prior to maturity, in each case at the price, in the manner and at the time set forth in this Official Statement.

The Bonds will be issued only as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as a securities depository for the Bonds. Purchases of beneficial interests in the Bonds initially will be made in book-entry-only form (without certificates) in denominations of $25,000 or any integral multiple thereof for the Series 2006A Bonds and in denominations of $1,000 or any integral multiple thereof for the Series 2006B Bonds and under certain circumstances are exchangeable as more fully described herein. Principal of and any premium on the Bonds will be payable upon presentation and surrender of the Bonds at the corporate trust office of the Registrar. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co. See "THE BONDS -- Book-Entry-Only System" herein.

Price: 100%

Subject to continuing compliance with certain covenants and the accuracy of certain representations, in the opinion of Thompson Hine LLP, Bond Counsel, under existing law (i) interest on the Bonds will be excluded from the gross income of the owners thereof for federal income tax purposes, and (ii) interest on the Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for Kentucky income tax purposes and the Bonds are exempt from all ad valorem taxes in Kentucky. See "TAX MATTERS" herein for further information and for a description of certain other federal tax consequences arising with respect to the Bonds.

The Bonds are offered when, as and if issued by the Issuer and accepted by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, the approval of legality by Thompson Hine LLP, as Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for Duke Energy Kentucky, Inc. by Robert Lucas, Associate General Counsel for Duke Energy Corporation, and Thompson Hine LLP, as counsel to the Company; for the Issuer by J.R. Schrand, Esq., County Attorney of the Issuer and Stoll Keenon Ogden PLLC, as special Kentucky counsel; and for the Underwriter by Squire, Sanders & Dempsey L.L.P. It is expected that delivery of the Bonds in book-entry-only form will be made on August 2, 2006, in New York, New York, against payment therefor.

MORGAN STANLEY

Dated: July 26, 2006

No dealer, broker, salesman or other person has been authorized by the County of Boone, Kentucky (the "*Issuer*"), The Union Light, Heat and Power Company (doing business as Duke Energy Kentucky, Inc.) (the "*Company*"), Morgan Stanley & Co. Incorporated (the "*Underwriter*") to give any information or to make any representation with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. Certain information contained herein has been obtained from the Issuer, the Company, the Insurer and the Underwriter and other sources which are believed to be reliable.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Neither the Issuer, its counsel, nor any of its members, agents, employees or representatives have reviewed this Official Statement or investigated the statements or representations contained herein, except the Issuer has reviewed the statements relating to the Issuer set forth under the caption "THE ISSUER." Except with respect to the information contained under such caption, neither the Issuer, its counsel (provided that such counsel has not independently investigated the statements contained under such caption), nor any of its officials, agents, employees or representatives makes any representation as to the completeness, sufficiency and truthfulness of the statements set forth in this Official Statement. The officials of the Issuer and any other person executing the Bonds are not subject to personal liability by reason of the issuance of the Bonds. This Official Statement is not to be construed as an agreement or contract between the Issuer and the purchasers or holders of any Bonds.

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OFFICIAL STATEMENT

$76,720,000
County of Boone, Kentucky
Pollution Control Revenue Refunding Bonds
(Duke Energy Kentucky, Inc. Projects)

$50,000,000	**$26,720,000**
Series 2006A	**Series 2006B**

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and Appendices, is provided to furnish information in connection with the offer and sale by the County of Boone, Kentucky (the "*Issuer*") of $50,000,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds, Series 2006A (Duke Energy Kentucky, Inc. Project) (the "*Series 2006A Bonds*") and $26,720,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds, Series 2006B (Duke Energy Kentucky, Inc. Project) (the "*Series 2006B Bonds*"; together with the Series 2006A Bonds, the "*Bonds*"), to be issued under separate, but substantially identical, Trust Indentures, dated as of August 1, 2006 (each an "*Indenture*"; together the "*Indentures*"), between the Issuer and Deutsche Bank National Trust Company, as trustee (the "*Trustee*"). The Registrar and Paying Agent will be Deutsche Bank National Trust Company and the initial Auction Agent will be Deutsche Bank Trust Company Americas, each located in New York, New York. Terms used as defined terms and not otherwise defined herein are used as defined in the Indentures.

The proceeds of the Series 2006A Bonds will be applied by the Issuer to refund: (i) all of the Issuer's outstanding Floating Rate Monthly Demand Pollution Control Revenue Refunding Bonds, Series 1985 A (The Cincinnati Gas & Electric Company Project) in the aggregate principal amount of $16,000,000 (the "*1985 Bonds*"), (ii) all of the Issuer's outstanding Collateralized Pollution Control Revenue Refunding Bonds, 1992 Series A (The Dayton Power and Light Company Project), originally issued in the aggregate principal amount of $48,000,000 (the "*1992 Bonds*") and currently outstanding in the aggregate principal amount of $12,720,000 and (iii) a portion of the Issuer's outstanding Collateralized Pollution Control Revenue Refunding Bonds, 1994 Series A (The Cincinnati Gas & Electric Company Project) in the aggregate principal amount of $48,000,000 (the "*1994 Bonds*", and together with the 1985 Bonds and the 1992 Bonds, the "*Refunded Bonds*"). The proceeds of the Series 2006B Bonds will be applied to refund the remaining portion of the 1994 Bonds. The Refunded Bonds each were originally issued to refund certain prior bonds of the Issuer originally issued to finance the costs of certain air and water pollution and solid waste disposal facilities (the "*Project Facilities*" or "*Project*") located at the East Bend Generating Station (the "*Generating Station*") within the boundaries of the Issuer, now owned by The Union Light, Heat and Power Company (doing business as Duke Energy Kentucky, Inc.) (the "*Company*"). See "APPLICATION OF PROCEEDS."

The proceeds of the Bonds will be loaned by the Issuer to the Company pursuant to separate, but substantially identical, Loan Agreements, dated as of August 1, 2006 (each a "*Loan Agreement*"; together, the "*Loan Agreements*"), between the Company and the Issuer. The Company will agree in each Loan Agreement to make payments sufficient to pay when due the principal of and interest and any premium on the related series of the Bonds and any other amounts relating thereto, including payment of the purchase price. See "THE LOAN AGREEMENTS."

The Company's obligations under the Loan Agreements will be unsecured. There is no requirement in the Indentures for the Company to provide or deliver any security for its obligations under the Loan Agreements.

The Bonds will be dated the date of their original issuance, will mature on August 1, 2027, will be subject to optional and mandatory tender for purchase, and will be subject to optional and mandatory redemption, as provided in each Indenture and as further described in this Official Statement. The Bonds will bear interest initially at an interest rate determined for the Auction Period ending on September 7, 2006, and thereafter will continue to bear interest at Auction Rates for 35-day Auction Periods, unless changed in accordance with the Auction Procedures described herein or until a conversion to a different interest rate determination method or until the maturity of the Bonds. The initial Auction Date for the Bonds will be September 7, 2006 and the initial Interest Payment Date will be September 8, 2006.

Upon the issuance of the Bonds, XL Capital Assurance Inc. (the "*Bond Insurer*") will issue separate, but substantially identical, bond insurance policies (together the "*Bond Insurance Policies*") that will guarantee the payment when due of the principal of and interest on the related series of the Bonds when due and upon special mandatory redemption on a determination of taxability as hereinafter described. The Bond Insurance Policies will be issued pursuant to an Insurance Agreement between the Company and the Bond Insurer to be dated the date of issuance of the Bonds (the "*Insurance Agreement*"). The Bond Insurance Policies will not insure payment of the purchase price of the Bonds subject to mandatory purchase or purchase on the demand of the bondholders thereof, losses suffered as a result of a bondholder's inability to sell the Bonds at an Auction, or payment of the principal, premium or interest on the Bonds as a result of an acceleration, redemption (other than special mandatory redemption on determination of taxability as hereinafter described) or other advancement of maturity. Certain information with respect to the Bond Insurance Policies and the Bond Insurer is included in this Official Statement. See "THE BOND INSURANCE POLICIES" and Appendix F. So long as the Bond Insurer is not in default under the Bond Insurance Policies, the Indentures and Loan Agreements may not be amended or supplemented without the prior written consent of the Bond Insurer, in accordance with the provisions of the Indentures. Upon the occurrence of an Event of Default under the Indentures, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the bondholders or the Trustee. See "THE INDENTURES – Events of Default" and "– Rights of Bond Insurer."

The Bonds will be special and limited obligations of the Issuer, and will be payable solely from and secured exclusively by payments, revenues and other amounts pledged thereto pursuant to the related Indenture. The Bonds do not represent or constitute a debt or pledge of the faith and credit or taxing power of the Issuer or the Commonwealth of Kentucky (the "*State*") or any political subdivision thereof and the

holders and owners of the Bonds will have no right to have taxes levied by the Issuer or the State or any political subdivision or other taxing authority of the State for the payment or redemption price of, and interest on, the Bonds.

Brief descriptions of the Issuer, the Bonds, the Bond Insurance Policies, the Loan Agreements, the Indentures and the Continuing Disclosure Agreements, dated as of August 1, 2006 (the "*Continuing Disclosure Agreements*"), between the Company and the Trustee, are included in this Official Statement. Certain information with respect to the Company is included as or incorporated by reference in Appendix A hereto. Appendix B sets forth Certain Definitions; Appendix C describes the Auction Procedures for the Bonds; Appendix D describes the Settlement Procedures for the Bonds; Appendix E is the proposed form of the opinion of Bond Counsel to be delivered in connection with the issuance and delivery of the Bonds; and Appendix F is a Specimen Bond Insurance Policy.

All references herein to the documents are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the definitive forms thereof included in each related Indenture. Copies of certain of the financing documents will be available for inspection at the corporate trust office of the Trustee and, until the issuance of the Bonds, may be obtained from the Underwriter. Except as described below, the information relating to the Issuer, the Bonds, the Loan Agreements and the Indentures contained under the headings "INTRODUCTORY STATEMENT," "THE ISSUER," "THE BONDS," "THE LOAN AGREEMENTS," "THE INDENTURES," "TAX MATTERS" and "LEGAL MATTERS" has been reviewed by Thompson Hine LLP, Bond Counsel, who are of the opinion that such information is fairly summarized herein. Appendix A to this Official Statement and all information contained under the heading "APPLICATION OF PROCEEDS" has been furnished by the Company, and neither the Issuer nor Bond Counsel assumes any responsibility for the accuracy or completeness of such Appendix or information. The information contained under the heading "THE BONDS--Book Entry Only System" has been furnished by DTC, and none of the Issuer, the Company, the Underwriter or Bond Counsel assume any responsibility for the accuracy or completeness of such information. The information relating to Bond Insurer and the Bond Insurance Policies contained under the heading "THE BOND INSURER" and in Appendix F has been provided by the Bond Insurer and neither the Issuer, the Company, the Underwriter nor Bond Counsel assume any responsibility for the accuracy or completeness of such information.

THE ISSUER

The Issuer is a body corporate and politic duly created and existing as a de jure county and political subdivision under the constitution and laws of the State. The Issuer is authorized by Section 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "*Act*") (i) to issue Bonds, (ii) to lend proceeds thereof to the Company for the purpose of refunding the Refunded Bonds, and (iii) to enter into and perform its obligations under the Loan Agreements and the Indentures relating to the Bonds. The Issuer, through its legislative body, the Fiscal Court, has adopted an ordinance authorizing the issuance of the Bonds and the execution and delivery of related documents.

Although the Issuer has consented to the use of this Official Statement in connection with the marketing of the Bonds, the Issuer has not participated in the preparation of this Official

Statement and, except for the information appearing herein under the caption "THE ISSUER," makes no representation as to its adequacy or accuracy.

APPLICATION OF PROCEEDS

Upon issuance of the Bonds, the proceeds of the Bonds will be deposited with the Trustee in the Refunding Fund created under the respective Indenture to be used, together with investment income thereon and other moneys provided by the Company, to redeem the Refunded Bonds within 90 days of the date of issuance of the Bonds. The Refunded Bonds will be redeemed at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date. The Company will pay fees and expenses of the Underwriter and other issuance costs and any other costs of refunding the Refunded Bonds.

THE BONDS

Each series of the Bonds will be issued under a separate Indenture, although each Indenture contains substantially identical terms and provisions. The occurrence of an event of default with respect to one series of the Bonds will not constitute an event of default with respect to the other series of the Bonds. Redemption or conversion of one series of the Bonds may be made in the manner described herein without the redemption or conversion of the Bonds of the other series. Funds pledged under an Indenture to secure one series of the Bonds will not be available for or pledged to the other series of the Bonds. In the following summary of terms of the Bonds, references to the Bonds, the Indenture, the Loan Agreement, the Auction Agency Agreement, the Broker-Dealer Agreement, and other defined terms should be read as separately referring to each series of the Bonds and the related Indenture, Loan Agreement, Auction Agency Agreement, Broker-Dealer Agreement and other defined terms, except as otherwise noted.

General

The Bonds will be issued under the Indenture in the aggregate principal amount and mature on the date set forth on the cover page hereof, subject to optional and mandatory redemption and optional and mandatory tender prior to maturity as described below. The Bonds will be issuable as fully registered Bonds without coupons in Authorized Denominations.

Auction Rate Period

Auction Rates

Interest on the Bonds will accrue from the date of issuance and delivery. For the Initial Interest Period, the interest rate will be the rate of interest per annum that is the minimum rate necessary to sell the Bonds on the date of issuance of the Bonds at the principal amount thereof (without regard to accrued interest). After the Initial Interest Period, and prior to any subsequent selection of a new interest rate determination method, the Bonds will be Auction Rate Bonds. The interest rate on Auction Rate Bonds (the *"Auction Rate")* for each Auction Period after the Initial Interest Period will, subject to certain exceptions described below, be the rate that the Auction Agent advises has resulted on the Auction Date from the implementation of auction procedures set forth in *Appendix C* to this Official Statement (the *"Auction Procedures"),* in which persons determine to hold or offer to sell or, based on interest rates bid

by them, offer to purchase or sell Auction Rate Bonds. Each periodic implementation of the Auction Procedures is an *"Auction."* Interest on Auction Rate Bonds will be computed on the basis of a 360-day year for the number of days actually elapsed.

The rate of interest on the Auction Rate Bonds for each subsequent Interest Period will be the Auction Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period will equal the Auction Rate in effect for the preceding Interest Period. In no event will the Auction Rate be an interest rate in excess of the Maximum Auction Rate on any Auction Date or the Maximum Interest Rate at any time. Notwithstanding the foregoing, if: (a) the ownership of the Auction Rate Bonds is no longer maintained in the Book-Entry System, the rate of interest on the Auction Rate Bonds for any Interest Period commencing after the delivery of certificates representing Auction Rate Bonds will equal the Auction Rate in effect for the preceding Interest Period; (b) a Payment Default occurs, Auctions will be suspended and the Applicable Auction Rate Bonds Rate for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than the Applicable Number of Business Days after, such Payment Default is cured will equal the Maximum Auction Rate; or (c) if a failed conversion occurs following a proposed selection of a different method of determining interest on the Bonds, and the next succeeding Auction Date will be two or fewer Business Days after (or on) the effective date of any such failed conversion, then an Auction will not be held on such Auction Date and the rate of interest on the Auction Rate Bonds for the next succeeding Interest Period will be equal to the Auction Rate in effect for the preceding Interest Period. Certain special provisions apply regarding the determination of an Auction Rate if Sufficient Clearing Bids have not been made or in the event of the failure to meet certain conditions required to (i) change the length of an Auction Period, (ii) adjust the percentages used to determine the Maximum Auction Rate or (iii) effect a change in the method of determining interest on the Bonds. See "Auction Procedures – Appendix C."

Auction Periods and Dates

An Auction to determine the Auction Rate for each Auction Period after the initial Auction Period will occur on each Auction Date. The Auction Date for each Auction Period will be the Business Day immediately preceding the first day of each Interest Period, other than: (a) each Interest Period commencing after the ownership of the Auction Rate Bonds is no longer maintained in book entry form by the Depository; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. It is presently anticipated that after the Initial Interest Period an Auction Period of 35 days will be maintained for the Bonds and, therefore, Auctions for the Bonds are anticipated to be held every fifth Thursday, commencing September 7, 2006. The Company may change the length of one or more Auction Periods or establish a different day as the Auction Date for future Auction Periods. See "Changes in the Auction Terms – *Changes in the Auction Date.*"

Special Considerations Relating to Auction Rate Bonds

Securities and Exchange Commission Inquiries. On May 31, 2006, the U.S. Securities and Exchange Commission (the "*SEC*") announced that it had settled its investigation of 15 firms, including Morgan Stanley & Co. Incorporated (the "*Broker-Dealer*") and its affiliated broker-dealer, Morgan Stanley DW Inc., that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc. together agreed to pay a civil money penalty of $1,500,000. In addition, both Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc., without admitting or denying the SEC's allegations, agreed to be censured, to cease and desist from violating certain provisions of the securities laws, to provide to customers written descriptions of their material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc. to conduct the auction process in accordance with disclosed procedures. No assurances are given as to how the settlement may affect the market for auction rate securities or the Bonds.

Bidding by Initial Broker-Dealer. The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for its own account (including for its affiliated broker-dealers) either as a Bidder or a Seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account (including for its affiliated broker-dealers), it would likely have an advantage over other Bidders because the Broker-Dealer would have knowledge of some or all of the other Orders placed through the Broker-Dealer (including through affiliated broker-dealers) in that Auction and, thus, could determine the rate and size of its Order so as to ensure that its Order is likely to be accepted in the Auction and that the Auction is likely to clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Company to serve as the Broker-Dealer in the Auction, the Broker-Dealer's interests in conducting an Auction may differ from those of Existing Holders and Potential Holders who participate in Auctions. *See* "Auction Dealer Fees." The Broker-Dealer (including its affiliated broker-dealers) would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealer may routinely place one or more Bids in an Auction for its own account, to acquire the securities for its inventory (or that of its affiliated broker-dealer), to prevent an Auction Failure Event (which would result in the Auction Rate being set at the Maximum Auction Rate) or an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the securities. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it (including through affiliated broker-dealers). When bidding for its own account, the Broker-Dealer may also bid outside or inside the range of rates that it posts in its Price Talk. *See* "Price Talk."

The Broker-Dealer also may routinely encourage bidding by others in Auctions, which may include to prevent an "auction failure event" or an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the securities. The Broker-Dealer

may routinely encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it (or through affiliated broker-dealers).

Bids by the Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate – including preventing the Auction Rate from being set at the Maximum Auction Rate or otherwise causing Bidders to receive a higher or lower rate than they might have received had the Broker-Dealer not bid or not encouraged others to bid and (ii) the allocation of securities being auctioned – including displacing some Bidders who may have their Bids rejected or receive fewer securities than they would have received if the Broker-Dealer had not bid or encouraged others to bid. Because of these practices, the fact that an Auction clears successfully does not mean that an investment in the securities involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such bids or to encourage other Bidders to do so in any particular Auction to prevent an Auction from failing or clearing at a rate the Broker-Dealer believes does not reflect the market for the securities. Investors should not assume that the Broker-Dealer will do so or assume that "auction failure events" will not occur. Investors should also be aware that Bids by Broker-Dealer or by those it may encourage to place Bids may cause unfavorable Auction Rates to occur.

In any particular Auction, if all outstanding securities are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). When an All Hold Auction is likely, the Broker-Dealer may, but is not obligated to, advise Existing Holders of that fact, which might facilitate the submission of Bids by Existing Holders that would avoid the occurrence of an All Hold Auction. *If the Broker-Dealer decides to inform existing holders of the likelihood of an All* Hold Auction, it will make that information available to all of its customers that are Existing *Holders* at the same time.

If the Broker-Dealer (or an affiliated broker-dealer) holds the securities for its own account on an Auction Date, the Broker-Dealer (or such affiliated broker-dealer) will submit a Sell Order into the Auction with respect to such position in such securities, which would prevent that Auction from being an All Hold Auction. The Broker-Dealer (or such affiliated broker-dealer) may, but is not obligated to, submit Bids for its own account in that same Auction, as set forth above.

Auction Dealer Fees. For many auction rate securities, the Broker-Dealer has been appointed by the issuers of the securities to serve as a dealer for the related auctions and is paid by those issuers for its services. With respect to the Bonds, the Broker-Dealer has been appointed to serve as a dealer in the Auctions pursuant to the Broker-Dealer Agreement between the Auction Agent and the Broker-Dealer. That Agreement provides that the Broker-Dealer will receive from the Company auction dealer fees at the annual rate of .25% of the principal amount of the Bonds sold or successfully placed through the Broker-Dealer. As a result, the Broker-Dealer's interests in conducting Auctions may differ from those of investors who participate in Auctions. The Broker-Dealer may share a portion of the auction dealer fees it receives from the Company with other broker-dealers (including affiliated broker-dealers) that submit Orders through the Broker-Dealer that the Broker-Dealer successfully places in Auctions.

Similarly, with respect to auctions for other auction rate securities for which the Broker-Dealer does not serve as a dealer, the other broker-dealers who serve as dealers in those

auctions may share auction dealer fees with the Broker-Dealer for orders that the Broker-Dealer submits through those broker-dealers that those broker-dealers successfully place in those auctions.

Price Talk. Before the start of an Auction, the Broker-Dealer may, in its discretion, make available to Existing Holders and Potential Holders, the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as "Price Talk." Price Talk is not a guarantee, and Existing and Potential Holders are free to use it or ignore it. If the Broker-Dealer (or an affiliated broker-dealer) provides Price Talk, the Broker-Dealer (or such affiliated broker-dealer) will make the Price Talk available to all Existing Holders and Prospective Holders. The Broker-Dealer may occasionally update and change the Price Talk based on, for example, changes in issuer credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. The Broker-Dealer (or such affiliated broker-dealer) will make such changes available to all Existing Holders and Potential Holders that were given the original Price Talk.

"All-or-Nothing" Bids. The Broker-Dealer (including any affiliated broker-dealer) does not accept "all-or-nothing" bids (*i.e.*, bids whereby the bidder proposes to reject an allocation smaller than the entire quantity bid) or any other type of bid that allows the bidder to avoid auction procedures that require the pro rata allocation of securities where there are not sufficient sell orders to fill all bids at the clearing rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealer (including any affiliated broker-dealer) provides no assurance as to the outcome of any Auction, nor provides any assurance that any Bid will be accepted or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be rejected or may be only partially filled, and the rate on any Bonds purchased or retained may be lower than the Bidder expected.

Deadlines/Auction Periods. Each particular Auction has a formal time deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer (and any affiliated broker-dealer) imposes an earlier deadline – called the "Internal Submission Deadline" – by which Bidders must submit Bids to the Broker-Dealer (or such affiliated broker-dealer). The Internal Submission Deadline is subject to change by the Broker-Dealer (or such affiliated broker-dealer). The Broker-Dealer may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Submission Deadline. The Broker-Dealer (or such affiliated broker-dealer) may submit Bids for its own account at any time until the Submission Deadline. Some auction agents allow for the correction of clerical errors for a specified period of time after the Submission Deadline.

Existing Holder's Ability to Resell Auction Rate Securities May Be Limited. Existing Holders will be able to sell all of the Bonds that are the subject of submitted Sell Orders only if there are Bidders willing to purchase all those Bonds in the Auction. If sufficient clearing Bids have not been made, Existing Holders that have submitted Sell Orders will not be able to sell in the Auction some or all of the Bonds subject to such submitted Sell Orders. As discussed

above (see "Bidding by Initial Broker-Dealer"), the Broker-Dealer may submit a bid in an Auction to keep it from failing, but it is not obligated to do so. There may not always be enough bidders to prevent an Auction from failing in the absence of the Broker-Dealer bidding in the Auction for its own account or encouraging others to bid.

Between Auctions, there can be no assurance that a secondary market for the Bonds will develop or, if it does develop, that it will provide Existing Holders the ability to resell the Bonds on the terms or at the times desired by an Existing Holder. The Broker-Dealer (or an affiliated broker-dealer) may, in its own discretion, decide to buy or sell the Bonds in the secondary market for its own account to or from investors at any time and at any price, including at prices equivalent to, below, or above the par value of the Bonds. However, neither the Broker-Dealer (nor its affiliated broker-dealers) is obligated to make a market in the Bonds, and may discontinue trading in the Bonds without notice for any reason at any time. Existing Holders who resell between Auctions may receive less than par value, depending on market conditions.

The ability to resell the Bonds will depend on various factors affecting the market for the Bonds, including news relating to the Company or the Bond Insurer, the attractiveness of alternative investments, the perceived risk of owning the Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Bonds (including recent clarification of U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in "Securities and Exchange Commission Inquiries," *above*) or press reports, financial reporting cycles and market conditions generally. Demand for the Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

The Auction Agency Agreement (described below) provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 45 days notice to the Company and the Broker-Dealer, among others, and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five days notice and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold auctions, with the result that the interest rate on the Bonds will be determined as described in *Appendix C* – "Auction Procedures."

Broker-Dealers

As described above, the initial Broker-Dealer for the Bonds is Morgan Stanley & Co. Incorporated (together with any successor or other entity entering into a Broker-Dealer Agreement, the *"Broker-Dealer"* and collectively, the *"Broker-Dealers"*). The Auction Agent will enter into separate, but substantially identical, agreements with the Broker-Dealer with respect to each series of the Bonds and, from time to time, may enter into similar agreements (each, a "*Broker-Dealer Agreement*" and, collectively, the "*Broker-Dealer Agreements*") with one or more additional Broker-Dealers, at the written direction of the Company with the approval of the Remarketing Agent (which approval will not be unreasonably withheld) which provide for their participation in Auctions. The Company may elect to designate a new Broker-Dealer for the Series 2006B Bonds prior to, or shortly following, the end of the Initial Interest

Period for the Series 2006B Bonds. The Auction Agent will pay to each Broker-Dealer after each auction, from funds provided by the Company, a service charge that will be based on a rate equal to the percentage of the stated value of the Bonds held by such Broker Dealer and such Broker-Dealer's customers upon settlement in an Auction calculated on an annualized basis. See "*Special Considerations Relating to Auction Rate Bonds* – Auction Dealer Fees" above. A Broker-Dealer may share a portion of such fee with non-participating broker-dealers that submit Bids to the Broker-Dealer that are fulfilled at an Auction. In the event that there is more than one Broker-Dealer, the Company will specify which Broker-Dealer is to perform certain functions under the Indenture.

Interest Payment Dates

Interest on the Auction Rate Bonds initially will be payable on the first Business Day after the end of each Auction Period. It is presently anticipated that each Auction Period for the Bonds will be 35 days, in which case the Interest Payment Dates after the initial Interest Payment Date (September 8, 2006) generally will be every fifth Friday.

The determination of any interest rate by the Remarketing Agent in accordance with the Indenture or by the Auction Agent in accordance with the Auction Procedures will be conclusive and binding upon the Issuer, the Trustee, the Paying Agent, the Auction Agent, the Remarketing Agent, the Company, all Broker-Dealers and the registered and beneficial owners of Auction Rate Bonds. Failure of the Remarketing Agent, the Paying Agent, the Trustee, the Auction Agent or DTC or any DTC Participant to give any of the notices described in the Indenture, or any defect therein, will not affect the interest rate to be borne by any Auction Rate Bonds nor the applicable Auction Period.

In no event will the Auction Rate be more than the Maximum Auction Rate on any Auction Date or the Maximum Interest Rate at any time.

Auction Agency Agreement

The Company will enter into separate, but substantially identical, agreements (each an "*Auction Agency Agreement*" and, collectively, the "*Auction Agency Agreements*") with respect to each series of Bonds with Deutsche Bank Trust Company Americas (together with any successor bank or trust company or other entity entering into a similar agreement with the Company, the "*Auction Agent*") which provide, among other things, that the Auction Agent will follow the Auction Procedures for the purposes of determining the Auction Rate so long as the Auction Rate is to be based on the results of an Auction. See "Auction Procedures – *Concerning the Auction Agent.*"

Remarketing Agreement

The Company will enter into separate, but substantially identical, Remarketing Agreements (the "*Remarketing Agreements*") with Morgan Stanley & Co. Incorporated with respect to each series of Bonds (together with any successor as remarketing agent under the Indenture, the "*Remarketing Agent*"), which sets forth the Remarketing Agent's duties and responsibilities and provides for the remarketing of Bonds bearing an interest rate other than an

Auction Rate. For each Rate Period, the interest rate for the Bonds will be determined by the Remarketing Agent in accordance with the Indenture; provided that, the interest rate or rates borne by the Bonds may not exceed the lesser of (a) 13% per annum, (b) the maximum rate of interest permitted under State law, or (c) in the case of Bonds bearing interest at a Variable Rate, the maximum rate of interest permitted by any Liquidity Facility then in effect (the "*Maximum Interest Rate*"). See also "THE INDENTURES – Remarketing Agent."

Liquidity Facility

Under the Indenture, upon conversion to a Rate Period that provides for either optional or mandatory tender for purchase of Bonds prior to maturity, a Liquidity Facility acceptable to the Bond Insurer must be delivered to the Trustee to provide for the payment of purchase price of Bonds tendered for optional or mandatory purchase, unless the requirement to deliver a Liquidity Facility is waived by the Bond Insurer. *No Liquidity Facility will be provided in connection with Auction Rate Bonds.* As a consequence, certain provisions in the Indenture that would be applicable to the Bonds if a Liquidity Facility were delivered are not described in this Official Statement. If, at the option of the Company, a Liquidity Facility is delivered with respect to the Bonds, the Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof on the date of the delivery of the Liquidity Facility.

Depository

Unless a successor securities depository is designated pursuant to the Indenture, or unless the Company otherwise directs, DTC will act as the Depository for its members and participants (the "*DTC Participants*") with respect to Auction Rate Bonds. On the date of delivery of Auction Rate Bonds offered hereby, the Auction Rate Bonds will be issued in a global Bond in the denomination equal to the aggregate principal amount of Auction Rate Bonds authorized pursuant to the Indenture. It is anticipated that such Bond will be registered in the name of Cede & Co., a nominee of DTC. The global Bond will bear a legend to the effect that such global Bond is issued subject to the provisions restricting transfers of Auction Rate Bonds contained in the Indenture. Stop-transfer instructions will be issued to the Paying Agent. DTC or its nominee will be the holder of record of all issued and outstanding Auction Rate Bonds and beneficial owners of such Auction Rate Bonds may not obtain physical possession of Auction Rate Bonds beneficially owned by them.

Payment of principal, interest and premium, if any, on Auction Rate Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of Auction Rate Bonds. Upon receipt of moneys, the current practice of DTC is to credit immediately the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to beneficial owners are governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participants and not of DTC, the Issuer, the Trustee, the Paying Agent, the Auction Agent or the Company, subject to any statutory and regulatory requirements as may be in effect from time to time. No assurances can be provided that in the event of bankruptcy or insolvency of

DTC or a DTC Participant through which a beneficial owner holds its interest in Auction Rate Bonds, payment will be made by DTC or the DTC Participant on a timely basis.

The Issuer, the Trustee, the Paying Agent, the Company and the Remarketing Agent will recognize DTC or its nominee as the registered owner of Auction Rate Bonds for all purposes, including notices and consents. Conveyance of notices and other communications by DTC to DTC Participants and by DTC Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Bond certificates are required to be issued in exchange for a global certificate and registered in such names of the Beneficial Owner and in Authorized Denominations as the Depository, pursuant to instructions from the Participants or otherwise, will instruct the Trustee under the following circumstances:

(a) The Depository determines to discontinue providing its service with respect to the Bonds and no successor has been appointed within 90 days after the Company receives notice thereof. Such a determination may be made by a Depository at any time by giving notice to the Company, the Issuer, the Trustee, the Auction Agent, the Registrar and the Paying Agent and discharging its responsibilities with respect thereto under applicable law.

(b) The Company determines that continuation of the system of Book-Entry transfers through the Securities Depository is not in the best interests of the Beneficial Owners.

(c) The Remarketing Agent has notified the Issuer, the Company, the Auction Agent, the Registrar, the Paying Agent and the Trustee that the Auction Rate Bonds should not be maintained in the Book-Entry System.

(d) The Depository is no longer registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and no successor has been appointed within 90 days after the Company receives notice thereof.

DTC, which is a New York-chartered, limited purpose trust company, performs services for its participants (including the DTC Participants), some of whom (and/or their representatives) own DTC. DTC maintains lists of its participants and will maintain the positions (ownership interests) held by each DTC Participant in Auction Rate Bonds, whether as an Existing Holder for its own account or as a nominee for another Existing Holder. Each Beneficial Owner of Auction Rate Bonds must make arrangements with its DTC Participant or Broker-Dealer to receive notices and payments with respect to Auction Rate Bonds.

Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial

Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

THE ISSUER, THE COMPANY, THE TRUSTEE, THE REGISTRAR, THE PAYING AGENT, THE AUCTION AGENT, THE BROKER-DEALER AND THE REMARKETING AGENT HAVE NO RESPONSIBILITY WITH RESPECT TO (I) THE ACCURACY OF THE RECORDS OF DTC OR ANY DTC PARTICIPANT AS TO THE BENEFICIAL OWNERSHIP OF AUCTION RATE BONDS; (II) THE DELIVERY OF EITHER NOTICES OR PAYMENT TO ANY PARTY OTHER THAN DTC OR ITS NOMINEE AS REGISTERED OWNER OF AUCTION RATE BONDS; (III) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE HOLDER OF RECORD OF ALL ISSUED AND OUTSTANDING AUCTION RATE BONDS; OR (IV) THE SELECTION BY DTC OR ANY DTC PARTICIPANTS OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF AUCTION RATE BONDS.

See "Book-Entry-Only System" below for further information about DTC and its procedures.

Auction Procedures

Auction and Settlement Procedures. A summary of the Auction Procedures is set forth in *Appendix C* to this Official Statement.

A summary of the Settlement Procedures (as set forth in Exhibit A to the initial Broker-Dealer Agreement) to be used with respect to Auctions is set forth as *Appendix D* to this Official Statement.

Concerning the Auction Agent. Deutsche Bank Trust Company Americas is the initial Auction Agent. The Auction Agent is acting as agent for the Company in connection with Auctions. In the absence of willful misconduct or negligence on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and will not be liable for any error of judgment made in good faith unless the Auction Agent has been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgment.

The Auction Agent may terminate the Auction Agency Agreement upon notice in accordance with the Indenture. The Auction Agent may be removed at any time by the Company, with the consent of the Bond Insurer (such consent not to be unreasonably denied), or the holders of a majority of the aggregate principal amount of the Auction Rate Bonds upon at least 45 days' written notice to the Auction Agent, the Paying Agent, the Registrar, the Issuer, the Broker-Dealers, the Bond Insurer and the Remarketing Agent. If the Auction Agent should resign or be removed, the Company is obligated under the Remarketing Agreement to use its best efforts to appoint a successor Auction Agent and enter into an agreement with a successor Auction Agent, subject to the consent of the Bond Insurer, containing substantially the same terms and conditions as the Auction Agency Agreement.

Changes in the Auction Terms

Changes in an Auction Period. The Company may change the length of one or more Auction Periods (and will make a corresponding change in the Interest Payment Date) in order to conform with then current market practice with respect to similar securities. The Company may also change the length of one or more Auction Periods (and may make a corresponding change in the Interest Payment Date) in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Auction Rate Bonds.

The Company will initiate the change in the length of one or more Auction Periods by giving written notice to the Trustee, the Paying Agent, the Auction Agent, the Remarketing Agent, the Issuer and the Depository in the form required by the Indenture at least five days prior to the Auction Date for such Auction Period.

Any such changed Auction Period may not be less than seven days and must be an integral multiple of seven days.

The change in the length of one or more Auction Periods will not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change.

The change in length of one or more Auction Periods will take effect only if (A) the Paying Agent, the Remarketing Agent and the Auction Agent receive, by 11:00 a.m., New York City time on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Authorized Company Representative in substantially the form required by the Indenture, authorizing the change in the length of one or more Auction Periods specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. If the condition referred to in (A) above is not met, the Applicable Auction Rate Bonds Rate for the next Auction Period will be determined pursuant to the Auction Procedures and the Auction Period will be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Applicable Auction Rate Bonds Rate for the next Auction Period will be the Maximum Auction Rate and the Auction Period will be the Auction Period determined without reference to the proposed change.

Changes in the Auction Date. The Company may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" with respect to one or more specified Auction Periods in order to conform with then current market practice with respect to similar securities. The Company, in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Auction Rate Bonds, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" with respect to one or more specified Auction Periods. The Authorized Company Representative will provide notice of any determination to specify an earlier Auction Date for one or more Auction Periods by means of a

written notice delivered at least five days prior to the proposed changed Auction Date to the Trustee, the Paying Agent, the Auction Agent, the Remarketing Agent, the Issuer and the Depository. Such notice will be substantially in the form of, or contain substantially the information required by, the Indenture.

Notice Regarding Changes. Pursuant to the Auction Agency Agreement, the Auction Agent will mail to the Existing Holders within two Business Days of its receipt thereof: (1) any notice of a change in the Auction Period and (2) any certificate authorizing the adjustment of the All Hold Rate and/or the Applicable Percentage used to determine the Maximum Auction Rate. EXISTING HOLDERS TO WHOM ANY OF THE FOREGOING NOTICES HAVE BEEN DELIVERED SHOULD CONTACT THEIR BROKER-DEALER TO BE GIVEN INFORMATION REGARDING ANY OF THE FOREGOING CHANGES.

Interest Rate Determination Methods

Determination of Interest Rates and Rate Periods (other than Auction Rate). Following Conversion from an Auction Rate Period, each interest rate to be determined by the Remarketing Agent will be the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value on the commencement date of such Rate Period equal to the principal amount thereof plus accrued and unpaid interest, if any, under prevailing market conditions as of the date of determination. In no event will the Variable Rate be an interest rate in excess of the Maximum Interest Rate. All determinations of Variable Rates, including Commercial Paper Rate Periods and Term Rate Periods, pursuant to the Indenture will be conclusive and binding upon the Issuer, the Company, the Trustee, the Paying Agent, the Liquidity Facility Issuer and the holders of the Bonds. The Variable Rate in effect for Bonds during any Rate Period will be available to Holders on the date such Variable Rate is determined, between 1:00 p.m. and 5:00 p.m., New York City time, from the Remarketing Agent or the Trustee at their principal offices. Under the Indenture, the Bonds may be in different Rate Periods at any one time and the provisions of the Indenture will separately apply with respect to each portion of the Bonds.

During any transitional period for a conversion from the Commercial Paper Rate Period to a Daily or Weekly Rate Period in which the Remarketing Agent is setting different Commercial Paper Rate Periods in order to effect an orderly transition of such conversion, Bonds bearing interest at the Commercial Paper Rate will be governed by the provisions of the Indenture applicable to Commercial Paper Rate Periods and Commercial Paper Rates, and Bonds bearing interest at the Daily Rate or Weekly Rate, as applicable, will be governed by the provisions of the Indenture applicable to such Daily Rates and Daily Rate Periods or Weekly Rates and Weekly Rate Periods, as the case may be.

Commercial Paper Rate and Commercial Paper Rate Period. The Commercial Paper Rate Period for each Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Commercial Paper Rate Period as being the Commercial Paper Rate Period which, in the judgment of the Remarketing Agent, will, with respect to each Bond, ultimately produce the lowest overall interest cost on the Bonds during the Commercial Paper Rate Period; provided that each Commercial Paper Rate Period will be from one day to 270 days in length, will begin on a Business Day and end on a day preceding a Business Day or the day preceding the Maturity Date. The Commercial Paper Rate for each Commercial Paper Rate Period will be

effective from and including the commencement date of such period and remain in effect to and including the last day thereof. Each such Commercial Paper Rate will be determined by the Remarketing Agent no later than 1:00 p.m., New York City time, on the first day of the Commercial Paper Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. If the Remarketing Agent has received notice of any conversion to a Term Rate Period, the remaining number of days prior to the Conversion Date or, if the Remarketing Agent has received notice of any conversion from a Commercial Paper Rate Period to a Daily or Weekly Rate Period, the length of each Commercial Paper Rate Period for each Bond will be determined by the Remarketing Agent to be either (i) that length of period that, as soon as possible, will enable the Commercial Paper Rate Periods for all Bonds to end on the day before the Conversion Date, or (ii) that length of period which, based on the Remarketing Agent's judgment, will best promote an orderly transition to the next Rate Period. If a Liquidity Facility is then in effect, no Commercial Paper Rate Period may be established which is longer than a period equal to the maximum number of days' interest coverage provided by such Liquidity Facility minus 15 days or which extends beyond the remaining term of such Liquidity Facility minus 15 days.

Daily Rate and Daily Rate Period. Daily Rate Periods will commence on a Business Day and will extend to, but not include, the next succeeding Business Day. The Daily Rate for each Daily Rate Period will be effective from and including the commencement date thereof and will remain in effect during that Daily Rate Period. Each such Daily Rate will be determined by the Remarketing Agent no later than 10:30 a.m., New York City time, on the Business Day which is the commencement date of the Daily Rate Period to which it relates.

Weekly Rate and Weekly Rate Period. Weekly Rate Periods will commence on Wednesday of each week and end on Tuesday of the following week, except that (i) in the case of a conversion to a Weekly Rate Period, the initial Weekly Rate Period for Bonds will commence on the Conversion Date and end on Tuesday of the following week; and (ii) in the case of a conversion from a Weekly Rate Period to a different Rate Period, the last Weekly Rate Period prior to conversion will end on the last day immediately preceding the Conversion Date. The Weekly Rate for each Weekly Rate Period will be effective from and including the commencement date of such period and will remain in effect through and including the last day thereof. Each such Weekly Rate will be determined by the Remarketing Agent no later than 10:00 a.m., New York City time, on the commencement date of the Weekly Rate Period to which it relates.

Term Rate and Term Rate Period. Term Rate Periods will commence either on a Conversion Date (including a conversion from a Term Rate Period to a Term Rate Period of a different duration) or, if then in a Term Rate Period, the commencement date of an immediately successive Term Rate Period of the same duration and extend to but not include either the commencement date of an immediately successive Term Rate Period (of whatever duration) or the Conversion Date on which an Auction, Daily, Weekly or Commercial Paper Rate Period becomes effective. The Term Rate for each Term Rate Period will be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each such Term Rate will be determined by the Remarketing Agent not later than 12:00 noon, New York City time, on the Business Day immediately preceding the commencement date of such period. The duration of each successive Term Rate Period will be the same as the then current Term Rate Period until the Company elects to convert the Term Rate Period to an Auction, Daily, Weekly

or Commercial Paper Rate Period, or to a Term Rate Period of a different duration, all as provided in the Indenture.

Failure of Remarketing Agent to Set Rate. If the Remarketing Agent fails for any reason to determine the rate for any Rate Period, then the Bonds will bear such interest at the last effective rate established for such Rate Period, except as otherwise set forth in the Indenture.

Conversions

Conversions Between Rate Periods. At the option of the Company, the Bonds may be converted from one Rate Period to another, including a conversion from one Term Rate Period to another Term Rate Period of a different duration. The Conversion Date must be an Interest Payment Date for the Rate Period from which the conversion is to be made; provided, however, that (i) if the conversion is from a Term Rate Period to another Rate Period, including a Term Rate Period of a different duration, the Conversion Date must be limited to any Interest Payment Date upon which the Bonds are subject to optional redemption pursuant to the Indenture or the last Interest Payment Date of that Term Rate Period, as the case may be; (ii) if the conversion is from a Daily Rate Period to a Weekly Rate Period, or from a Weekly Rate Period to a Daily Rate Period, the Conversion Date may be any Wednesday, regardless of whether the Wednesday is an Interest Payment Date; and (iii) if the conversion is from a Commercial Paper Rate Period, the Conversion Date must be the last Interest Payment Date on which interest is payable for all Bonds bearing Commercial Paper Rates theretofore established; provided, however, that if the conversion is from a Commercial Paper Rate Period to a Daily or Weekly Rate Period, there may be more than one Conversion Date in accordance with the Indenture and in that case the Conversion Date with respect to each Bond must be an Interest Payment Date for such Bond.

Not fewer than 15 days prior to the Conversion Date in the case of conversions from Auction, Daily, Weekly and Commercial Paper Rate Periods, and not fewer than 30 days prior to the Conversion Date in the case of a conversion from a Term Rate Period, and not fewer than 30 days prior to the last Business Day before the commencement of a new Term Rate Period, the Trustee will mail by first class mail a written notice of the conversion or of the commencement of such new Term Rate Period to each holder stating: (i) in the case of a conversion, the type of Rate Period to which the conversion will be made and the Conversion Date, (ii) that the Bonds will be subject to mandatory tender for purchase on the Conversion Date or on the Business Day immediately succeeding the last day of a Term Rate Period, as the case may be, and the purchase price of the Bonds, and (iii) if the Bonds are no longer in book-entry form and are therefore in certificated form, information with respect to required delivery of bond certificates and payment of the purchase price pursuant to the Indenture.

Conditions Precedent to Conversions. Any conversion (i) from an Auction, Daily, Weekly or Commercial Paper Rate Period to a Term Rate Period, (ii) from a Term Rate Period to an Auction, Daily, Weekly or Commercial Paper Rate Period, or (iii) to a Term Rate Period from a Term Rate Period (on a date other than the date originally scheduled as the last Interest Payment Date of the then current Term Rate Period) will be subject to the condition that on or before the Conversion Date, the Company will have delivered to the Issuer, the Trustee, the Auction Agent, the Paying Agent, the Bond Insurer and the Remarketing Agent an Opinion of Bond Counsel to the

effect that the conversion is authorized under the Indenture and the Act and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

As a condition to any conversion from the Auction Rate Period to a Rate Period that provides for either optional or mandatory tender for purchase of Bonds prior to maturity, unless the Bond Insurer otherwise consents, a Liquidity Facility acceptable to the Bond Insurer must be delivered to the Trustee. The Liquidity Facility, if any, to be held by the Trustee after the Conversion Date must be sufficient to cover the principal of and accrued interest on the outstanding Bonds for the maximum Interest Period permitted for that particular Rate Period plus 15 days, and, if a Liquidity Facility is to be held by the Trustee after the conversion of the Bonds to a Term Rate Period, that Liquidity Facility must also extend for the entire Term Rate Period plus 15 days. If a Liquidity Facility is in effect and the purchase price of the Bonds under the Indenture includes any premium, such conversion will be subject to the condition that the Trustee will have confirmed prior to mailing notice to the holders of such conversion that the Trustee is entitled to draw on that Liquidity Facility in an aggregate amount sufficient to pay the applicable purchase price (including such premium). Notwithstanding anything in the foregoing, if an Event of Default involving a payment default on the part of the Company has occurred and is continuing, the Bond Insurer will succeed to the rights of the Company to request or direct a change in the Rate Period, provided that such payment default has occurred and is continuing for a period of 35 days from the date of such payment default.

Failure of Conversion. If for any reason a condition precedent to a conversion of the Bonds is not met, the conversion will not be effective (although any mandatory tender pursuant to the Indenture will be made on such date if the notice required under the Indenture has been sent to holders stating that the Bonds would be subject to mandatory purchase on that date), and the Bonds, except as otherwise provided and subject to the conditions set forth in the Indenture, generally will be converted to a Weekly Rate Period and bear interest at the Weekly Rate determined by the Remarketing Agent as of the date on which the conversion was to occur.

Optional Tenders

Purchase Price and Purchase Dates. The holders of Bonds bearing interest for a Daily or Weekly Rate Period may elect to have their Bonds or portions thereof purchased at a purchase price equal to 100% of the principal amount of such Bonds (or portions thereof), plus any interest accrued from the immediately preceding Interest Payment Date and unpaid. There is no optional tender right while the Bonds are in a Commercial Paper Rate, Term Rate or Auction Rate Period.

Daily Rate. Bonds bearing interest at Daily Rates may be tendered for purchase at a price payable in immediately available funds on any Business Day, upon telephonic or electronic notice of tender given not later than 11:00 a.m., New York City time, on the purchase date to the Paying Agent. Any telephonic notice must be promptly confirmed by the holder to the Paying Agent in writing.

Weekly Rate. Bonds bearing interest at Weekly Rates may be tendered for purchase at a price payable in immediately available funds on any Business Day, upon delivery of written or electronic notice of tender to the Paying Agent not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the purchase date.

Notice of Tender. When a book-entry-only system is in effect, a Beneficial Owner through its Direct Participant of that book-entry-only system may tender its interest in a Bond (or portion of Bond) by delivering notice, in the manner and by the time set forth above, to the Paying Agent stating the principal amount of the Bond (or portion of Bond being tendered), payment instructions for the purchase price and the purchase date. The Beneficial Owner will effect delivery of such Bonds by causing such Direct Participant to transfer its interest in the Bonds equal to such Beneficial Owner's interest on the records of DTC to the participant account of the Paying Agent with DTC. When a book-entry-only system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering a notice, in the manner and by the time set forth above, to the Paying Agent which states (A) the principal amount of the Bond or Bonds to which the notice relates, (B) that the holder irrevocably demands purchase of such Bond or Bonds or a specified portion thereof in an amount equal to the lowest denomination then authorized or an integral multiple of such lowest denomination, (C) the date on which such Bond or portion is to be purchased, and (D) payment instructions with respect to the purchase price.

Mandatory Tenders

Commercial Paper Rate Periods. Each Bond bearing interest at a Commercial Paper Rate will be subject to mandatory tender for purchase, on the Interest Payment Date applicable to such Bond, at a purchase price equal to 100% of the principal amount thereof, without premium.

Conversion Dates. On any Conversion Date (other than a Conversion Date from a Daily Rate Period to a Weekly Rate Period or from a Weekly Rate Period to a Daily Rate Period), the Bonds will be subject to mandatory tender for purchase on such Conversion Date at a purchase price equal to 100% of the principal amount thereof or, in the case of Bonds bearing interest at a Term Rate which are tendered on a day on which those Bonds are subject to optional redemption at a redemption price of more than 100% of the principal amount redeemed, at a purchase price equal to that redemption price.

Term Rate Periods. On the Business Day immediately succeeding the last day of each Term Rate Period, the Bonds will be subject to mandatory tender for purchase on such date at a purchase price equal to 100% of the principal amount thereof.

Notices of Mandatory Tenders. Not fewer than 15 days prior to the Conversion Date in the case of conversions from Auction, Daily, Weekly and Commercial Paper Rate Periods, and not fewer than 30 days prior to the Conversion Date in the case of a conversion from a Term Rate Period and not fewer than 30 days prior to the last Business Day before the commencement of a new Term Rate Period, the Trustee will mail by first class mail a written notice to each holder, setting forth those matters required by the Indenture, including a statement that the Bonds will be subject to mandatory purchase on the Conversion Date or on the Business Day immediately succeeding the last day of the current Term Rate Period. No notice will be given in connection with the mandatory purchase of a Bond bearing interest at a Commercial Paper Rate on an Interest Payment Date applicable to such Bond.

Remarketing and Purchase of Tendered Bonds

The Indenture provides that, unless otherwise instructed by the Company, the Remarketing Agent will offer for sale and use its best efforts to find purchasers for Bonds for which notice of tender has been received or which are subject to mandatory tender for purchase. The Remarketing Agent will not sell any Bond as to which a notice of conversion from one type of Rate Period to another has been given by the Trustee, unless the Remarketing Agent has advised the person to whom the sale is made of the conversion. There will be no purchase of Bonds if an acceleration has been declared under the Indenture due to any Event of Default described under "THE INDENTURES – Events of Default," and there will be no remarketing of Bonds if there has occurred and is continuing an Event of Default or a Default under the Indenture, except in the sole discretion of the Remarketing Agent.

The purchase price of Bonds tendered for purchase will be paid by the Paying Agent from the following funds in the priority indicated: (i) proceeds of the remarketing of such Bonds by the Remarketing Agent to persons other than the Company, its affiliates or the Issuer, (ii) proceeds of the Liquidity Facility, if any, and (iii) proceeds of the remarketing of such Bonds by the Remarketing Agent to the Company, its affiliates or the Issuer.

Payment of Purchase Price

When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Paying Agent.

When a book-entry-only system is not in effect, all Bonds to be purchased on any date must be delivered to the Principal Office of the Paying Agent at or before (i) 12:00 noon, New York City time, on the purchase date in the case of Bonds accruing interest at Auction or Weekly Rates; (ii) 1:00 p.m., New York City time, on the purchase date in the case of Bonds bearing interest at Daily or Commercial Paper Rates; or (iii) 3:00 p.m., New York City time, on the purchase date in the case of Bonds bearing interest at a Term Rate. If the holder of any Bond (or portion thereof) that is subject to purchase fails to deliver such Bond to the Paying Agent for purchase on the purchase date, and if the Paying Agent is in receipt of the purchase price, the Bond will be purchased on the day fixed for purchase and ownership of such Bond (or portion thereof) will be transferred to the purchaser. If on the purchase date the Paying Agent is in receipt of the purchase price for all Bonds to be purchased on that purchase date, the holder of any such Bond will have no further rights thereunder except the right to receive the purchase price thereof and, if the purchase date coincides with an Interest Payment Date and if such holder was the holder of the Bond on the Regular Record Date pertaining to the Interest Payment Date, such rights as the holder may have to interest accrued to and unpaid on such Interest Payment Date.

Redemption

Optional Redemption. The Bonds will be subject to optional redemption by the Issuer at the direction of the Company, in whole or in part, as follows:

(i) During any Auction, Daily or Weekly Rate Period, on any Interest Payment Date, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

(ii) During any Commercial Paper Rate Period for a Bond, on the Interest Payment Date for that Bond, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

(iii) During a Term Rate Period, on any date which occurs on or after the first day of the optional redemption period, and at the redemption prices, expressed as a percentage of the principal amount being redeemed, plus accrued and unpaid interest, if any, to the redemption date, as follows:

Length of Term Rate Period	First Day of Optional Redemption Period	Redemption Price
More than 15 years	Tenth anniversary of commencement of Term Rate Period	100%
More than 10, but not more than 15 years	Eighth anniversary of commencement of Term Rate Period	100%
More than 5, but not more than 10 years	Fifth anniversary of commencement of Term Rate Period	100%
5 years or less	Non-callable	Non-callable

If at the time of the Company's notice to the Trustee of a conversion to a Term Rate Period (including a conversion from a Term Rate Period to a Term Rate Period of a different duration), the Company satisfies certain conditions, including provision of an Opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the date of such conversion.

Extraordinary Optional Redemption During a Term Rate Period. During a Term Rate Period, the Bonds are subject to redemption by the Issuer in whole at a redemption price of 100% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date in whole upon the occurrence of the event described below in paragraph (c) and in part upon the occurrence of the other events described below in accordance with the applicable provisions of the Indenture.

(a) The Project Facilities or the Generating Station are damaged or destroyed to such an extent that (1) the Project Facilities or the Generating Station cannot

reasonably be expected to be restored, within a period of six consecutive months, to the condition thereof immediately preceding such damage or destruction or (2) the Company is reasonably expected to be prevented from carrying on its normal use and operation of the Project Facilities or the Generating Station for a period of six consecutive months.

(b) Title to, or the temporary use of, all or a significant part of the Project Facilities or the Generating Station is taken under the exercise of the power of eminent domain to such an extent that (1) the Project Facilities or the Generating Station cannot reasonably be expected to be restored within a period of six consecutive months to a condition of usefulness comparable to that existing prior to the taking or (2) the Company is reasonably expected to be prevented from carrying on its normal use and operation of the Project Facilities or the Generating Station for a period of six consecutive months.

(c) As a result of any changes in the Constitution of the State, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after any contest thereof by the Issuer or the Company in good faith, the Loan Agreement becomes void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in the Loan Agreement.

(d) Unreasonable burdens or excessive liabilities are imposed upon the Issuer or the Company with respect to the Project Facilities or the Generating Station or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes other than ad valorem taxes at the rates presently levied upon privately owned property used for the same general purpose as the Project Facilities or the Generating Station.

(e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of the Project Facilities or the Generating Station occur or technological or other changes occur which the Company cannot reasonably overcome or control and which in the Company's reasonable judgment render the Project Facilities or the Generating Station uneconomic or obsolete for the Project Purposes.

(f) Any court or administrative body enters a judgment, order or decree, or takes administrative action, requiring the Company to cease all or any substantial part of its operations served by the Project Facilities or the Generating Station to such extent that the Company is or will be prevented from carrying on its normal operations at the Project Facilities or the Generating Station for a period of six consecutive months.

(g) The termination by the Company of operations at the Generating Station.

Mandatory Redemption Upon a Determination of Taxability. The Bonds are subject to mandatory redemption by the Issuer at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, at the earliest practicable date selected by the Trustee, after consultation with the Company, but in no event later than 180 days following the receipt by the Trustee of notification of a Determination of Taxability, as defined below. Such redemption will be either in whole or, if in the Opinion of Bond Counsel the Determination of Taxability will not apply to Bonds remaining outstanding after such redemption, in part.

A "Determination of Taxability" means written notice from the Company of the occurrence of a final decision, ruling or technical advice by any federal judicial or administrative authority to the effect that, as a result of a failure by the Company to observe or perform any covenant, agreement or obligation on its part to be observed or performed under the Loan Agreement or the inaccuracy of any representation made by the Company in the Loan Agreement, interest on any Bond is or was includable in the gross income of the owner of that Bond for federal income tax purposes, other than an owner who is a "substantial user" of the Project or a "related person" as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the *"Code"*); provided that, no decision by any court or decision, ruling or technical advice by any administrative authority will be considered final (a) unless the owner involved in the proceeding or action giving rise to such decision, ruling or technical advice (i) gives the Company and the Trustee prompt notice of the commencement thereof and (ii) offers the Company the opportunity to control the contest thereof, provided that the Company has agreed to bear all expenses in connection therewith and to indemnify the owner against all liabilities in connection therewith, and (b) until the expiration of all periods for judicial review or appeal. A Determination of Taxability will not result from the inclusion of interest on any Bond in the computation of the alternative minimum tax imposed by Section 55 of the Code, the branch profits tax on foreign corporations imposed by Section 884 of the Code or the tax imposed on net excess passive income of certain S corporations under Section 1375 of the Code.

If the Indenture has been released in accordance with its terms prior to the occurrence of a Determination of Taxability, the Bonds will not be subject to mandatory redemption.

Notice of Redemption. The Trustee will give notice of the redemption on behalf of the Issuer by mailing a copy of the redemption notice by first class mail, postage prepaid, at least 30 days but not more than 90 days prior to the redemption date, to the owner of each Bond subject to redemption in whole or in part and to the Auction Agent and the Bond Insurer. Failure to receive any such notice, or any defect therein in respect of any Bond, will not affect the validity of the redemption of any Bond. If at the time of mailing of the notice of redemption there has not been deposited with the Trustee moneys sufficient to redeem all Bonds called for redemption, such notice may state that it is conditional, subject to the deposit of moneys sufficient for the redemption. If either (A) unconditional notice of redemption was mailed or (B) conditional notice was mailed and the moneys sufficient to redeem all Bonds on the redemption date have been deposited with the Trustee, then in either event, the Bonds and portions thereof called for redemption will become due and payable on the redemption date, and upon presentation and surrender thereof at the place or places specified in that notice, will be paid at the redemption price, plus interest accrued to the redemption date.

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all notices of redemption will be sent only to Cede & Co., and delivery of notice of redemption to the Direct Participants, if any, will be solely the responsibility of DTC.

Book-Entry-Only System

Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company, Bond Counsel and the Underwriter make no representation as to the accuracy of such information. See "THE BONDS – Auction Rate Period – *Depository*" for information about DTC and its procedures relating to Auction Rate Bonds.

The Depository Trust Company (*"DTC"*), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each series of Bonds, in the aggregate principal amount of such series, and will be deposited with DTC or its custodian.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (*"Direct Participants"*) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (*"DTCC"*). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (*"Indirect Participants"*). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (*"Beneficial Owner"*) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation

from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, the Issuer or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or Paying Agent, disbursement or such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner may give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds on DTC's records to the Paying Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Issuer or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

So long as Cede & Co., as nominee of DTC, is the registered owner of any of the Bonds, the Beneficial Owners of such Bonds will not receive or have the right to receive physical delivery of the Bonds, and references herein to the registered owners of such Bonds will mean Cede & Co. and will not mean the Beneficial Owners of such Bonds.

THE ISSUER, THE COMPANY, THE PAYING AGENT, THE REGISTRAR, THE UNDERWRITER AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE BONDS, (2) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, OR (3) NOTICES OF REDEMPTION OR OTHER NOTICES SENT TO DTC OR ITS NOMINEE, CEDE & CO., AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SEC, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH PARTICIPANTS MAY BE OBTAINED FROM DTC.

THE ISSUER, THE COMPANY, THE PAYING AGENT, THE REGISTRAR, THE UNDERWRITER AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY SUCH DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY ANY PARTICIPANT OF ANY AMOUNT DUE TO THE BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY BY ANY

DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

The book-entry-only system for registration of the ownership of the Bonds may be discontinued at any time if: (i) DTC determines to resign as securities depository for the Bonds; or (ii) the Company determines (and notifies the Issuer in writing of its determination and the Issuer provides 30 days' notice of such discontinuation to the Trustee and DTC) to discontinue the system of book-entry transfers through DTC (or through a successor securities depository). Upon occurrence of either such event, the Issuer may, at the request of the Company, attempt to establish a securities depository book-entry relationship with another securities depository. If the Issuer does not do so, or is unable to do so, and after the Issuer has notified DTC and upon surrender to the Trustee of the Bonds held by DTC, the Issuer will issue and the Trustee will authenticate and deliver the Bonds in registered certificate form in authorized denominations, at the expense of the Company, to such Persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the Issuer, the Company or the Trustee for the accuracy of such designation. In any such event (unless the Issuer appoints a successor securities depository), the Bonds will be delivered in registered certificate form to such persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the Issuer or the Trustee for the accuracy of such designation. Whenever DTC requests the Issuer or the Trustee to do so, the Issuer or the Trustee will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of certificates evidencing the Bonds.

Revision of Book-Entry-Only System; Replacement Bonds

In the event that the Issuer or the Trustee determines that DTC is incapable of discharging its responsibilities described in the Indenture and that it is in the best interest of the Beneficial Owners of the Bonds that they be able to obtain certificated Bonds, the Issuer or the Trustee will (i) appoint a successor Depository, qualified to act as such under Section 17A of the Securities Exchange Act of 1934, as amended, notify DTC and Participants, identified by DTC, of the appointment of such successor Depository and transfer one or more separate Bonds to such successor Depository or (ii) notify DTC and Participants, identified by DTC, of the availability through DTC of Bonds and transfer one or more separate Bonds to Participants, identified by DTC, having Bonds credited to their DTC accounts. In such event, the Bonds will no longer be restricted to being registered in the registration books of the Trustee in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor Depository, or its nominee, or in whatever name or names Bondholders transferring or exchanging Bonds designate, in accordance with the provisions of the Indenture.

Upon the written consent of 100% of the Beneficial Owners of the Bonds, the Trustee will withdraw the Bonds from DTC, and authenticate and deliver Bonds fully registered to the assignees of DTC or its nominee. If the request for such withdrawal is not the result of any Issuer action or inaction, such withdrawal, authentication and delivery will be at the cost and

expense (including costs of printing, preparing and delivering such Bonds) of the persons requesting such withdrawal, authentication and delivery.

In the event that the book-entry-only system is discontinued, the following provisions will apply. The Bonds may be issued in Authorized Denominations. Bonds may be transferred or exchanged in Authorized Denominations upon surrender of such Bonds at the principal office of the Trustee, accompanied by an assignment satisfactory to the Trustee, duly executed by the Owner or the Owner's duly authorized attorney-in-fact. Neither the Issuer nor the Trustee will be required to make any such transfer or exchange of any Bond during the period beginning at the opening of business 15 days immediately preceding the mailing of a notice of Bonds selected for redemption and ending at the close of business on the day of such mailing, or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. The Issuer or the Trustee may make a charge to the Owner for every transfer or exchange of a Bond sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such transfer or exchange, and may demand that such charge be paid before any new Bond is delivered.

Insurance Agreement with Company

The following summarizes certain provisions of the Insurance Agreement, to which reference is made for the detailed provisions thereof.

The Bond Insurer has agreed to issue the Bond Insurance Policies pursuant to the Insurance Agreement. Under the Insurance Agreement, the Company is obligated to reimburse the Bond Insurer, immediately and unconditionally upon demand, for all payments made by the Bond Insurer under the terms of the Bond Insurance Policies. The Company is also obligated to comply with certain financial covenants specified in the Insurance Agreement. The Company may not, without the prior written consent of the Bond Insurer, directly or indirectly, create any Lien (as defined in the Insurance Agreement) upon any of its property or assets, except as permitted thereunder; provided, that the Company may create a Lien on any of its property or assets to secure indebtedness so long as concurrently with creating such Lien it causes the Company's obligations under the Insurance Agreement to be secured by such property or assets on a parity with such indebtedness. The Insurance Agreement includes certain events of default, including the failure of the Company to pay amounts owed thereunder to the Bond Insurer and certain breaches by the Company of representations and warranties set forth therein. If any such event of default should occur and be continuing, the Bond Insurer may, among other things, notify the Trustee of such an event of default which would result in an "Event of Default" under the Loan Agreements and the Indentures. See "THE LOAN AGREEMENTS – Events of Default and Remedies" and "THE INDENTURES – Events of Default."

THE BOND INSURER

The information relating to XL Capital Assurance Inc. contained herein has been furnished solely by XL Capital Assurance Inc. No representation is made by the Underwriter, the Remarketing Agent, the Issuer, Bond Counsel or the Company as to the accuracy or adequacy of such information or as to the absence of material adverse changes in the condition of XL Capital Assurance Inc. subsequent to the date hereof. The following discussion does not

purport to be complete and is qualified in its entirety by reference to the Bond Insurance Policies, a specimen of the form of which is attached hereto as Appendix F. The Bond Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurer and its affiliates set forth under this heading. In addition, the Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

XL Capital Assurance Inc. (the "*Bond Insurer*" or "*XLCA*") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Bond Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

The Bond Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands exempted company ("*XL Capital Ltd*"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products and services to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The ordinary shares of XL Capital Ltd are publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Bond Insurer.**

The Bond Insurer was formerly known as The London Assurance of America Inc. ("*London*"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("*XL Re*") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition. Effective July 1, 2006, XL Re transferred its ownership in XLCA to XL Insurance (Bermuda) Ltd.

XL Capital Ltd announced on April 7, 2006 that Security Capital Assurance Ltd ("*SCA*"), a newly-created holding company for XL Capital Ltd's financial guaranty insurance and reinsurance businesses conducted through XLCA and XL Financial Assurance Ltd. ("*XLFA*"), had filed a registration statement on Form S-1 (the "*Registration Statement*") with the Securities and Exchange Commission (the "*Commission*") relating to a proposed initial public offering of a portion of its common shares. For further information, investors should refer to the Registration Statement.

Under the Registration Statement, a portion of SCA's shares will be issued and sold by SCA and a portion will be sold by SCA's parent, XL Insurance (Bermuda) Ltd, as selling shareholder. After the consummation of the offering, XL Capital Ltd is expected to beneficially own approximately 65% of SCA's outstanding shares.

SCA expects to use the proceeds it receives from the offering primarily for capital contributions to its financial guaranty subsidiaries to support future business growth. SCA intends to apply to have its shares listed on the New York Stock Exchange under the ticker symbol "SCA".

A copy of the Registration Statement is available on the Commission's website at www.sec.gov under Filings & Forms (EDGAR).

Reinsurance

The Bond Insurer has entered into a facultative quota share reinsurance agreement with XLFA, an insurance company organized under the laws of Bermuda, and an affiliate of the Bond Insurer. Pursuant to this reinsurance agreement, the Bond Insurer expects to cede up to 75% of its business to XLFA. The Bond Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Bond Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Bond Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 75% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Bond Insurance Policies.

Based on the audited financials of XLFA, as of December 31, 2005, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of $1,394,081,000, $704,007,000, $39,000,000 and $651,074,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("*US GAAP*"). XLFA's insurance financial strength is rated "Aaa" by Moody's Investors Service, Inc. ("*Moody's*") and "AAA" by Standard & Poor's Ratings Services ("*S&P*") and Fitch Inc. ("*Fitch*"). In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The rating agencies have taken certain actions with respect to XL Capital Ltd and various insurance operating subsidiaries of XL Capital Ltd, as described below. On November 22, 2005, Moody's downgraded the senior debt rating of XL Capital Ltd from "A2" to "A3" and downgraded the other insurance financial strength ratings of various insurance operating subsidiaries of XL Capital Ltd (other than XLCA and XLFA) from "Aa2" to "Aa3". On November 28, 2005, S&P downgraded the senior debt rating of XL Capital Ltd from "A" to "A-" and downgraded the counterparty credit and financial strength ratings of various insurance operating subsidiaries of XL Capital Ltd (other than XLCA and XLFA) from "AA-" to "A+". On February 28, 2006, Fitch revised the long term issuer rating of XL Capital Ltd from "A-" to "A". On October 26, 2005, Fitch downgraded the Bond Insurer financial strength ratings of various insurance operating subsidiaries of XL Capital Ltd (other than XLCA and XLFA) from "AA" to "AA-".

The ratings of XLFA or any other member of the XL Capital Ltd group of companies are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, S&P or Fitch.

Notwithstanding the capital support provided to the Bond Insurer described in this section, the Bondholders will have direct recourse against the Bond Insurer only, and XLFA will not be directly liable to the Bondholders.

Financial Strength and Financial Enhancement Ratings of XLCA

The Bond Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch. In addition, XLCA has obtained a financial enhancement rating of "AAA" from S&P. These ratings reflect Moody's, S&P and Fitch's current assessment of the Bond Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, S&P or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Bond Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Capitalization of the Bond Insurer

Based on the audited financials of XLCA, as of December 31, 2005, XLCA had total assets, liabilities, and shareholder's equity of $953,706,000, $726,758,000, and $226,948,000, respectively, determined in accordance with U.S. GAAP.

Based on the audited statutory financial statements for XLCA as of December 31, 2005 filed with the State of New York Insurance Department, XLCA has total admitted assets of $328,231,000, total liabilities of $139,392,000, total capital and surplus of $188,839,000 and total contingency reserves of $13,031,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("*SAP*").

Incorporation by Reference of Financials

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Commission by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual

statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Bond Insurer

The Bond Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Bond Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Bond Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Bond Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE BOND INSURER, INCLUDING THE BOND INSURANCE POLICIES, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND *SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.*

The principal executive offices of the Bond Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

THE LOAN AGREEMENTS

Each Loan Agreement is separate from and will operate independently of the other Loan Agreement, and the occurrence of an Event of Default under one Loan Agreement will not, in and of itself, constitute an Event of Default under the other Loan Agreement. The Loan Agreements contains substantially identical terms and provisions. All references in this summary to the Bonds, the Issuer, the Indenture, the Loan Agreement and other defined terms should be read as referring separately to each series of the Bonds and the related Indenture, Loan Agreement and other defined terms. Reference is made to each Loan Agreement for the detailed provisions thereof.

Loan of Proceeds

The Loan Agreement provides for the refinancing by the Issuer of the Project, construction of which has been completed. Under the Loan Agreement, the Issuer will loan the proceeds of the Bonds to the Company to be used to pay a portion of the cost of redeeming the Refunded Bonds. See "APPLICATION OF PROCEEDS."

Loan Payments

The Company is obligated to make Loan Payments under the Loan Agreement which correspond, as to time, and are equal in amount, to the amount then payable as principal of and premium, if any, and interest on the Bonds. All payments under the Loan Agreement related to the Loan will be assigned to the Trustee, and the Company will make such payments directly to the Trustee for the account of the Issuer and for deposit in the Bond Fund created under the Indenture.

Obligation to Purchase Bonds

The Company will agree to pay or cause to be paid to the Trustee or the Paying Agent, on or before each day on which Bonds may be or are required to be tendered for purchase, amounts equal to the amounts to be paid by the Trustee or the Paying Agent with respect to the Bonds tendered for purchase on such dates pursuant to the Indenture; provided, however, that the obligation of the Company to make any such payment will be reduced by the amount of (A) moneys paid by the Remarketing Agent as proceeds of the remarketing of such Bonds by the Remarketing Agent, (B) moneys drawn under a Liquidity Facility, if any, for the purpose of paying such purchase price and (C) other moneys made available by the Company.

Term of Loan Agreement

The Loan Agreement will remain in full force and effect until such time as (i) all of the Bonds are fully paid (or provision has been made for such payment) and the Indenture has been released pursuant to the terms thereof and (ii) all other sums payable by the Company under the Loan Agreement have been paid.

Maintenance and Modification

During the term of the Loan Agreement, the Company will use its best efforts to keep and maintain the Project in good repair and good operating condition so that the Project will continue to constitute Pollution Control Facilities (as defined in the Loan Agreement) for the purposes of the operation thereof.

Subject to certain conditions, the Company has the right, from time to time, to remodel the Project or make additions, modifications and improvements thereto, the cost of which must be paid by the Company. The Company also has the right, subject to certain conditions, to substitute or remove any portion of the Project.

Maintenance of Existence

The Company will agree that during the term of the Loan Agreement it will maintain its existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or other entity or permit one or more other corporations or other entities to consolidate with or merge into it; provided that the Company may consolidate with or merge into another corporation or other entity, or permit one or more other entities to consolidate with or merge into it, or sell or otherwise transfer to another entity all or substantially all of its assets as an entirety and thereafter dissolve, provided the surviving, resulting

or transferee entity, as the case may be (if other than the Company), is a corporation or other entity organized and existing under the laws of one of the states of the United States, and assumes in writing all of the obligations of the Company under the Loan Agreement and, if not organized under the laws of Kentucky, is qualified to do business in the State.

Tax Covenant

The Company will covenant and represent in the Loan Agreement that it has taken and caused to be taken and will take and cause to be taken all actions that may be required of it for the interest on the Bonds to be and remain excluded from the gross income of the owners thereof for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and it will not take or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

Assignment by Company

Notwithstanding any other provisions of the Loan Agreement, the Loan Agreement may be assigned in whole or in part by the Company and the Project may be sold or conveyed by the Company without the necessity of obtaining the consent of either the Issuer or the Trustee and after providing written notice to the Issuer but, subject, however, to each of the following conditions:

(a) the Company must provide the Trustee and the Remarketing Agent with an Opinion of Bond Counsel that such action will not affect the exclusion of interest on the Bonds for federal income tax purposes;

(b) the Company must, within 30 days after the execution thereof, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of each such assignment together with any instrument of assumption; and

(c) Any assignment from the Company may not materially impair fulfillment of the Project Purposes to be accomplished by operation of the Project as provided in the Loan Agreement.

Events of Default and Remedies

The Loan Agreement provides that the occurrence of each of the following events will constitute an "event of default":

(a) The occurrence of an event of default described in paragraphs (a), (b), (c) or (d) under "THE INDENTURES--Events of Default";

(b) Failure by the Company to observe and perform any other agreement, term or condition contained in the Loan Agreement, other than a failure as has resulted in an event of default described in (a) above, which failure continues for a period of 90 days after notice by the Issuer or the Trustee, or for such longer period as the Issuer and the Trustee agree to in writing; provided, that such failure will not constitute an event of default so long as the Company institutes curative action within the applicable period and diligently pursues that action to completion within 150 days after the expiration of

the initial 90 day cure period or within such longer period as the Issuer and the Trustee may agree to in writing;

(c) The receipt by the Trustee of written notice from the Bond Insurer that an event of default has occurred and is continuing under the Insurance Agreement; and

(d) The occurrence of certain voluntary or involuntary events of bankruptcy, reorganization or receivership with respect to the Company.

A failure by the Company described in paragraph (b) above will not be a default if it occurs by reason of certain events of "force majeure" specified in the Loan Agreement not reasonably within the control of the Company.

Whenever any event of default under the Loan Agreement has happened and is subsisting, either or both of the following remedial steps may be taken by the Issuer or the Trustee:

(a) Have access to, inspect, examine and make copies of the books, records, accounts, and financial data of the Company, only, however, insofar as they pertain to the Project; or

(b) Pursue all remedies existing at law or in equity to recover all amounts then due and thereafter to become due under the Loan Agreement or to enforce performance and observance of any other obligation or agreement of the Company under the Loan Agreement.

Any amounts collected pursuant to action taken upon the happening of an event of default will be paid into the Bond Fund and applied pursuant to the Indenture.

Amendment to the Loan Agreement

The Indenture provides that the Loan Agreement may be amended without the consent of or notice to the holders of the Bonds only as may be required (i) by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity, inconsistency or formal defect or omission therein, (iii) in connection with an amendment of the Indenture not requiring the consent of holders, or (iv) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the holders of the Bonds. The Loan Agreement may be amended, but only with the consent of the holders of all of the outstanding Bonds, to change the amounts or times as of which Loan Payments under the Loan Agreement are required to be made. Any other amendments to the Loan Agreement may be made only with the written approval or consent of the holders of not less than a majority in aggregate principal amount of the Bonds outstanding. No amendment to the Loan Agreement will be effective without the consent of the Bond Insurer (such consent not to be unreasonably denied).

Before the Issuer and the Trustee may consent to any amendment to the Loan Agreement, there must be delivered to the Trustee an Opinion of Bond Counsel stating that such amendment is authorized or permitted by the Act and is authorized under the Indenture, that such amendment will, upon the execution and delivery thereof, be valid and binding in accordance with

its terms, and that such amendment will not adversely affect the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

THE INDENTURES

Each Indenture is separate from and will operate independently of the other Indenture and the occurrence of an Event of Default under one Indenture will not, in and of itself, constitute an Event of Default under the other Indenture. The Indentures contains substantially identical terms and provisions. All references in this summary to the Bonds, the Issuer, the Indenture, the Loan Agreement, the Bond Insurance Policy and other defined terms should be read as referring separately to each series of the Bonds and the related Indenture, Loan Agreement, Bond Insurance Policy and other defined terms. Reference is made to each Indenture for the detailed provisions thereof.

Pledge of Revenues

Pursuant to the Indenture, all right, title and interest of the Issuer in and to the "Revenues" (as defined below) and under the Loan Agreement (except for certain rights of the Issuer), will be pledged or assigned to the Trustee to secure the payment of the principal or redemption price of and interest on the Bonds.

"*Revenues*" are defined to mean: (a) the Loan Payments, (b) all other moneys received or to be received by the Issuer (excluding any fees paid to the Issuer and all Unassigned Issuer Rights) or the Trustee in respect of repayment of the Loan including, without limitation, all moneys and investments in the Bond Fund, (c) any moneys and investments in the Refunding Fund, and (d) all income and profit from the investment of the foregoing moneys. The term "Revenues" does not include any moneys or investments in the Rebate Fund or the Bond Purchase Fund as those terms are defined in the Indenture.

Application of Proceeds

The proceeds from the initial sale of the Bonds will be deposited in the Refunding Fund, established with the Trustee, to refinance the Project and, together with the proceeds of the investment thereof and other moneys provided by the Company, will be applied to refund and redeem the Refunded Bonds. See "APPLICATION OF PROCEEDS."

Bond Fund

A Bond Fund will be established with the Issuer and maintained by the Trustee as a trust fund under the Indenture. The amounts with respect to the payment of principal of and premium, if any, and interest on the Bonds derived under the Loan Agreement and certain other amounts specified in the Indenture will be deposited in the Bond Fund. While the Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal or redemption price of and interest on the Bonds as they become due on any Interest Payment Date or at stated maturity, by redemption or upon acceleration.

Bond Purchase Fund

A Bond Purchase Fund will be established and maintained by the Paying Agent for the deposit of amounts to be used to pay the purchase price of Bonds. Moneys in the Bond Purchase Fund will be used solely for the payment of the purchase price of Bonds. Moneys in the Bond Purchase Fund will not be pledged to the payment of the principal of or interest or any premium on the Bonds and will not be invested.

Investments

Any moneys held as a part of the Refunding Fund, the Bond Fund and the Rebate Fund will be invested and reinvested by the Trustee as provided in the Indenture. Any such investments will be held by or under the control of the Trustee and will be deemed at all times a part of the respective Fund.

Events of Default

So long as the Bond Insurance Policy is in effect, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders and the Trustee for the benefit of the Bondholders, including, without limitation: (i) the right to accelerate the principal of the Bonds and (ii) the right to annul any declaration of acceleration, and the Bond Insurer also will be entitled to approve all waivers of events of default.

The Indenture provides that each of the following events will constitute an "Event of Default" thereunder:

(a) Payment of any interest on any Bond is not made when it becomes due and payable;

(b) Payment of the principal or redemption price of any Bond is not made when it becomes due and payable, whether at stated maturity, by redemption, by acceleration or otherwise;

(c) Payment of the purchase price of any Bond tendered for purchase pursuant to the provisions of the Indenture is not made when due and payable;

(d) Failure by the Issuer to observe or perform any other covenant, agreement or obligation on its part to be observed or performed contained in the Bonds or the Indenture (other than a failure described in paragraphs (a), (b) or (c) above), which failure has continued for a period of 90 days after written notice (or for such longer period as the Trustee may agree to in writing), by registered or certified mail, to the Issuer and the Company given by the Trustee, either in its discretion or at the written request of the holders of not less than 35% in aggregate principal amount of Bonds then outstanding; provided, that failure will not constitute an Event of Default so long as the Issuer institutes curative action within the applicable period and diligently pursues that action to completion within 150 days after the expiration of the initial cure period as determined above, or within such longer period as the Trustee may agree to in writing; or

(e) The occurrence and continuance of an event of default as described in paragraphs (b), (c) or (d) under "THE LOAN AGREEMENTS – Events of Default."

Remedies

Upon the occurrence and continuance of any Event of Default described under "Events of Default" above, (i) at the written direction of the Bond Insurer or (ii) upon the written request of the holders of not less than 35% in aggregate principal amount of Bonds then outstanding and with the written consent of the Bond Insurer, in either event, the Trustee, by written notice to the Issuer and the Company, must declare the principal of all Bonds then outstanding (if not then due and payable), and the accrued and unpaid interest thereon, to be due and payable immediately.

Interest on the Bonds will accrue at the rates per annum borne by the Bonds to the date determined by the Trustee for the tender of payment to the holders pursuant to that declaration; provided, that interest on any unpaid principal of Bonds outstanding will continue to accrue from the date determined by the Trustee for the tender of payment to the holders of those Bonds until that principal amount has been paid or made available to the Trustee for the benefit of the holders. The Trustee will give immediate written notice of such declaration by mail to the holders of all Bonds then outstanding.

The provisions above are subject to the condition that if at any time after declaration of acceleration and prior to the entry of a judgment in a court for enforcement (after an opportunity for hearing by the Issuer and the Company), all sums payable (except the principal of and interest on Bonds which have not reached their stated maturity dates but which are due and payable solely by reason of that declaration of acceleration), plus interest to the extent permitted by law on any overdue installments of interest at the rate then borne by the Bonds, have been duly paid or provision therefor having been made by deposit with the Trustee or Paying Agent and all existing Events of Default have been cured, then such payment or provision for payment will constitute an automatic waiver of the Event of Default and its consequences and will constitute an automatic rescission and annulment of that declaration.

If an Event of Default occurs and is continuing, the Trustee, before or after the principal of the Bonds becomes immediately due and payable, may pursue any available remedy to enforce the payment of principal of, premium, if any, and interest on the Bonds or the observance and performance of any other covenant, agreement or obligation under the Indenture, the Loan Agreement or any other instrument providing security for the Bonds. If, upon the occurrence and continuance of an Event of Default, the Trustee is directed so to do by the Bond Insurer or requested so to do by the holders of at least 35% in aggregate principal amount of Bonds outstanding and with the written consent of the Bond Insurer, the Trustee will be required to exercise any rights and powers conferred by, and subject to, the Indenture.

The Bond Insurer will have the right or, with the consent of the Bond Insurer, the holders of a majority in aggregate principal amount of Bonds then outstanding will have the right at any time to direct, by an instrument or document or instruments or documents in writing executed and delivered to the Trustee, the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or any other proceedings thereunder; provided, that (i) any direction may not be other than in accordance with the provisions of law and of the Indenture, (ii) the Trustee must be indemnified as provided in the

Indenture, (iii) the Trustee may take any other action which it deems to be proper and which is not inconsistent with the direction and (iv) the Bond Insurer will have no rights in respect of remedies against the Bond Insurer.

All moneys received under the Indenture by the Trustee upon the occurrence of an Event of Default (provided that moneys received under the Bond Insurance Policy will be used only for payment of principal of and interest then due on the Bonds) will be applied first to the payment of the costs and expenses of the proceedings resulting in the collection of such money and of the fees and expenses incurred by the Trustee, and the balance of such money will be deposited in the Bond Fund and applied to the payment of the principal of and premium, if any, and interest on the Bonds in the manner and in the priorities set forth in the Indenture. The Trustee will have a first lien against the trust estate, payable prior to debt service on the Bonds, provided, however, that moneys received under the Bond Insurance Policy will be used only for payment of the principal of and interest then due on the Bonds.

No holder of any Bond will have any right to institute any suit, action or proceeding for the enforcement of the Indenture or for the exercise of any other remedy under the Indenture, unless (i) an Event of Default has occurred and is continuing and the Trustee has or is deemed to have notice of the same, (ii) the holders of not less than 35% in aggregate principal amount of the then outstanding Bonds have made written request to the Trustee and have afforded the Trustee reasonable opportunity to proceed to exercise the remedies, rights and powers granted by the Indenture or to institute a suit, action or proceeding in its own name and have offered to the Trustee satisfactory indemnity as provided in the Indenture, and (iii) the Trustee thereafter has failed or refused to exercise the remedies, rights and powers granted under the Indenture or to institute such action, suit or proceeding in its own name. Notwithstanding the foregoing, each holder of a Bond will have a right to enforce the payment of the principal of and premium, if any, and interest on any Bond held or owned by that holder at and after the maturity thereof at the place, from the sources and in the manner expressed in said Bond.

Supplemental Indentures

The Issuer and the Trustee may, with the consent of the Bond Insurer (such consent not to be unreasonably denied) and without the consent of, or notice to, any holder of a Bond, enter into supplemental indentures which will not, in the opinion of the Issuer and the Trustee, be inconsistent with the Indenture for any one or more of the following purposes:

(a) To cure any ambiguity, inconsistency or formal defect or omission in the Indenture;

(b) To grant to or confer upon the Trustee for the benefit of the holders of the Bonds any additional rights, remedies, powers or authority that lawfully may be granted to or conferred upon the holders or the Trustee;

(c) To assign additional revenues under the Indenture;

(d) To accept additional security and instruments and documents of further assurance with respect to the Project, including without limitation, first mortgage bonds of the Company;

(e) To add to the covenants, agreements and obligations of the Issuer under the Indenture, other covenants, agreements and obligations to be observed for the protection of the holders of the Bonds, or to surrender or limit any right, power or authority reserved to or conferred upon the Issuer in the Indenture;

(f) To evidence any succession to the Issuer and the assumption by its successor of the covenants, agreements and obligations of the Issuer under the Indenture, the Loan Agreement and the Bonds;

(g) To permit the exchange of Bonds, at the option of the holder or holders thereof, for coupon Bonds payable to bearer, if the Trustee has received an Opinion of Bond Counsel to the effect that the exchange would not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds outstanding;

(h) To permit the transfer of Bonds from one Depository to another, and the succession of Depositories, or the withdrawal of Bonds issued to a Depository for use in a book entry system and the issuance of replacement Bonds in fully registered form to others than a Depository;

(i) To permit the Trustee to comply with any obligations imposed upon it by law;

(j) To specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, the Registrar, the Bond Insurer, the Auction Agent, the Remarketing Agent and any authenticating agents or Paying Agents;

(k) To achieve compliance of the Indenture with any applicable federal securities or tax law;

(l) To make amendments to the provisions of the Indenture relating to arbitrage matters under Section 148(f) of the Code, if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds outstanding;

(m) To make any amendments appropriate or necessary to provide for or facilitate the delivery of any Liquidity Facility;

(n) Prior to, or concurrently with, the conversion of the Bonds from a Daily, Weekly, Commercial Paper, or Term Rate Period to an Auction Rate Period, to make any amendments appropriate or necessary with respect to the Auction Rate Procedures and any definitions or provisions in the Indenture or exhibits thereto in order to provide for or facilitate the marketability of Auction Rate Bonds; and

(o) To permit any other amendment which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the holders of the Bonds.

Exclusive of such supplemental indentures, the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding, with the written consent of the Bond Insurer (such consent not to be unreasonably denied) and, if required by the Indenture, of the

Company, will have the right to consent to and approve any supplemental indenture, except that no supplemental indenture will permit:

(a) An extension of the maturity of the principal of or the date for payment of interest on any Bond, a reduction in the principal amount of any Bond or the rate of interest or premium thereon, a reduction in the purchase price of any Bond or an extension of the date for payment of the purchase price of any Bond without the consent of the holder of each Bond so affected; or

(b) The creation of a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or a reduction in the aggregate principal amount of the Bonds required for consent to a supplemental indenture, without the consent of the holders of all of the Bonds then outstanding.

Any supplemental indenture which affects the rights or obligations of the Company requires the written consent of the Company. Before the Issuer and the Trustee may enter into any supplemental indenture, there must be delivered to the Trustee an Opinion of Bond Counsel stating that such supplemental indenture is authorized or permitted by the Act and is authorized under the Indenture, that such supplemental indenture will, upon the execution and delivery thereof, be valid and binding in accordance with its terms, and that such supplemental indenture will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Discharge of Indenture

The lien created by the Indenture will be discharged when the Issuer pays or causes to be paid, or if there otherwise is paid, to or for the holders of the Bonds the principal, premium, if any, and interest due or to become due thereon and provision is also made for the payment of all other sums payable pursuant to the provisions of the Indenture and the Loan Agreement.

All of the Bonds will be deemed to have been paid and discharged within the meaning of the Indenture if:

(a) The Trustee as paying agent and any Paying Agents have received, in trust for and irrevocably committed thereto, sufficient moneys, or

(b) The Trustee has received, in trust for and irrevocably committed thereto, noncallable and nonprepayable Government Obligations which are certified by an independent public accounting firm of national reputation (with a copy of the certification being delivered to the Rating Agencies) to be of such maturities or redemption dates and interest payment dates, and to bear such interest as will be sufficient together with moneys referred to in (a) above, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, for the payment of all principal of and premium, if any, and interest on such Bonds (interest will be calculated at the maximum interest rate permitted to be borne by the Bonds pursuant to the Indenture unless the Bonds are in a Term Rate Period and the Bonds will mature or be redeemed on or prior to the last day of such Term Rate Period) at their maturity or redemption dates, as the case may be; provided, that if any of such Bonds are to be redeemed prior to maturity, notice of such redemption must have been duly given

or irrevocable provision satisfactory to the Trustee must have been duly made for the giving of such notice.

"Government Obligations" are defined to mean (a) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – (SLGs); (b) direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself; (c) securities of the Resolution Funding Corp. (REFCORP) provided that only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable; (d) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P provided however that if the issue is only rated by S&P (*i.e.*, there is no Moody's rating) then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals; and (e) obligations issued by the following agencies which are backed by the full faith and credit of the U.S.: (i) U.S. Export-Import Bank (Eximbank) direct obligations or fully guaranteed certificates of beneficial ownership; (ii) Farmers Home Administration (FmHA); (iii) Federal Financing Bank; (iv) General Services Administration participation certificates; (v) U.S. Maritime Administration Guaranteed Title XI financing; and (vi) U.S. Department of Housing and Urban Development (HUD) project notes, local authority bonds, New Communities Debentures – U.S. government guaranteed debentures, and U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds.

Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds will remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Issuer to the registered bondholders will continue to exist and will run to the benefit of the Bond Insurer, and the Bond Insurer will be subrogated to the rights of such registered bondholders.

Liquidity Facility

The Company may deliver a Liquidity Facility to the Trustee on any Interest Payment Date upon which the Bonds are subject to optional redemption or, if the Bonds are in a Term Rate Period, the last Interest Payment Date for that Term Rate Period. Any such Liquidity Facility is required to provide for direct payments to or upon the order of the Trustee of the principal and purchase price of and interest on the Bonds when due. The Bond Insurer must consent in writing to the delivery of any Liquidity Facility or waive in writing any requirement to deliver a Liquidity Facility (such consent or waiver not to be unreasonably denied). Any Liquidity Facility will be subject to the prior written consent of the Bond Insurer (such consent not to be unreasonably denied).

Rights of Bond Insurer

The Indenture grants certain rights to the Bond Insurer. In addition to those rights, the Bond Insurer will, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy. If an Event of Default occurs, the Bond Insurer will have the right to institute any suit, action or proceeding at law or in equity under the same terms as a Bondholder may institute any action under the Indenture.

To the extent that the Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized under the Indenture as being a third-party beneficiary thereof and may enforce any such right, remedy or claim conferred, given or granted thereunder.

As long as the Bond Insurance Policy is in full force and effect with respect to the Bonds and the Bond Insurer is not in default thereunder: (a) any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer; (b) any action under the Indenture which requires the consent or approval of Bondholders will, in addition to such approval, be subject to the prior written consent of the Bond Insurer; (c) upon occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under the Indenture including, without limitation, (i) the right to accelerate the principal of the Bonds and (ii) the right to annul any declaration of acceleration, and the Bond Insurer will also be entitled to approve all waivers of Events of Default; and (d) the Bond Insurer will be entitled to receive copies of notices, certificates and other documents received by the Trustee pursuant to the Indenture and notification of any failure to provide any such document as required by the Indenture or the Loan Agreement.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal or interest due on the Bonds is paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds will remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Issuer to the Bondholders will continue to exist and run to the benefit of the Bond Insurer, and the Bond Insurer will be subrogated to the rights of the Bondholders.

No Personal Liability of Issuer's Officials

No covenant, stipulation, obligation or agreement of the Issuer contained in the Indenture will be or be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than his or her official capacity. No official of the Issuer executing the Bonds, the Indenture or the Loan Agreement (or amendments or supplements to either) will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or the execution of the Indenture or the Loan Agreement (or amendments or supplements to either).

The Trustee

Except for any period during which an Event of Default, of which the Trustee has been notified or is deemed to have knowledge, has occurred and is continuing, the Trustee (i) will undertake to perform only the duties specifically set forth in the Indenture and (ii) in the absence of bad faith on its part, may rely conclusively upon the truth of the statements and the correctness of the opinions furnished to it pursuant to the Indenture. In case an Event of Default has occurred and is continuing (of which the Trustee has been notified or is deemed to have notice), the Trustee will exercise the rights and powers vested in it by the Indenture and will use the same degree of care and skill as a prudent person would use under the circumstances in the conduct of his or her own affairs. The Trustee will not be required to expend or risk its own funds in performing its duties under the Indenture and will be entitled to compensation and the reimbursement of its expenses.

The Trustee may resign at any time from the trusts created by the Indenture by giving written notice of the resignation to the Issuer, the Company, the Registrar, any Paying Agents, the Remarketing Agent, the Auction Agent, the Bond Insurer and any authenticating agents and by mailing written notice thereof to the holders of the Bonds. The resignation will take effect only upon the appointment of a successor Trustee acceptable to the Bond Insurer.

The Trustee may be removed at any time by the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding. The Trustee also may be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Indenture with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the Issuer, upon its own volition or at the request of the Company or the holders of not less than 35% in aggregate principal amount of the Bonds then outstanding under the Indenture. The removal will take effect only upon the appointment of a successor Trustee acceptable to the Bond Insurer.

Every successor Trustee appointed pursuant to the Indenture (i) must be a trust company or a bank having the powers of a trust company, (ii) must be duly authorized to exercise trust powers, (iii) must have a reported capital and surplus of not less than $75,000,000, (iv) so long as the Bonds are rated by Moody's, must be otherwise acceptable to Moody's, (v) so long as the Bonds are rated by S&P, must be acceptable to S&P, and (vi) must be acceptable to the Bond Insurer.

Remarketing Agent

The Remarketing Agent's principal office is at Morgan Stanley & Co. Incorporated, 1221 Avenue of the Americas, New York, New York 10020, Attention: Remarketing Coordinator. The Remarketing Agent will determine the Variable Rates and the Commercial Paper Rate Periods for the Bonds and will remarket Bonds subject to optional or mandatory tender. The Remarketing Agent must have a capitalization of at least $50,000,000 and be authorized by law to perform all the duties imposed upon it by the Indenture. Any successor Remarketing Agent must be rated at least Baa3/P-3 or otherwise be acceptable to Moody's and must have been approved in writing by the Bond Insurer (such approval not to be unreasonably denied).

If at any time the Remarketing Agent is unable or unwilling to act as a Remarketing Agent, the Remarketing Agent may resign upon the earlier to occur of (i) the twentieth day following receipt by the Company, the Issuer, the Trustee, the Auction Agent and the Paying Agent of written notice of resignation and (ii) the day of appointment by the Company of a successor Remarketing Agent pursuant to the Indenture and acceptance of such appointment by such successor Remarketing Agent. The Remarketing Agent may be removed at any time by the Company upon five days' written notice signed by the Company and delivered to the Remarketing Agent, the Issuer, the Trustee, the Bond Insurer, the Auction Agent and the Paying Agent.

TAX MATTERS

Federal Tax Matters

As described herein under the captions "INTRODUCTORY STATEMENT" and "APPLICATION OF PROCEEDS," the Bonds are issued to refund and redeem the entire outstanding principal amount of the Refunded Bonds, which each were originally issued to refund certain prior bonds originally issued to finance the cost of certain air and water pollution and solid waste disposal facilities under Section 103 of the Internal Revenue Code of 1954, as amended (the "1954 Code"). Section 103 of the 1954 Code provides generally that interest on an issue of industrial development bonds substantially all the proceeds of which are used to provide air and water pollution control or solid waste disposal facilities, or to refund such bonds, will be excludable from gross income for federal income tax purposes. Section 1313 of the Tax Reform Act of 1986 (the "1986 Tax Act") provides that the provisions of Section 103 of the 1954 Code will continue to apply to any bond the proceeds of which are used exclusively to refund a bond issued before August 16, 1986 (a "qualified bond") (or a bond which is part of a series of refundings of a qualified bond), provided that the refunding bonds satisfy the requirements of the 1954 Code as well as certain additional requirements imposed by the 1986 Tax Act and the Code.

Subject to continuing compliance with certain covenants and the accuracy of certain representations, in the opinion of Thompson Hine LLP, Bond Counsel, under existing law interest on the Bonds will be excludable from gross income for federal income tax purposes, except that during the period when any Bond is held by a person who is a "substantial user" of the Project Facilities or by a "related person," within the meaning of Section 103(b)(13) of the 1954 Code, interest on such Bond will be includable in the gross income of such person.

Bond Counsel is also of the opinion that under existing law, interest on the Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds is includable, pursuant to Section 55 of the Code, in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of determining such corporations' liability for the alternative minimum tax.

In concluding that the interest on the Bonds will be excludable from gross income for federal income tax purposes, Bond Counsel will rely on (i) representations of the Issuer and the Company, (ii) certificates and certified proceedings of public officials furnished to Bond Counsel, (iii) certifications by officials of the Company, (iv) representations of the Company

with respect to the use of the proceeds of the Refunded Bonds and the bonds refunded by the Refunded Bonds, as well as certain material facts relating to the design, scope, function, use, cost and economic useful life of the Project Facilities, and (v) covenants of the Company with respect to the use of the proceeds of the Bonds.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations in order for the interest to be and continue to be so excluded from the date of issuance. Noncompliance with these requirements with respect to the Bonds could cause interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income tax retroactively to their date of issuance. The Company has agreed in the Loan Agreements for the Bonds to take such actions that may be required of it for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. If interest on the Bonds does become includable in gross income, the Bonds are subject to mandatory redemption without premium. See "THE BONDS – Redemption – *Mandatory Redemption Upon a Determination of Taxability.*"

Under the Code, interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to the branch profits tax imposed by Section 884 of the Code, and interest on the Bonds could be subject to the tax imposed by Section 1375 of the Code on excess net passive income of certain S corporations.

Under the Code, the receipt of interest excluded from gross income can have certain collateral federal income tax consequences, adversely affecting items of income, deductions, or credits for certain taxpayers, including financial institutions, property and casualty insurance companies, recipients of Social Security and Railroad Retirement benefits, taxpayers who are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income credit. The applicability and extent of these or other federal consequences will depend upon the particular tax status or other items of income and expense of the owner of the Bonds. Bond Counsel expresses no opinion regarding such consequences.

Purchasers of Bonds at other than their original issuance at the respective prices indicated on the cover should consult their own tax advisors regarding other tax considerations, such as the consequences of market discount.

Bond Counsel will express no opinion regarding federal tax consequences arising with regard to the Bonds other than the opinions referred to in the second and third paragraphs of this section.

From time to time, legislative proposals are pending in Congress that would, if enacted, alter or amend one or more of the federal tax matters referred to above or below in certain respects or would adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any of such proposals, either pending or that may be introduced, may be enacted and there can be no assurance that such proposals will not apply to the Bonds (and book entry interest in the Bonds).

State Tax Matters

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for Kentucky income tax purposes and the Bonds are exempt from all ad valorem taxes in Kentucky. No opinion is expressed regarding taxation of interest on the Bonds under any other provision of Kentucky law.

The tax consequences arising with respect to the Bonds may be different under the applicable state and local tax laws of states other than Kentucky. Each purchaser of the Bonds should consult his or her tax advisor regarding the taxable status of the Bonds in a particular local jurisdiction other than Kentucky.

THE FOREGOING IS NOT INTENDED AS A DETAILED OR COMPREHENSIVE DESCRIPTION OF ALL POSSIBLE TAX CONSEQUENCES OF BUYING OR HOLDING THE BONDS. PERSONS CONSIDERING THE PURCHASE OF THE BONDS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE CONSEQUENCES OF BUYING OR HOLDING THE BONDS IN THEIR PARTICULAR CIRCUMSTANCES.

CONTINUING DISCLOSURE AGREEMENTS

The Company will enter into separate, but substantially identical, Continuing Disclosure Agreements relating to each series of the Bonds. All references in the summary below to the Bonds and the Continuing Disclosure Agreement and other defined terms should be read as referring separately to each series of the Bonds and the related Continuing Disclosure Agreement and other defined terms. Certain provisions of the Continuing Disclosure Agreements are described below. Reference is made to each Continuing Disclosure Agreement for the detailed provisions thereof.

The Company will agree, in a Continuing Disclosure Agreement (the "*Continuing Disclosure Agreement*") for the benefit of the holders and beneficial owners from time to time of the Bonds, in accordance with, and as the only obligated person with respect to the Bonds under, Rule 15c2-12 (the "*Rule*") of the Securities and Exchange Commission (the "*Commission*"), to provide or cause to be provided such financial information and operating data of the Company (collectively, "*Annual Information*"), audited financial statements and notices, in such manner, as may be required for purposes of paragraph (b)(5)(i) of the Rule, including specifically the following:

(a) To each nationally recognized municipal securities information repository designated from time to time by the Commission ("*NRMSIR*"), to any state information depository ("*SID*") and to the Trustee: Annual Information for each fiscal year of the Company, ending on or after December 31, 2006, not later than the 120th day of following the end of the fiscal year, consisting of (i) if the Company files reports with the Commission on Form 10-K or a successor form, such reports or (if the Company's direct or indirect parent files such reports with the Commission and such reports provide separate Annual Information with respect to the Company) such reports filed by the Company's direct or indirect parent, or (ii) if the Company no longer is required to file such reports on Form 10-K or a successor form, information concerning the Company's selected financial and operating data,

together with the Company's audited financial statements prepared in accordance with generally accepted accounting principles.

As described in Appendix A under "Available Information," the Company no longer is required to file reports on Form 10-K with the Commission. Therefore, clause (ii) above is currently applicable with respect to the Company. The Company will agree to provide, as "Annual Information" under the Continuing Disclosure Agreement, selected financial and operating data of the type included under the caption "The Company" in Appendix A to the Official Statement and in the Company's unaudited Condensed Financial Statements for the Quarter ended March 31, 2006 (included as part of Appendix A), together with the Company's audited financial statements.

The Company also will agree to file with the NRMSIR's, any SID and the Trustee unaudited quarterly financial statements (to the extent that such quarterly financial statements are otherwise available) not later than the 60th day following the end of each fiscal quarter of the Company (other than the last quarter of any fiscal year).

(b) To each NRMSIR or to the Municipal Securities Rulemaking Board ("*MSRB*"), and to any SID, in a timely manner, notice of:

(1) The occurrence of any of the following events, within the meaning of the Rule, with respect to the Bonds, if material:

(i) principal and interest payment delinquencies;

(ii) nonpayment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(vii) modifications to rights of holders or beneficial owners;

(viii) Bond calls for the Bonds;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds; and

(xi) rating changes for the Bonds.

Although enumerated in the Rule, the events described in subparagraphs (iii) and (x) above currently are inapplicable with respect to the Bonds.

(2) The Company's failure to provide the Annual Information within the time specified above.

(3) The termination of the Continuing Disclosure Agreement.

The Continuing Disclosure Agreement may be amended, and any of its provisions may be waived, if such amendment or waiver is supported by a legal opinion of independent counsel who is expert in federal securities laws to the effect that such amendment or waiver would not, in and of itself, violate the Rule. If the amendment or waiver will materially impair the interests of Bondholders or beneficial owners, then the Trustee must also obtain the approval of the holders.

The Continuing Disclosure Agreement is solely for the benefit of the holders and beneficial owners from time to time of the Bonds. The exclusive remedy for any breach of the Continuing Disclosure Agreement is limited to a right of holders and beneficial owners to cause to be instituted and maintained, proceedings in equity to obtain the specific performance by the Company of its obligations under the Continuing Disclosure Agreement. Any individual holder or beneficial owner may institute and maintain, or cause to be instituted and maintained, such proceedings to require the Company to provide a pertinent filing if such a filing is due and has not been made. Any such proceedings to require the Company to perform any other obligation under the Continuing Disclosure Agreement (including any proceedings that contest the sufficiency of any pertinent filing) may be instituted and maintained only by the holders and beneficial owners of not less than 35% in principal amount of the Bonds then outstanding or their agent.

Any failure by the Company to comply with any provision of the Continuing Disclosure Agreement will not constitute a failure or a default, or an event of default, under the Loan Agreements or the Indentures.

The Continuing Disclosure Agreement will remain in effect only for such period that any of the Bonds are outstanding in accordance with their terms and the Company remains an obligated person with respect to the Bonds within the meaning of the Rule.

The Company has not previously entered into any continuing disclosure agreements for the purposes of the Rule.

The following NRMSIRs exist at this time: Bloomberg Municipal Repository, Skillman, New Jersey; DPC Data Inc., Fort Lee, New Jersey; and FT Interactive Data and Standard & Poor's Securities Evaluations, Inc., each of New York, New York. No SID has been designated by the Commonwealth of Kentucky.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Thompson Hine LLP, Bond Counsel. The form of such opinion is included as Appendix E hereto. In rendering the approving opinion as Bond Counsel, Thompson Hine LLP has relied upon the opinion of Stoll Keenon Ogden PLLC, special Kentucky

counsel, with respect to certain matters governed by Kentucky law. Certain legal matters in connection with the issuance of the Bonds will be passed upon for the Issuer by J.R. Schrand, Esq. County Attorney and Stoll Keenon Ogden PLLC, as special Kentucky counsel. Certain legal matters will be passed upon for the Company by Robert Lucas, Associate General Counsel of Duke Energy Corporation and Thompson Hine LLP, as counsel for the Company. Certain legal matters will be passed upon for the Bond Insurer by an Assistant General Counsel. Certain legal matters will be passed upon for the Underwriter by Squire, Sanders & Dempsey L.L.P. From time to time, Squire, Sanders & Dempsey L.L.P. has represented affiliates of the Company or its predecessors in various matters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

The remedies available to the bondholders upon a default are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the federal bankruptcy code), the remedies may not be readily available or may be limited.

The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the Issuer, the State of Indiana and the United States of America and bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

These exceptions would encompass any exercise of federal, State or local police powers (including the police powers of the Issuer), in a manner consistent with the public health and welfare.

UNDERWRITING

Under the terms of a Bond Purchase Agreement, the Underwriter will agree, subject to the approval of certain legal matters by counsel and to certain other conditions, to purchase the Bonds from the Issuer at a price of $76,720,000 (representing 100% of the aggregate principal amount of the Bonds). The Company also will agree to pay the Underwriter $268,520 as an underwriting fee and to reimburse the Underwriter for certain expenses. The Underwriter will agree to purchase all of the Bonds, if any of the Bonds are purchased. After the Bonds are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriter, and such Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment accounts) and others at prices lower than the public offering price set forth on the cover page hereof.

The Company will agree to indemnify the Underwriter and the Issuer against certain liabilities, including certain liabilities under federal securities laws.

Morgan Stanley & Co. Incorporated also will act as a Broker-Dealer during the Auction Rate Period and will be compensated for its services as Broker-Dealer pursuant to the terms of the Broker-Dealer Agreement. Morgan Stanley & Co. Incorporated has been appointed to serve as Remarketing Agent and will be separately compensated by the Company pursuant to the terms of the Remarketing Agreement.

In the ordinary course of its business, the Underwriter and certain of its affiliates have engaged, and may in the future engage, in investment banking or other transactions with the Company and its affiliates.

This Official Statement has been duly authorized, executed and delivered by the Company.

THE UNION LIGHT, HEAT AND POWER COMPANY (doing business as DUKE ENERGY KENTUCKY, INC.)

By: /s/ Stephen De May
Assistant Treasurer

APPENDIX A

THE UNION LIGHT, HEAT AND POWER COMPANY
doing business as
DUKE ENERGY KENTUCKY, INC.

The information contained herein as Appendix A to the Official Statement relates to and has been supplied by The Union Light, Heat and Power Company, doing business as Duke Energy Kentucky, Inc. (the "Company"). The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of the Company since the date hereof, or that the information contained, referred to or incorporated by reference in this Appendix A is correct as of any time subsequent to its date. The Issuer makes no representation or warranty as to the accuracy or completeness of the information contained or incorporated by reference in this Appendix A. Unless indicated otherwise, or the context otherwise requires, references in this Appendix A to "we," "us" and "our" or similar terms are to the Company.

THE COMPANY

The following information is furnished solely to provide limited introductory information about the Company and does not purport to be comprehensive. Such information is qualified in their entirety by reference to detailed information and financial statements appearing in the documents referred to or incorporated herein by reference or elsewhere in this Appendix A and, therefore, such information should be read together with this Official Statement. See "Available Information" and "Incorporation of Certain Documents by Reference" below and the Company's unaudited Condensed Financial Statements for the Quarter Ended March 31, 2006, included as part of this Appendix A.

The Company, a Kentucky corporation, is an electric and gas utility. We are primarily engaged in the generation of electric energy and in the transmission, distribution, and sale of electric energy and the sale and transportation of natural gas in Northern Kentucky. The area we serve covers approximately 500 square miles, has an estimated population of 345,000 people, and includes the cities of Covington, Florence and Newport in Kentucky.

The Company is a wholly-owned subsidiary of The Cincinnati Gas & Electric Company, doing business as Duke Energy Ohio, Inc. ("CG&E"). CG&E is a wholly-owned subsidiary of Cinergy Corp., which in turn is an indirect, wholly-owned subsidiary of Duke Energy Corporation.

Our principal executive offices are located at 139 East Fourth Street, Cincinnati, OH 45202. Our telephone number is (513) 421-9500.

Recent Developments

On January 25, 2006, the Company completed the acquisition of CG&E's approximately 69 percent ownership interest in the East Bend Station, located in Boone County, Kentucky, the Woodsdale Station, located in Butler County, Ohio, and one generating unit at the four-unit Miami Fort Station, located in Hamilton County, Ohio (totaling approximately 1,100 MWs of generating capacity), and associated transactions. In connection with the transfer of these assets, the Company assumed certain liabilities of CG&E, including, among other items, all payment,

performance, and other obligations of CG&E with respect to the bonds being refunded with the proceeds of the Bonds being offered by this Official Statement. See note 1(a) to the Company's unaudited Condensed Financial Statements for the Quarter ended March 31, 2006, included as part of this Appendix A and incorporated herein.

In May 2006, the Company filed an application for an increase in its base electric rates. The application, which seeks an increase of $67 million, or approximately 28 percent, was filed pursuant to the Kentucky Public Service Commission's 2003 Order approving the transfer of 1,100 MW of generating assets from CG&E to the Company, described above. In that Order, the Kentucky Public Service Commission required the Company to file a general rate application such that the effective date will be January 1, 2007. See note 6(b) to the Company's unaudited Condensed Financial Statements for the Quarter ended March 31, 2006, included as part of this Appendix A and incorporated herein, for a discussion of the electric rate case and the Company's gas base rate case filed in 2005.

SELECTED FINANCIAL INFORMATION

The following table shows selected financial information of the Company. The information as of December 2005 does not reflect the transfer of generating station assets by CG&E to the Company effective as of January 1, 2006, as described under "The Company – Recent Developments" above. The transfer of those assets is reflected in the information below as of March 31, 2006. This information is derived from our historical results and is qualified in its entirety by reference to the financial statements appearing in the documents incorporated herein by reference or elsewhere in this Appendix A. See "Incorporation of Certain Documents by Reference" below and the Company's unaudited Condensed Financial Statements for the Quarter ended March 31, 2006, included as part of this Appendix A.

Selected Income Information (in 000's)

	Quarter Ended March 31,		12 Months Ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
Operating Revenues	$128,802	$112,359	$388,127	$354,543	$332,153
Operating Income	$ 18,920	$ 10,350	$ 26,434	$ 33,380	$ 31,376
Interest Charges	$ 3,739	$ 1,745	$ 6,903	$ 5,179	$ 6,127
Net Income	$ 10,358	$ 6,195	$ 14,645	$ 18,638	$ 19,029

Capitalization

	Outstanding as of March 31, 2006 (unaudited)		Outstanding as of December 31, 2005	
	Amount (thousands)	% of Capitalization	Amount (thousands)	% of Capitalization
Total Debt(1)	$297,775	46.2%	$136,513	41.0%
Common Stock Equity	$346,672	53.8%	$196,459	59.0%
Total Capitalization	$644,447	100.0%	$332,972	100.0%

(1) Capital leases in the amount of $12,025 and $12,327 are included in the total debt numbers.

DISCLOSURE ABOUT FORWARD-LOOKING STATEMENTS

This Official Statement contains, refers to or incorporates by reference statements that do not directly or exclusively relate to historical facts. These types of statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They represent our intentions, plans, expectations, assumptions and beliefs about future events. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ are often presented with forward-looking statements. In addition, other factors could cause actual results to differ materially from those indicated in any forward-looking statement. These include:

- Factors affecting operations, such as:
  - Unusual weather conditions;
  - Unscheduled generation outages;
  - Unusual maintenance or repairs;
  - Unanticipated changes in costs;
  - Environmental incidents; and
  - Electric transmission or gas pipeline system constraints.
- Legislative and regulatory initiatives and legal developments including costs of compliance with existing and future environmental requirements.
- Additional competition in electric or gas markets and continued industry consolidation.
- Financial or regulatory accounting principles.
- Changing market conditions and other factors related to physical energy and financial trading activities.
- The performance of projects undertaken and the success of efforts to invest in and develop new opportunities.
- Availability of, or cost of, capital.

- Employee workforce factors.
- Delays and other obstacles associated with mergers, acquisitions and investments in joint ventures.
- Costs and effects of legal and administrative proceedings, settlements, investigations and claims.

These and other factors are discussed in our reports previously filed with the Securities and Exchange Commission. We are not required to revise or update forward-looking statements (whether as a result of changes in actual results, changes in assumptions or other factors affecting the statements). Our forward-looking statements reflect our best beliefs as of the time they are made and may not be updated for subsequent developments.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements and financial statement schedule as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, incorporated in this Official Statement by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2005, have been audited by Deloitte and Touche LLP, an independent registered public accounting firm, as stated in their report dated February 17, 2006 relating to the financial statements and financial statement schedule of the Company (which report expresses an unqualified opinion on the Company's financial statements and includes an explanatory paragraph referring to the Company's adoption of Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" in 2005 and adoption of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," in 2003) which is incorporated herein by reference.

AVAILABLE INFORMATION

The Company previously filed reports and other information with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Certain information concerning directors and officers, their remuneration, and any material interest of such persons in transactions with the Company, as of particular dates, was disclosed in the Company's Annual Report on Form 10-K filed on March 2, 2006, with the Commission for the period ending December 31, 2005. Such reports and other information can be inspected and copied at the public reference facilities maintained by the Commission. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding issuers, such as the Company, that file electronically with the Commission and the address of such Web site is http://www.sec.gov. Copies of such material can also be obtained at prescribed rates from the Public Reference Section of the Commission at its principal office at 100 F Street, NE, Washington, D.C. 20549. Such material can also be inspected at the offices of the New York Stock Exchange.

As of May 8, 2006, the Company ceased to be subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act. The Company has discontinued filing reports and other information with the Commission under such sections.

The principal executive and business office of the Company is located at 139 East Fourth Street, Cincinnati, Ohio 45202 (telephone 513-421-9500).

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by the Company with the Commission pursuant to the Exchange Act are hereby incorporated in this Official Statement by reference:

(a) Current Report on Form 8-K dated March 16, 2006;

(b) Current Report on Form 8-K dated January 31, 2006; and

(c) Financial Statements and Financial Statement Schedule as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, included in the Annual Report on Form 10-K for the year ended December 31, 2005.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Official Statement has been delivered, upon the written or oral request of any such person, a copy of any or all of the documents referred to above which have been incorporated in this Official Statement by reference, other than exhibits to such documents. Requests for such copies should be directed to the Investor Relations Department, 526 S. Church Street, Charlotte, North Carolina 28202-1803, (telephone: 800-488-3853).

CONTINUING DISCLOSURE

The Company will enter into substantially identical Continuing Disclosure Agreements with respect to the Bonds under which the Company will agree to provide certain annual and quarterly financial information (to the extent such quarterly financial statements are otherwise available). The Company will agree under the Continuing Disclosure Agreements to provide, as "Annual Information" thereunder, selected financial and operating data of the type included under the caption "The Company" in this Appendix A and in the Company's unaudited Condensed Financial Statements for the Quarter ended March 31, 2006 (included as part of this Appendix A), together with the Company's audited financial statements. See "Continuing Disclosure Agreements" in this Official Statement. As noted above under "Available Information," the Company is no longer subject to the reporting requirements under Section 13(a) or 15(d) of the Exchange Act and therefore no longer files reports with the Commission.

FINANCIAL EXHIBIT

(1) Amount and kinds of stock authorized

1,000,000 shares of Capital Stock $15 par value amounting to $15,000,000 par value.

(2) Amount and kinds of stock issued and outstanding

585,333 shares of Capital Stock $15 par value amounting to $8,779,995 total par value. Total Capital Stock and Additional Paid-in Capital as of June 30, 2010:

Capital Stock and Additional Paid-in Capital
As of 6/30/2010
($ per 1,000)

Capital Stock	$8,780
Premiums thereon	18,839
Total Capital Contributions from Parent (since 2006)	8,594
Contribution from Parent Company for Purchase of Generation Assets	140,061
Total Capital Stock and Additional Paid-in-Capital	$176,274

(3) Terms of preference or preferred stock whether cumulative or participating, or on dividends or assets or otherwise.

There is no preferred stock authorized, issued or outstanding.

(4) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name or mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of indebtedness actually secured, together with any sinking fund provision.

Duke Energy Kentucky does not have any liabilities secured by a mortgage.

(5) Amount of bonds authorized, and amount issued, giving the name of the public utility which issued the same, describing each class separately, and giving the date of issue, face value, rate of interest, date of maturity and how secured, together with the amount of interest paid thereon during the last fiscal year.

The Company has four outstanding issues of unsecured senior debentures issued under an Indenture dated December 1, 2004, between itself and Deutsche Bank Trust Company Americas, as Trustee, as supplemented by two Supplemental Indentures. The Indenture allows the Company to issue debt securities in an unlimited amount from time to time. The Debentures issued under the Indenture are the following:

Supplemental Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2009
Not Applicable	12/9/2004	40,000,000	40,000,000	5.000%	12/15/2014	2,000,000
1st Supplemental	3/10/2006	50,000,000	50,000,000	5.750%	3/10/2016	2,875,000
1st Supplemental	3/10/2006	65,000,000	65,000,000	6.200%	3/10/2036	4,030,000
2nd Supplemental	9/22/2009	100,000,000	100,000,000	4.65%	10/1/2019	0
			255,000,000			8,905,000

(6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.

Not applicable.

(7) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

The Company has two series of Pollution Control Revenue Refunding Bonds issued under a Trust Indenture dated as of August 1, 2006 and a Trust Indenture dated as of December 1, 2008, between the County of Boone, Kentucky and Deutsche Bank National Trust Company as Trustee. The Company's obligation to make payments equal to debt service on the Bonds is evidenced by a Loan Agreement dated as of August 1, 2006 and December 1, 2008 between the County of Boone, Kentucky and Duke Energy Kentucky. The Bonds issued under the Indentures are as follows:

Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2009
Series 2008A	12/11/2008	50,000,000	50,000,000	.36% (1)	8/1/2027	178,761
Series 2006B	8/2/2006	26,720,000	26,720,000	3.63%(2)	8/1/2027	968,654
			76,720,000			1,147,415

(1) The interest rate represents the average floating-rate of interest on the bonds for 2009. The interest rate on the bonds resets every 7 days through a remarketing process.

(2) The interest rate on the bonds resets every 35 days through an auction process. The variable-rate debt was swapped to a fixed rate of 3.86% for the life of the debt.

The Company has issued and has outstanding as of June 30, 2010 the following capital leases:

Series	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity
2001	12/20/2001	1,411,952	335,507	5.997	09/20/2010
2002	12/20/2002	1,074,181	355,987	4.481	09/20/2011
2003	12/20/2003	2,068,445	907,785	4.740	09/20/2012
2004	12/25/2004	2,017,084	1,088,631	5.010	09/25/2013
2005	12/30/2005	2,079,031	1,309,722	4.893	12/30/2014
2006	12/28/2006	2,406,336	1,734,670	5.000	12/30/2015
Erlanger	12/30/2006	2,100,000	1,705,004	8.634	09/30/2020
2007	12/31/2007	3,066,955	2,474,321	5.115	12/31/2016
2009	04/21/2009	3,429,432	3,110,551	4.821	04/21/2018
2010	06/18/2010	955,061	955,061	3.330	06/18/2019
		20,608,477	13,977,239		

The Company also has outstanding as of June 30, 2010, long term debt in the amount of $851,494 associated with the July 31, 2007 sale of a gas storage cavern carrying an interest rate of 4.77% and a maturity date of July 31, 2027.

(8) Rate and amount of dividends paid during the last five (5) previous fiscal years, and the amount of capital stock on which dividends were paid each year.

DIVIDENDS PER SHARE

Year Ending	Per Share	Total	No. of Shares	Par Value of Stock
December 31, 2005	17.03	9,965,521	585,333	8,779,995
December 31, 2006	0.00	0	585,333	8,779,995
December 31, 2007	0.00	0	585,333	8,779,995
December 31, 2008	51.25	30,000,000	585,333	8,779,995
December 31, 2009	0.00	0	585,333	8,779,995

(9) Detailed Income Statement and Balance Sheet

See the attached pages for the detailed Income Statement for the twelve months ended June 30, 2010 and the detailed Balance Sheet as of June 30, 2010.

Duke Energy Kentucky Inc.
Condensed Statements of Cash Flows
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2010	2009
Cash Flows from Operating Activities		
Net Income	$ 20,520	$ 16,550
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,672	21,976
Deferred income taxes	(213)	30,943
Contribution to company sponsored pension plan	-	(13,554)
Accrued pension and other postretirement benefit costs	1,446	639
(Increase) decrease in		
Net realized and unrealized mark-to-market and hedging transactions	(18)	529
Receivables	9,558	17,083
Inventory	8,483	(2,330)
Other current assets	(2,410)	9,120
Increase (decrease) in		
Accounts payable	(12,110)	(14,550)
Taxes accrued	(3,646)	(23,132)
Other current liabilities	423	(1,587)
Regulatory asset/liability deferrals	(79)	(4,072)
Other, assets	3,030	4,861
Other, liabilities	(777)	(5,814)
Net cash provided by operating activities	50,879	36,662
Cash Flows from Investing Activities		
Capital expenditures	(27,843)	(30,826)
Notes due from affiliate, net	(41,874)	(7,923)
Sales of Emission Allowances	11	22
Other	99	7
Net cash used in investing activities	(69,607)	(38,720)
Cash Flows from Financing Activities		
Proceeds from the issuance of long-term debt	955	3,429
Payments for the redemption of long-term debt	(842)	(925)
Notes payable to affiliate, net	-	(3,241)
Other	-	(41)
Net cash provided by (used in) financing activities	113	(778)
Net decrease in cash and cash equivalents	(18,615)	(2,836)
Cash and cash equivalents at beginning of period	26,883	11,768
Cash and cash equivalents at end of period	$ 8,268	$ 8,932

See Notes to Unaudited Condensed Financial Statements

DUKE ENERGY KENTUCKY, INC

CONDENSED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance at December 31, 2008	**$ 8,780**	**$ 167,494**	**$ 217,751**	**$ 394,025**
Net income and total comprehensive income	-	-	16,550	16,550
Balance at June 30, 2009	**$ 8,780**	**$ 167,494**	**$ 234,301**	**$ 410,575**
Balance at December 31, 2009	**$ 8,780**	**$ 167,494**	**$ 245,819**	**$ 422,093**
Net income and total comprehensive income	-	-	20,520	20,520
Balance at June 30, 2010	**$ 8,780**	**$ 167,494**	**$ 266,339**	**$ 442,613**

See Notes to Unaudited Condensed Financial Statements

OFFERING MEMORANDUM STRICTLY CONFIDENTIAL

$100,000,000

Duke Energy®
Kentucky

4.65% Debentures due 2019

Duke Energy Kentucky, Inc. is offering $100,000,000 aggregate principal amount of 4.65% Debentures due 2019 (the "Debentures"). We will pay interest on the Debentures at a rate of 4.65% per annum, payable semi-annually in arrears on April 1 and October 1 of each year, beginning April 1, 2010. The Debentures will be unsecured and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding. The Debentures will mature as to principal on October 1, 2019.

We may elect to redeem the Debentures at any time and from time to time, at a redemption price, plus accrued and unpaid interest, if any, to the date fixed for redemption, as described in this offering memorandum under the caption "Description of the Debentures—Optional Redemption."

Issue Price: 99.626% plus accrued interest, if any, from September 22, 2009

The offering and sale of the Debentures have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any jurisdiction. We are offering the Debentures only to "qualified institutional buyers" as defined in Rule 144A under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Debentures may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A thereunder. We have no obligation to register the Debentures with the Securities and Exchange Commission for resale and have no plans to do so. For a description of certain restrictions on transfers of the Debentures please read the information provided under the caption "Notice to Investors; Transfer Restrictions."

Investing in the Debentures involves risks. See "Risk Factors" beginning on page 8.

The Debentures will not be listed on any national securities exchange. The Debentures are a new security and there is no public market for the Debentures.

The initial purchaser expects to deliver the Debentures to investors through the book-entry delivery system of The Depository Trust Company on or about September 22, 2009.

SOLE BOOK-RUNNING MANAGER

KEYBANC CAPITAL MARKETS

The date of this offering memorandum is September 17, 2009.

In making your investment decision, you should rely only on the information contained in this offering memorandum. Neither we nor the initial purchaser have authorized anyone to provide you with any other information. If you receive any other information, you should not rely on it. We are not, and the initial purchaser is not, making an offer of the Debentures in any state where the offer is not permitted. The information contained in this offering memorandum speaks only as of the date of the offering memorandum or such other date as may be specified in this offering memorandum. The terms "Duke Energy Kentucky," "our," "us" and "we" as used in this offering memorandum refer to Duke Energy Kentucky, Inc. and the term "initial purchaser" refers to KeyBanc Capital Markets Inc. In addition, references to the "Debentures" refer to the 4.65% Debentures due 2019.

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OFFERING MEMORANDUM

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE QUALIFIED INSTITUTIONAL BUYERS UNDER RULE 144A.

We have prepared this offering memorandum solely for use in connection with the proposed sale of the Debentures described in this offering memorandum. We and the initial purchaser reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the amount of Debentures offered hereby. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. Distribution of this offering memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of the contents of this offering memorandum, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees not to make any photocopies of this offering memorandum or any documents referred to in this offering memorandum.

We have prepared this offering memorandum and we are solely responsible for its contents. No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this offering memorandum and, if given or made, such information or representation must not be relied upon as having been authorized by us, any of our affiliates or the initial purchaser.

You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Debentures. You may contact us if you need any additional information.

By purchasing any Debentures, you will be deemed to have acknowledged that:

- you have reviewed this offering memorandum;
- you have had an opportunity to request any additional information that you need from us; and
- the initial purchaser is not responsible for, and is not making any representation to you concerning, our future performance or the accuracy or completeness of this offering memorandum.

We are not providing you with any legal, business, tax or other advice in this offering memorandum. You should consult with your own advisors as needed to assist you in making your investment decision and advise you whether you are legally permitted to purchase the Debentures.

You must comply with all laws and regulations that apply to you in any place in which you buy, offer or sell any Debentures or possess or distribute this offering memorandum. You must also obtain any consents or approvals that you need in order to purchase any Debentures. Neither we nor the initial purchaser are responsible for your compliance with these legal requirements.

We are offering the Debentures in reliance on exemptions from the registration requirements of the Securities Act. These exemptions apply to offers and sales of securities that do not involve a public sale. The Debentures have not been recommended by any federal, state or foreign securities authorities, including the SEC, nor have any such authorities determined that this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

The Debentures are subject to restrictions on resale and transfer as described in the "Notice to Investors; Transfer Restrictions" section of this offering memorandum and may not be resold or transferred except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or an exemption therefrom. We have no obligation to register the Debentures for resale or exchange registered securities for the Debentures and have no plans to do so. By purchasing the Debentures, you will be deemed to have made certain acknowledgments, representations and agreements as described under the caption "Notice to Investors; Transfer Restrictions" in this

offering memorandum. You may be required to bear the financial risks of investing in the Debentures for an indefinite period of time.

The laws of certain jurisdictions may restrict the distribution of this offering memorandum and the offer and sale of the Debentures. Persons into whose possession this offering memorandum or any of the Debentures come must inform themselves about, and observe, any such restrictions. Neither we nor our representatives, nor the initial purchaser or its representatives, are making any representation to you regarding the legality of any investment in the Debentures by you under applicable legal investment or similar laws or regulations.

This offering memorandum contains summaries we believe to be accurate with respect to certain documents, but we refer you to the actual documents for more complete information regarding the terms of those documents. All such summaries are qualified in their entirety by such reference to the actual documents. Copies of documents referred to herein (excluding confidential information contained therein) will be made available to you upon request to us or the initial purchaser. The information in this offering memorandum is current only as of the date on the cover (or such earlier date if specifically provided) and our business or financial condition and other information in this offering memorandum may change after that date.

Notice to New Hampshire Residents

Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire Uniform Securities Act ("RSA 421-B") with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State of New Hampshire has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

AVAILABLE INFORMATION

We are no longer required to file reports with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including Forms 10-K, 10-Q and 8-K and proxy statements or information statements. While we are no longer subject to such requirements and have ceased to file annual, quarterly and current reports and other information with the SEC, we agree to furnish to beneficial owners of the Debentures and prospective purchasers of the Debentures, upon request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act, to permit compliance with Rule 144A in connection with the resale of the Debentures. In addition, without limiting the foregoing, we agree to furnish to beneficial owners of the Debentures and prospective purchasers of the Debentures, upon request, our annual audited financial statements and related reports of our independent auditors to the extent reasonably available. You may request a copy of such information by writing us at the following address or telephoning one of the following numbers:

Investor Relations Department
Duke Energy Corporation
P.O. Box 1005
Charlotte, North Carolina 28201
(704) 382-3853 or (800) 488-3853 (toll-free)

Financial and other information is made available to the public, as soon as reasonably practicable, through Duke Energy's web site at *http://www.duke-energy.com*. The information on Duke Energy's website is not a part of this offering memorandum.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This offering memorandum includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements are identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will," "potential," "forecast," "target," and similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- State and federal legislative and regulatory initiatives, including costs of compliance with existing and future environmental requirements;
- State and federal legislative and regulatory initiatives and rulings that affect cost and investment recovery or have an impact on rate structures;
- Costs and effects of legal and administrative proceedings, settlements, investigations and claims;
- Industrial, commercial and residential growth in our service territory;
- Additional competition in electric markets and continued industry consolidation;
- The influence of weather and other natural phenomena on our operations, including the economic, operational and other effects of storms, hurricanes, droughts and tornados;
- The timing and extent of changes in commodity prices and interest rates;
- Unscheduled generation outages, unusual maintenance or repairs and electric transmission system constraints;
- The performance of electric generation facilities;
- The results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including our credit ratings and general economic conditions;
- Declines in the market prices of equity securities and resultant cash funding requirements of our parent company's defined benefit pension plans;
- The level of credit worthiness of counterparties to our transactions;
- Employee workforce factors, including the potential inability to attract and retain key personnel; and
- The effect of accounting pronouncements issued periodically by accounting standard-setting bodies.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

SUMMARY

This summary highlights some of the information contained elsewhere in this offering memorandum. Because it is only a summary, it does not contain all of the information that may be important to you and that you should consider before investing in the Debentures. For a more complete understanding of this offering, we encourage you to read this entire offering memorandum, including the "Risk Factors" section, the financial statements, and the documents to which we refer you.

Our Company

Duke Energy Kentucky is a combination electric and gas public utility company that provides service in northern Kentucky. Our principal lines of business include generation, transmission and distribution of electricity as well as the sale of and/or transportation of natural gas. Duke Energy Kentucky's common stock is wholly owned by Duke Energy Ohio, Inc. ("Duke Energy Ohio"), which is wholly owned by Cinergy Corp. ("Cinergy"). Cinergy is a wholly owned subsidiary of Duke Energy Corporation ("Duke Energy").

The area we serve covers approximately 500 square miles, has an estimated population of 345,000 people, and includes the cities of Covington, Florence and Newport in Kentucky.

As of December 31, 2008, we served approximately 135,000 electric and 96,000 gas customers. For the year ended December 31, 2008, we sold 4,041,377 megawatt-hours (MWh) of electricity and 13,816,360 thousand cubic feet (Mcf) of gas to retail customers.

We operate two coal-fired stations, East Bend and Miami Fort Unit 6, with a combined net capacity of 577 megawatt (MW) and one combustion turbine peaking station, Woodsdale, with a net capacity of 501 MW. Duke Energy Kentucky owns 69% of the East Bend generating station, which is jointly owned with Dayton Power & Light.

In addition, as of December 31, 2008, we owned approximately 100 conductor miles of electric transmission lines of 69 kilovolts. We also owned approximately 2,900 conductor miles of electric distribution lines, including 2,100 miles of overhead lines and 800 miles of underground lines as of December 31, 2008 and approximately 1,400 miles of gas mains and service lines. As of December 31, 2008, the electric transmission and distribution systems had approximately 40 substations.

The effective dates of our most recent rates are January 1, 2007 for electric and January 1, 2006 for gas. On July 1, 2009, we filed an application for an increase of approximately $17.5 million in base natural gas rates. We also proposed to implement a new rate design for residential customers, which involves moving more of the fixed charges of providing gas service, such as capital investment in pipes and regulating equipment, billing and meter reading, from the per unit charges to the monthly charge. The application is pending and, at this time, we cannot predict the outcome of this proceeding.

We are a Kentucky corporation. Our principal executive offices are located at 139 East Fourth Street, Cincinnati, OH 45202. Our telephone number is (513) 421-9500.

The Offering

Issuer	Duke Energy Kentucky, Inc.
Securities Offered	We are offering $100,000,000 aggregate principal amount of 4.65% Debentures due 2019.
Maturity	The Debentures will mature on October 1, 2019.
Interest Rate	4.65% per year.
Interest Payment Dates	Interest on the Debentures shall be payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2010.
Optional Redemption	The Debentures are redeemable at the option of Duke Energy Kentucky at any time and from time to time, in whole or in part, at a redemption price equal to the greater of (1) 100% of the principal amount of the Debentures being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Debentures being redeemed (exclusive of interest accrued to the redemption date), discounted to such redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 25 basis points, plus accrued and unpaid interest on the Debentures being redeemed to such redemption date. See "Description of the Debentures—Optional Redemption" for a description of how the redemption price is calculated.
Ratings	We expect that the Debentures will be rated "Baa1" by Moody's Investors Service, Inc. and "A−" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.
Ranking	The Debentures will be senior unsecured indebtedness and will rank equally with all of our other senior unsecured and unsubordinated debt. As of June 30, 2009, we had approximately $342 million of senior unsecured indebtedness (including approximately $74 million of indebtedness payable under Duke Energy Corporation's master credit facility and approximately $16 million of capital leases) that will rank equally in priority with respect to the Debentures. Our Indenture contains no restrictions on the amount of additional indebtedness that we may issue under it.
Negative Pledge	The Indenture governing the Debentures contains a covenant that limits our ability to create certain liens on our assets. See "Description of the Debentures—Negative Pledge" for additional information.

Further Issues	We may from time to time, without notice to or the consent of the registered holders of the Debentures, create and issue additional debt securities having the same terms as, and ranking equally and ratably with, the Debentures in all respects, with certain exceptions.
Use of Proceeds	The aggregate net proceeds from the sale of the Debentures, after deducting the initial purchaser's discount and related offering expenses, will be approximately $98.9 million. The net proceeds from the sale of the Debentures will be used (i) to repay our portion of outstanding borrowings under Duke Energy Corporation's master credit facility; (ii) replenish cash used to repay at maturity the $20 million principal amount of our 7.875% Debentures due September 15, 2009; and (iii) for general corporate purposes. As of September 16, 2009, we had approximately $74 million of indebtedness payable under Duke Energy Corporation's master credit facility, with a weighted average interest rate of approximately 0.5125%.
No Sinking Fund	The Debentures do not have the benefit of a sinking fund.
Transfer Restrictions	We have not registered the offer or sale of the Debentures under the Securities Act or any state or other securities laws, and the Debentures are subject to restrictions on transfer. We are not obligated to register resales of the Debentures or exchange registered securities for the Debentures. See "Notice to Investors; Transfer Restrictions."
No Prior Market	The Debentures will be new securities for which there is no market. The Debentures will not be listed on any securities exchange or on any automated dealer quotation system. Although the initial purchaser has informed us that it intends to make a market in the Debentures, it is not obligated to do so and may discontinue market-making at any time without notice. Accordingly, we cannot assure you that a market for the Debentures will develop or be maintained. See "Plan of Distribution."
Risk Factors	You should carefully consider the information set forth in the section entitled "Risk Factors" and the other information included in this offering memorandum in deciding whether to purchase the Debentures.
Governing Law	The Indenture and the Debentures will be governed by and construed in accordance with the laws of the State of New York.
Trustee	Deutsche Bank Trust Company Americas.

RISK FACTORS

You should carefully consider the risks described below, as well as other information contained in this offering memorandum, before buying any Debentures. The risks described in this section are those that we consider to be the most significant to your decision whether to invest in our Debentures. If any of the events described below occurs, our business, financial condition or results of operations could be materially harmed. In addition, we may not be able to make payments on the Debentures, and this could result in your losing all or part of your investment. Furthermore, additional risks that we do not know about or that we currently view as immaterial may also impact our business or adversely affect our ability to make payments on the Debentures.

Risk Factors Relating to Duke Energy Kentucky

Our electric and gas revenues, earnings and results are dependent on federal and state legislation and regulation that affect electric generation, transmission, distribution and related activities and gas sales and transportation, which may limit our ability to recover costs.

Our franchised electric and gas businesses are regulated on a cost-of-service/rate-of-return basis subject to the statutes of Kentucky and the Kentucky Public Service Commission ("KPSC") rules and procedures. If our franchised electric and gas earnings exceed the returns established by the KPSC, our retail rates may be subject to review by the KPSC and possible reduction, which may decrease our future earnings. Additionally, if regulatory bodies do not allow recovery of costs incurred in providing service on a timely basis, our future earnings could be negatively impacted.

Our business is subject to extensive regulation that will affect our operations and costs.

We are subject to regulation by the Federal Energy Regulatory Commission ("FERC") and by federal, state and local authorities under environmental laws and by the KPSC under laws regulating our businesses. Regulation affects almost every aspect of our businesses, including, among other things, our ability to: take fundamental business management actions; determine the terms and rates of our franchised electric and gas services; make acquisitions; issue debt securities; engage in transactions with our affiliates; and pay dividends to our ultimate parent, Duke Energy. Changes to these regulations are ongoing, and we cannot predict the future course of changes in this regulatory environment or the ultimate effect that this changing regulatory environment will have on our businesses. However, changes in regulation can cause delays in or affect business planning and transactions and can substantially increase our costs.

New laws or regulations could have a negative impact on our results of operations, cash flows or financial position.

Changes in laws and regulations affecting us, including new accounting standards could change the way we are required to record revenues, expenses, assets and liabilities. These types of regulations could have a negative impact on our results of operations, cash flows or financial position or access to capital.

Deregulation or restructuring in the electric industry may result in increased competition and unrecovered costs that could adversely affect our results of operations, cash flows or financial position and our utilities' businesses.

Increased competition resulting from deregulation or restructuring efforts could have a significant adverse financial impact on us and consequently on our results of operations, cash flows or financial position. Increased competition could also result in increased pressure to lower costs, including the cost of electricity. We cannot predict the extent and timing of entry by additional competitors into the electric markets. We cannot predict when we will be subject to changes in legislation or regulation, nor

can we predict the impact of these changes on our results of operations, cash flows or financial position.

We must meet our lenders' credit quality standards and there is no assurance that we will maintain investment grade credit ratings.

Our senior unsecured long-term debt is rated investment grade by various rating agencies. We cannot be sure that our senior unsecured long-term debt will continue to be rated investment grade.

If the rating agencies were to rate us below investment grade, our borrowing costs would increase, perhaps significantly. In addition, we would likely be required to pay a higher interest rate in future financings, and our potential pool of investors and funding sources would likely decrease. Any downgrade or other event negatively affecting our credit ratings could also increase Cinergy's or Duke Energy's need to provide liquidity in the form of capital contributions or loans, thus reducing the liquidity and borrowing availability of the consolidated group. These events also could reduce our profitability and have a material adverse effect on our results of operations, cash flows or financial position.

We rely on access to short-term intercompany borrowings and longer-term capital markets to finance our capital requirements and support our liquidity needs, and our access to those markets can be adversely affected by a number of conditions, many of which are beyond our control.

Our business is financed to a large degree through debt and the maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from our assets. Accordingly, we rely on access to short-term borrowings via Duke Energy's money pool arrangement and financings from longer-term capital markets as a source of liquidity for capital requirements not satisfied by the cash flow from our operations and to fund investments originally financed through debt instruments with disparate maturities. If we are not able to access capital at competitive rates or we cannot obtain short-term borrowings via the money pool arrangement, our ability to finance our operations and implement our strategy could be adversely affected.

Market disruptions may increase our cost of borrowing or adversely affect our ability to access one or more financial markets. Such disruptions could include: economic downturns; the bankruptcy of an unrelated energy company; capital market conditions generally; market prices for electricity and gas; terrorist attacks or threatened attacks on our or Duke Energy's facilities or unrelated energy companies; or the overall health of the energy industry. Restrictions on our ability to access financial markets may also affect our ability to execute our business plan as scheduled. An inability to access capital may limit our ability to pursue improvements or acquisitions that we may otherwise rely on for future growth.

Our ultimate parent, Duke Energy, maintains revolving credit facilities to provide back-up for commercial paper programs and/or letters of credit at various entities. These facilities typically include financial covenants which limit the amount of debt that can be outstanding as a percentage of the total capital for the specific entity. Failure to maintain these covenants at a particular entity could preclude that entity from issuing commercial paper or letters of credit or borrowing under the revolving credit facility and could require other of our affiliates to immediately pay down any outstanding drawn amounts under other revolving credit agreements.

Current levels of market volatility might affect our liquidity.

The capital and credit markets have been experiencing increased volatility and disruption. In some cases, the markets have exerted downward pressure on credit capacity for certain issuers. If current levels of market disruption and volatility continue or worsen, we may be forced to meet our other liquidity needs by further drawing upon contractually committed lending agreements primarily provided

by global banks, although there is no assurance that the commitments made by lenders under Duke Energy's master credit facility will be available if needed due to the recent turmoil throughout the financial services industry. This could require us to seek other funding sources. However, under such extreme market conditions, there can be no assurance other funding sources would be available or sufficient.

We are exposed to credit risks of customers and counterparties with whom we do business.

Adverse economic conditions affecting or financial difficulties of customers and counterparties with whom we do business could impair the ability of these customers and counterparties to pay for our services or fulfill their contractual obligations, including loss recovery payments under insurance contracts or cause them to delay such payments or obligations. We depend on these customers and counterparties to remit payments on a timely basis. Any delay or default in payment could adversely affect our results of operations, cash flows or financial position.

Poor investment performance of Cinergy's pension plan holdings and other factors impacting pension plan costs could unfavorably impact our liquidity and results of operations.

We participate in certain employee benefit plans sponsored by our parent, Cinergy. We are allocated costs and obligations related to these plans. Cinergy's costs of providing non-contributory defined benefit pension plans are dependent upon a number of factors, such as the rates of return on plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plans, future government regulation and required or voluntary contributions made to the plans. While Cinergy has complied with the minimum funding requirements as of December 31, 2008, Cinergy's qualified pension plans had obligations which exceeded the value of plan assets by approximately $882 million. Without sustained growth in the pension investments over time to increase the value of plan assets and depending upon the other factors impacting Cinergy's costs as listed above, we could be required to fund our parent's plans with significant amounts of cash. Such cash funding obligations could have a material impact on our results of operations, cash flows or financial position.

We are subject to numerous environmental laws and regulations that require significant capital expenditures, can increase our cost of operations, and which may impact or limit our business plans, or expose us to environmental liabilities.

We are subject to numerous environmental laws and regulations affecting many aspects of our present and future operations, including air emissions (such as reducing nitrogen oxide, sulfur dioxide and mercury emissions or potential future control of greenhouse gas emissions), water quality, wastewater discharges, solid waste and hazardous waste. These laws and regulations can result in increased capital, operating and other costs. These laws and regulations generally require us to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. Compliance with environmental laws and regulations can require significant expenditures, including expenditures for clean up costs and damages arising out of contaminated properties, and failure to comply with environmental regulations may result in the imposition of fines, penalties and injunctive measures affecting operating assets. The steps we take to ensure that our facilities are in compliance could be prohibitively expensive. As a result, we may be required to shut down or alter the operation of our facilities, which may cause us to incur losses. Further, our regulatory rate structure and our contracts with customers may not necessarily allow us to recover capital costs we incur to comply with new environmental regulations. Also, we may not be able to obtain or maintain from time to time all required environmental regulatory approvals for our operating assets or development projects. If there is a delay in obtaining any required environmental regulatory approvals, if we fail to obtain and comply with them or if environmental laws or regulations change and become more stringent, then the operation of our facilities or the development of new facilities could be prevented, delayed or become

subject to additional costs. Although it is not expected that the costs of complying with current environmental regulations will have a material adverse effect on our results of operations, cash flows or financial position, no assurance can be made that the costs of complying with environmental regulations in the future will not have such an effect.

There is growing consensus that some form of regulation will be forthcoming at the federal level with respect to greenhouse gas emissions, including carbon dioxide (CO2), and such regulation could result in the creation of substantial compliance costs.

In addition, we are generally responsible for on-site liabilities, and in some cases off-site liabilities, associated with the environmental condition of our power generation facilities and natural gas assets which we have acquired or developed, regardless of when the liabilities arose and whether they are known or unknown. In connection with some acquisitions and sales of assets, we may obtain, or be required to provide, indemnification against some environmental liabilities. If we incur a material liability, or the other party to a transaction fails to meet its indemnification obligations to us, we could suffer material losses.

We are involved in numerous legal proceedings, the outcomes of which are uncertain, and resolution adverse to us could negatively affect our results of operations, cash flows or financial position.

We are subject to numerous legal proceedings. Litigation is subject to many uncertainties and we cannot predict the outcome of individual matters with assurance. It is reasonably possible that the final resolution of some of the matters in which we are involved could require us to make additional expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that could have a material effect on our results of operations and cash flows. Similarly, it is reasonably possible that the terms of resolution could require us to change our business practices and procedures, which could also have a material effect on our results of operations, cash flows or financial position.

Our results of operations may be negatively affected by sustained downturns or sluggishness in the economy, which are beyond our control.

Sustained downturns or sluggishness in the economy generally affect the markets in which we operate and negatively influence our operations. Declines in demand for electricity and gas as a result of an economic downturn in our franchised service territories will reduce electricity and gas sales and lessen our cash flows, especially as our industrial customers reduce production and, therefore, consumption of electricity and gas. Although our franchised electric and gas businesses are subject to regulated allowable rates of return and recovery of fuel and gas costs under adjustment clauses, declines in electricity and gas sold as a result of an economic downturn or recession could reduce revenues and cash flows, thus diminishing results of operations. Additionally, prolonged economic downturns that negatively impact our results of operations and cash flows could result in future material impairment charges being recorded to write down the carrying value of certain assets to their respective fair values.

Factors that could impact sales volumes, generation of electricity and market prices at which we are able to sell electricity are as follows:

- weather conditions, including abnormally mild winter or summer weather that cause lower energy usage for heating or cooling purposes, respectively, and periods of low rainfall that decrease our ability to operate our facilities in an economic manner;
- supply of and demand for energy commodities;

- general economic conditions, including downturns in the U.S. or other economies which impact energy consumption particularly in which sales to industrial or large commercial customers comprise a significant portion of total sales;
- availability of energy-efficient equipment which reduces energy demand;
- natural gas prices;
- ability to procure satisfactory levels of fuel supplies and inventory, such as coal and natural gas;
- capacity and transmission service into, or out of, our markets;
- natural disasters, acts of terrorism, wars, embargoes and other catastrophic events to the extent they affect our operations and markets, as well as the cost and availability of insurance covering such risks; and
- federal and state energy and environmental regulation and legislation.

Our operating results may fluctuate on a seasonal and quarterly basis.

Electric power generation is generally a seasonal business. In most parts of the United States and in markets in which we operate, demand for electricity peaks during the warmer summer months and demand for natural gas peaks during the cold winter months, with market prices also peaking during the warmer summer months for electricity and cold winter months for natural gas. Further, extreme weather conditions such as heat waves or winter storms could cause these seasonal fluctuations to be more pronounced. As a result, in the future, the overall operating results of our businesses may fluctuate substantially on a seasonal and quarterly basis and thus make period comparisons less relevant.

Potential terrorist activities or military or other actions could adversely affect our business.

The continued threat of terrorism and the impact of retaliatory military and other action by the United States and its allies may lead to increased political, economic and financial market instability and volatility in prices for natural gas and oil which may materially adversely affect us in ways we cannot predict at this time. In addition, future acts of terrorism and any possible reprisals as a consequence of action by the United States and its allies could be directed against companies operating in the United States. Infrastructure and generation facilities could be potential targets of terrorist activities. The potential for terrorism has subjected our operations to increased risks and could have a material adverse effect on our business. In particular, we may experience increased capital and operating costs to implement increased security for our plants, such as additional physical plant security, additional security personnel or additional capability following a terrorist incident.

The insurance industry has also been disrupted by these events. As a result, the availability of insurance covering risks that we and our competitors typically insure against may decrease. In addition, the insurance we are able to obtain may have higher deductibles, higher premiums and more restrictive policy terms.

Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may adversely affect our results of operations, cash flows or financial position.

Risk Factors Relating to the Debentures

Our ability to satisfy our obligations with respect to the Debentures will depend on our future operating performance, results of operations, cash flows and financial position.

Our future operating performance, results of operations, cash flows and financial position are subject, in part, to factors beyond our control, including interest rates, commodity prices, general economic conditions and financial and business conditions. If we are unable to generate sufficient

operating cash flows to service our debt, including the Debentures, we may be required to obtain additional financing or take other actions to generate sufficient funds, which could have a material adverse effect on our financial position, results of operations or cash flows.

The Debentures could be impacted by various transactions.

The indenture under which the Debentures will be issued does not prohibit us from entering into various transactions, including acquisitions, change of control transactions, refinancings, recapitalizations or other highly leveraged transactions that could increase the amount of our outstanding indebtedness, or adversely affect our capital structure or credit ratings, or otherwise adversely affect holders of the Debentures. As a result, we may enter into a transaction even though the transaction could increase the total amount of our outstanding indebtedness, adversely affect our capital structure or credit ratings or otherwise adversely affect the holders of the Debentures.

The Debentures will be new securities for which currently there is no established trading market. We do not intend to apply for listing of the Debentures on any securities exchange and sales or other transfers of the Debentures are regulated by federal securities law.

Your ability to transfer the Debentures may be limited by the absence of a trading market and restrictions on transfers under applicable securities laws. The Debentures will constitute a new issue of securities without an established trading market. Although the initial purchaser has informed us that it currently intends to make a market in the Debentures, the initial purchaser is not obligated to do so. In addition, the initial purchaser may discontinue any such market making at any time without notice. The liquidity of any market for the Debentures will depend on the number of holders of the Debentures, the interest of securities dealers in making a market for the Debentures and other factors. Accordingly, we can provide no assurance as to the development or liquidity of any market for the Debentures. The Debentures are being offered and sold pursuant to an exemption from registration under federal and applicable state securities laws. Therefore, you may transfer or resell the Debentures in the United States only in a transaction registered under, or exempt from the registration requirements of, federal and applicable state securities laws, and you may be required to bear the risk of your investment for an indefinite period of time. Please read "Notice to Investors; Transfer Restrictions."

CAPITALIZATION

The following table sets forth our historical capitalization as of June 30, 2009, and our capitalization as adjusted to reflect the issuance and sale of $100 million aggregate principal amount of the Debentures contemplated by this offering memorandum and our application of the net proceeds in the manner described under "*Use of Proceeds.*" *You should read this table in conjunction with our financial statements and related notes included in this offering memorandum.*

	As of June 30, 2009		As Adjusted	
	(Thousands, except percentages)			
Short-term Debt	$ —	0.0%	$ —	0.0%
Long-term Debt (includes current maturities)	341,164	45.4%	347,647	45.9%
Common Stockholder's Equity	410,575	54.6%	410,575	54.1%
Total Capitalization (includes current maturities)	$751,739	100.0%	$758,222	100.0%

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for the periods indicated.

	Six Months Ended June 30,	Year Ended December 31,				
	2009	2008	2007	2006	2005	2004
Ratio of Earnings to Fixed Charges	4.1	3.9	3.7	1.9	3.8	5.8

The ratio of earnings to fixed charges is calculated by dividing earnings by fixed charges. For this purpose earnings means income before income taxes and fixed charges. Fixed charges means the sum of the following: (a) interest expensed and capitalized, (b) amortized premiums, discounts and capitalized expenses related to indebtedness, and (c) an estimate of the interest within rental expense.

USE OF PROCEEDS

The aggregate net proceeds from the sale of the Debentures, after deducting the initial purchaser's discount and related offering expenses, will be approximately $98.9 million. The net proceeds from the sale of the Debentures will be used (i) to repay our portion of outstanding borrowings under Duke Energy's master credit facility; (ii) replenish cash used to repay at maturity the $20 million principal amount of our 7.875% Debentures due September 15, 2009; and (iii) for general corporate purposes. As of September 16, 2009, we had approximately $74 million of indebtedness payable under Duke Energy's master credit facility, with a weighted average interest rate of approximately 0.5125%.

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

INTRODUCTION

This Management's Discussion and Analysis should be read in conjunction with the Audited Financial Statements.

RESULTS OF OPERATIONS

Results of Operations and Variances

Summary of Results (in thousands)

	Years ended December 31,		
	2008	2007	Increase
Operating revenues	$502,427	$492,684	$9,743
Operating expenses	432,169	427,351	4,818
Gains (losses) on sales of other assets and other, net	65	(50)	115
Operating income	70,323	65,283	5,040
Other income and expenses, net	4,853	4,052	801
Interest expense	17,669	17,414	255
Income before income taxes	57,507	51,921	5,586
Income tax expense	20,026	18,452	1,574
Net Income	$ 37,481	$ 33,469	$4,012

Net Income

The $4 million increase in our net income was primarily due to the following factors:

Operating Revenues. The increase was due primarily to:

- An $18 million increase in regulated fuel revenues driven mainly by higher natural gas costs; and
- A $2 million increase in wholesale power revenues, net of sharing.

Partially offsetting these increases were:

- An $8 million decrease due to our recording a provision for revenue reduction in response to an unfavorable court ruling regarding the refund of accelerated main replacement program rider revenues;
- A $2 million decrease related to native load due to milder weather in 2008 compared to 2007; and
- A $2 million decrease in retail electric revenues resulting from lower retail volumes due to the weakening economy.

Operating Expenses. The increase was due primarily to:

- A $15 million increase in regulated fuel expense primarily due to higher natural gas costs.

Partially offsetting this increase were:

- A $4 million decrease in operating and maintenance expenses primarily due to a decrease in other post-employment benefits due to an adjustment to the liability recorded for these benefits;
- A $4 million decrease in property taxes primarily due to a positive valuation settlement with the Kentucky Department of Revenue; and
- A $3 million decrease in regulatory amortization of our demand side management costs.

Income Tax Expense. The increase was primarily the result of higher pre-tax income.

Matters Impacting Future Results

Sales, especially in the industrial sector, were impacted by the economic downturn in 2008. We expect this trend to continue for some period into 2009, and perhaps beyond, until the economy begins to recover. Our current strategy is focused on maximizing the returns and cash flows from our current operations. Our results are sensitive to changes in power supply, power demand and weather.

DESCRIPTION OF THE DEBENTURES

We will issue the Debentures under our Indenture, dated as of December 1, 2004, between us and Deutsche Bank Trust Company Americas, as trustee, as amended and supplemented from time to time, including by the Second Supplemental Indenture, to be dated as of September 22, 2009 (as so amended and supplemented hereinafter, collectively, referred to as the "Indenture"). The 4.65% Debentures due 2019 are sometimes called the "Debentures" in this offering memorandum. The trustee under the Indenture is sometimes called the "Trustee" in this offering memorandum. The term "Securities" refers to all securities from time to time issued under the Indenture, including the Debentures.

The information we are providing you in this offering memorandum concerning the Debentures and the Indenture is only a summary of the information provided in the Indenture. The Indenture contains the full text of the matters described in this section. Because this section is a summary, it does not describe every aspect of the Debentures or the Indenture. This summary is subject to and qualified in its entirety by reference to all the provisions of the Indenture, including definitions of terms used in the Indenture. Whenever we refer to particular sections or defined terms of the Indenture, these sections or defined terms are incorporated by reference herein. You may request a copy of the Indenture as provided under "Available Information."

General

We are issuing $100,000,000 of Debentures, which will mature on October 1, 2019. The Debentures will be issued as a separate series of senior unsecured debt securities under the Indenture. The amount of unsecured debt securities that we may issue under the Indenture is unlimited subject to the provisions stated below under the caption "—Further Issues."

We will issue the Debentures only in fully registered form without coupons and there will be no service charge for any transfers or exchanges of the Debentures. We may, however, require payment to cover any tax or other governmental charge payable in connection with any transfer or exchange. Transfers and exchanges of the Debentures may be made at the corporate trust office of the Trustee, or at any other office maintained by us for such purpose. We may, upon prompt written notice to the Trustee and the holders of the Debentures, designate one or more additional places, or change the place or places previously designated, for registration of transfer and exchange of the Debentures.

The Debentures will be issuable in denominations of $1,000 and integral multiples of $1,000. The Debentures will be exchangeable as between authorized denominations.

As used in this offering memorandum, "business day" means, with respect to the Debentures, any day other than a Saturday or Sunday that is neither a legal holiday nor a day on which banking institutions in New York, New York are authorized or required by law, regulation or executive order to close.

Interest

We will pay interest at an annual rate of 4.65% on the Debentures on April 1 and October 1 of each year commencing April 1, 2010. Interest will accrue from September 22, 2009.

The amount of interest payable for any period will be computed based on a 360-day year of twelve 30-day months. As long as the Debentures are registered in the name of The Depository Trust Company ("DTC" or the "Depository") or its nominee, the record date for interest payable on any interest payment date shall be the close of business on the business day immediately preceding such interest payment date.

If any interest payment date is not a business day, then interest payable on that date will be paid on the next business day. No additional interest or other payment will be paid due to the delay.

Optional Redemption

We will have the right to redeem the Debentures, in whole or in part at any time and from time to time, at a Redemption Price equal to the greater of (1) 100% of the principal amount of the Debentures to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on such Debentures being redeemed (exclusive of interest accrued to such redemption date), discounted to such redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 25 basis points, plus accrued and unpaid interest on the Debentures being redeemed to such redemption date.

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

"Comparable Treasury Price" means with respect to any redemption date for the Debentures, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (2) if fewer than four such Reference Treasury Dealer Quotations are obtained, the average of all such Reference Treasury Dealer Quotations.

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

"Reference Treasury Dealer" means each of four financial institutions appointed by us at the time of any redemption which are primary U.S. Government securities dealers in the United States.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the applicable Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue for the Debentures being redeemed, assuming a price for such Comparable

Treasury Issue (expressed as a percentage of its principal amount) equal to the applicable Comparable Treasury Price for such redemption date.

Redemption Procedures

Notice of any redemption will be mailed by us at least 30 days but not more than 60 days before any Redemption Date to each holder of Debentures to be redeemed. If less than all the Debentures are to be redeemed at our option, the Trustee shall select, in such manner as it shall deem fair and appropriate, the Debentures to be redeemed in whole or in part.

Unless we default in payment of the Redemption Price, on and after any Redemption Date, interest will cease to accrue on the Debentures or portions thereof called for redemption.

Ranking

The Debentures will be unsecured and will rank equally with all of our unsecured and unsubordinated debt and other obligations from time to time outstanding. As of June 30, 2009, we had approximately $342 million of senior unsecured indebtedness (including approximately $74 million of indebtedness payable under Duke Energy Corporation's master credit facility and approximately $16 million of capital leases) that will rank equally in priority with respect to the Debentures. See "Use of Proceeds."

Negative Pledge

While any of the Debentures remain outstanding, we will not create, or permit to be created or to exist, any mortgage, lien, pledge, security interest or other encumbrance upon any of our property, whether owned on or acquired after the date of the Second Supplemental Indenture, to secure any indebtedness for our borrowed money, unless the Debentures then outstanding are equally and ratably secured for so long as any such indebtedness is so secured.

The foregoing restriction does not apply with respect to, among other things:

- liens on property that existed when we acquired or constructed the property or were created within one year after that time;
- liens on property that secure payment of all or part of the purchase price or construction cost of the property, including the extension of any liens to repairs or improvements made on the property;
- the pledge of any bonds or other securities at any time issued under any of the liens permitted by the above-listed items;
- tax liens, assessments and other governmental charges or requirements which are not delinquent or which are being contested in good faith and by appropriate proceedings or of which at least ten business days notice has not been given to our general counsel or to such other person designated by us to receive such notices;
- mechanics', workmen's, repairmen's, materialmen's, warehousemen's and carriers' liens, other liens incident to construction, liens or privileges of any of our employees for salary or wages earned, but not yet payable, and other liens, including without limitation liens for worker's compensation awards, arising in the ordinary course of business for charges or requirements which are not delinquent or which are being contested in good faith and by appropriate proceedings or of which at least ten business days notice has not been given to our general counsel or to such other person designated by us to receive such notices;
- specified judgment liens and prepaid liens;

- easements, leases, reservations or other rights of others in, and defects in title to, any of our property;
- liens securing indebtedness or other obligations relating to real property we acquired for specified generation, transmission, distribution or communication purposes or for the purpose of obtaining rights-of-way;
- specified leases and leasehold, license, franchise and permit interests;
- liens resulting from law, rules, regulations, orders or rights of governmental authorities and specified liens required by law or governmental regulations;
- liens securing industrial revenue or pollution control bonds issued to finance our pollution control, sewage and solid waste disposal facilities;
- liens to secure public obligations; rights of others to take minerals, timber, electric energy or capacity, gas, water, steam or other products produced by us or by others on our property;
- rights and interests of persons other than us arising out of agreements relating to the common ownership or joint use of property, and liens on the interests of those Persons in the property;
- restrictions on assignment and/or requirements of any assignee to qualify as a permitted assignee and/or public utility or public services corporation; and
- liens which have been bonded for the full amount in dispute or for the payment of which other adequate security arrangements have been made.

In addition, Duke Energy Kentucky may create or assume any other mortgage, lien, pledge, security interest or other encumbrance not excepted in the Indenture without Duke Energy Kentucky equally and ratably securing the Debentures, if immediately after that creation or assumption, the principal amount of indebtedness for borrowed money of Duke Energy Kentucky that all such other mortgages, liens, pledges, security interests and other encumbrances secure does not exceed an amount equal to 10% of Duke Energy Kentucky's total assets as shown on its balance sheet for the accounting period occurring immediately before the creation or assumption of that mortgage, lien, pledge, security interest or other encumbrance.

Further Issues

We may from time to time, without notice to or the consent of the registered holders of the Debentures, create and issue additional debt securities having the same terms as, and ranking equally and ratably with, the Debentures in all respects (or in all respects except for the payment of interest accruing prior to the issue date of such additional debt securities or except for the first payment of interest following the issue date of such additional debt securities). Any additional debt securities having such similar terms, together with the Debentures, will constitute a single series of debt securities under the Indenture.

Payment and Paying Agents

Payment of interest on a Debenture on any interest payment date will be made to the person in whose name the Debenture is registered at the close of business on the regular record date for the interest payment.

Principal of and any premium and interest on the Debentures will be payable at the corporate trust office of the Trustee in the City of New York. However, we may elect to pay interest by check mailed to the address of the person entitled to the payment at the address appearing in the security register. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, except that we will be required to maintain a paying agent in each place of payment for the Debentures.

All moneys paid by us to a paying agent for the payment of the principal of or any premium or interest on the Debentures which remain unclaimed at the end of 18 months after the principal, premium or interest has become due and payable will be repaid to us, and the holder of the Debentures thereafter may look only to us for payment.

For information relating to payments on book-entry Debentures, please see the information provided under the caption "Book-Entry, Delivery and Form—Depository Procedures" below.

Sinking Fund

There is no provision for a sinking fund applicable to the Debentures.

Consolidation, Merger, and Sale of Assets

The Indenture does not contain any provision that restricts our ability to merge or consolidate with or into any other entity, sell or convey all or substantially all of our assets to any person or entity or otherwise engage in restructuring transactions, provided that the successor entity assumes due and punctual payment of the principal, premium, if any, and interest on the unsecured debt securities.

Events of Default

Each of the following is defined as an event of default under the Indenture with respect to the Debentures:

- failure to pay principal of (including the Redemption Price) or any premium on the Debentures when due;
- failure to pay any interest on the Debentures when due, continued for 30 days;
- failure to perform any other of our covenants in the Indenture (other than a covenant included in the Indenture solely for the benefit of a series other than the Debentures), continuing for 90 days after written notice has been given by the Trustee, or the holders of at least 35% in aggregate principal amount of the outstanding Debentures, as provided in the Indenture; and
- certain events of bankruptcy, insolvency or reorganization.

If an event of default (other than a bankruptcy, insolvency or reorganization event of default) with respect to the outstanding Debentures occurs and is continuing, either the Trustee or the holders of at least 35% in aggregate principal amount of the outstanding Debentures by notice as provided in the Indenture may declare the principal amount of the Debentures to be due and payable immediately. If a bankruptcy, insolvency or reorganization event of default with respect to the outstanding Debentures occurs, the principal amount of all the Debentures will automatically, and without any action by the Trustee or any holder, become immediately due and payable. After any such acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding Debentures may, under certain circumstances, rescind and annul the acceleration if all events of default, other than the non-payment of accelerated principal, have been cured or waived as provided in the Indenture. For information as to waiver of defaults, see "Modification and Waiver."

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an event of default occurs, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless the holders shall have offered to the Trustee reasonably satisfactory indemnity. Subject to these provisions for the indemnification of the Trustee, the holders of a majority in aggregate principal amount of the outstanding Debentures will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Debentures.

No holder of Debentures will have any right to institute any proceeding with respect to the Indenture, or for the appointment of a receiver or a trustee, or for any other remedy thereunder, unless:

- the holder has previously given to the Trustee written notice of a continuing event of default with respect to the Debentures;
- the holders of at least 35% in aggregate principal amount of the outstanding Debentures have made written request, and have offered reasonably satisfactory indemnity, to the Trustee to institute a proceeding as trustee; and
- the Trustee has failed to institute a proceeding, and has not received from the holders of a majority in aggregate principal amount of the outstanding Debentures a direction inconsistent with such request, within 60 days after receipt by the Trustee of the initial notice, written request and offer of indemnity. However, these limitations do not apply to a suit instituted by a holder of Debentures for the enforcement of payment of the principal of or any premium or interest on the Debentures on or after the applicable due date specified in the Debentures.

We will be required to furnish to the Trustee annually a statement by certain of our officers as to whether or not we, to our knowledge, are in default in the performance or observance of any of the terms, provisions and conditions of the Indenture and, if so, specifying all known defaults.

Modification and Waiver

Modifications and amendments of the Indenture may be made by us and the Trustee with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding Securities of all series affected by the modification or amendment; provided, however, no modification or amendment may, without the consent of the holder of each outstanding Debenture:

- change the stated maturity of the principal of, or any installment of principal of or interest on, the Debentures;
- reduce the principal amount of, or any premium or interest on, the Debentures;
- reduce the amount of principal payable upon acceleration of the maturity of the Debentures;
- change the place or currency of payment of principal of, or any premium or interest on, the Debentures;
- affect the applicability of the subordination provisions to the Debentures;
- impair the right to institute suit for the enforcement of any payment on or with respect to the Debentures;
- reduce the percentage in aggregate principal amount of outstanding Debentures, the consent of whose holders is required for modification or amendment of the Indenture;
- reduce the percentage in aggregate principal amount of outstanding Debentures necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults; or
- with certain exceptions, modify the provisions relating to modification and waiver.

The holders of not less than a majority in aggregate principal amount of the outstanding Debentures may waive, with respect to the Debentures, our compliance with certain restrictive provisions of the Indenture. The holders of a majority in aggregate principal amount of the outstanding Debentures may waive, with respect to the Debentures, any past default under the Indenture, except a default in the payment of principal, premium, or interest and certain covenants and provisions of the

Indenture which cannot be modified or amended without the consent of the holder of each outstanding Debenture.

Generally, we will be entitled to set any day as a record date for the purpose of determining the holders of outstanding Debentures entitled to give or take any direction, notice, consent, waiver, or other action under the Indenture, in the manner and subject to the limitations provided in the Indenture. In certain limited circumstances, the Trustee will be entitled to set a record date for action by holders. If a record date is set for any action to be taken by holders, the action may be taken only by persons who are holders of outstanding Debentures on the record date. To be effective, the action must be taken by holders of the requisite aggregate principal amount of the Debentures within 180 days following the record date, or such other shorter period as we (or the Trustee, if it sets the record date) may specify.

Defeasance and Covenant Defeasance

The Debentures will be subject to defeasance and covenant defeasance as provided in the Indenture. We will be discharged from all our obligations with respect to the Debentures (except for certain obligations to exchange or register the transfer of Debentures, to replace stolen, lost or mutilated Debentures, to maintain paying agencies and to hold moneys for payment in trust) upon the deposit with the Trustee in trust for the benefit of the holders of the Debentures of money or U.S. Government Obligations, or both, which will provide money sufficient to pay the principal of and any premium and interest on the Debentures as they become due. This defeasance or discharge may occur only if, among other things, we have delivered to the Trustee an opinion of counsel to the effect that we have received from, or there has been published by, the United States Internal Revenue Service a ruling, or there has been a change in tax law, in either case to the effect that holders of the Debentures will not recognize gain or loss for federal income tax purposes as a result of the deposit, defeasance, and discharge and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if the deposit, defeasance and discharge did not occur.

Defeasance of Certain Covenants.

We have the right to omit to comply with certain restrictive covenants that may be described under the Indenture, and the occurrence of certain events of default with respect to those restrictive covenants will no longer be applicable to the Debentures. In order to exercise this option, we will be required to deposit with the Trustee, in trust for the benefit of the holders of the Debentures, money or U.S. Government Obligations, or both, which will provide money sufficient to pay the principal of and any premium and interest on the Debentures as they become due. We will also be required, among other things, to deliver to the Trustee an opinion of counsel to the effect that holders of the Debentures will not recognize gain or loss for federal income tax purposes as a result of such deposit and defeasance of certain obligations and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and defeasance did not occur. If we were to exercise this option with respect to the Debentures and the Debentures subsequently were declared due and payable because of the occurrence of any event of default, the amount of money and U.S. Government Obligations deposited in trust would be sufficient to pay the amount due on the Debentures at the time of their stated maturity but might not be sufficient to pay the amount due upon acceleration resulting from the event of default. In that case, we would remain liable for that payment.

Title

Duke Energy Kentucky and the Trustee, and any agent of ours or the Trustee, may treat the person in whose name a Debenture is registered as the absolute owner thereof (whether or not the Debenture may be overdue) for the purpose of making payment and for all other purposes.

Governing Law

The Indenture and the Debentures will be governed by, and construed in accordance with, the laws of the State of New York.

Concerning the Debenture Trustee

Deutsche Bank Trust Company Americas is the Trustee under the Indenture. Deutsche Bank also acts as the trustee for certain debt securities of one of our affiliates. Deutsche Bank makes loans to, and performs other financial services for, us and our affiliates in the normal course of business.

Ratings

We expect that the Debentures will be rated "Baa1" by Moody's Investors Service, Inc. and "A–" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

BOOK-ENTRY, DELIVERY AND FORM

General

The Debentures are being offered and sold to qualified institutional buyers in reliance on Rule 144A ("Rule 144A Debentures"). Rule 144A Debentures will be represented by one or more Debentures in registered, global form (collectively, the "Rule 144A Global Debentures").

Except as set forth below, the Rule 144A Global Debentures may be transferred, in whole and not in part, only to DTC, New York, NY, to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Rule 144A Global Debentures may not be exchanged for definitive Debentures in registered certificated form ("Certificated Debentures") except in the limited circumstances described below. See "Exchange of Rule 144A Global Debentures for Certificated Debentures." Except in the limited circumstances described below, owners of beneficial interests in the Rule 144A Global Debentures will not be entitled to receive physical delivery of Certificated Debentures.

Rule 144A Debentures (including beneficial interests in the Rule 144A Global Debentures) will be subject to certain restrictions on transfer and will bear a restrictive legend as described under "Notice to Investors; Transfer Restrictions." In addition, transfers of beneficial interests in the Rule 144A Global Debentures will be subject to the applicable rules and procedures of DTC and its direct or indirect participants, which may change from time to time.

Depository Procedures

The following description of the operations and procedures of DTC is provided solely as a matter of convenience. These operations and procedures are solely within the control of the DTC settlement system and are subject to changes by DTC. We take no responsibility for these operations and procedures and we urge investors to contact DTC or its participants directly to discuss these matters.

DTC will act as securities depository for Rule 144A Global Debentures. Rule 144A Global Debentures will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Rule 144A Global Debenture certificate will be issued for Rule 144A Global Debentures, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at *www.dtcc.com* and *www.dtc.org*.

Purchases of Rule 144A Debentures under the DTC system must be made by or through Direct Participants, which will receive a credit for Rule 144A Debentures on DTC's records. The ownership interest of each actual purchaser of each Debenture ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in Rule 144A Debentures are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Rule 144A Debentures, except in the event that use of the book-entry system for Rule 144A Debentures is discontinued.

To facilitate subsequent transfers, all Rule 144A Global Debentures deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Rule 144A Global Debentures with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of Rule 144A Debentures; DTC's records reflect only the identity of the Direct Participants to whose accounts such Rule 144A Debentures are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Rule 144A Debentures may

wish to take certain steps to augment the transmission to them of notices of significant events with respect to Rule 144A Debentures, such as redemptions, tenders, defaults, and proposed amendments to Rule 144A Debenture documents. For example, Beneficial Owners of Rule 144A Debentures may wish to ascertain that the nominee holding Rule 144A Global Debentures for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all Rule 144A Debentures are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Rule 144A Debentures unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy to Duke Energy Kentucky as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Rule 144A Debentures are credited on the record date (identified in a listing attached to the omnibus proxy).

Redemption proceeds, principal, and interest payments on Rule 144A Debentures will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Duke Energy Kentucky or any agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, any agent, or Duke Energy Kentucky, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Duke Energy Kentucky or any agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Rule 144A Debentures purchased or tendered, through its Participant, to any agent, and shall effect delivery of such Rule 144A Debentures by causing the Direct Participant to transfer the Participant's interest in such Rule 144A Debentures, on DTC's records, to any agent. The requirement for physical delivery of Rule 144A Debentures in connection with an optional tender will be deemed satisfied when the ownership rights in Rule 144A Debentures are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Rule 144A Debentures to any agent's DTC account.

DTC may discontinue providing its services as depository with respect to Rule 144A Debentures at any time by giving reasonable notice to Duke Energy Kentucky or any agent. Under such circumstances, in the event that a successor depository is not obtained, Rule 144A Global Debenture certificates are required to be printed and delivered.

Duke Energy Kentucky may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Certificated Debentures will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Duke Energy Kentucky believes to be reliable, but Duke Energy Kentucky takes no responsibility for the accuracy thereof.

Investors in Rule 144A Debentures who are Participants may hold their interests therein directly through DTC. Participants means those participating organizations whose securities are held by DTC (collectively, the "Participants"). The Participants include securities brokers and dealers (including the initial purchaser), banks, trust companies, clearing corporations and certain other organizations. Investors in Rule 144A Debentures who are not Participants may hold their interests therein indirectly through organizations which are Participants. All interests in a Rule 144A Debenture may be subject to the procedures and requirements of DTC. The laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Rule 144A Debenture to such Persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a Person having beneficial interests in a Rule 144A Debenture to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interests in Rule 144A Debentures will not have the Debentures registered in their names, will not receive physical delivery of the Debentures in certificated form and will not be considered the registered owners or "holders" thereof under the Indenture for any purpose.

Payments in respect of the principal of, and interest and premium, if any, on a Rule 144A Global Debenture registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the Indenture. Under the terms of the Indenture, we and the Trustee will treat the Persons in whose names the Debentures, including the Rule 144A Global Debentures, are registered as the owners of the Debentures for the purpose of receiving payments and for all other purposes.

Consequently, neither we nor the Trustee, nor any agent of ours or the Trustee's, has or will have any responsibility or liability for:

- any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interests in the Rule 144A Global Debentures or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Rule 144A Global Debentures; or
- any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

Exchange of Rule 144A Global Debentures for Certificated Debentures

A Rule 144A Global Debenture is exchangeable for Certificated Debentures if:

- the Depository notifies us that it is unwilling or unable to continue as a depository for such Global Debenture and no successor depository shall have been appointed by us, or if at any time the Depository ceases to be a clearing agency registered under the Exchange Act at a time when the Depository is required to be so registered to act as a depository and no successor depository shall have been appointed by us, in each case within 90 days after we receive such notice or become aware of such cessation; or
- we in our sole discretion determine that such Global Debenture shall be so exchangeable, or
- there shall have occurred an event of default with respect to the Debentures.

In all cases, Certificated Debentures delivered in exchange for any Rule 144A Global Debenture or beneficial interests in Rule 144A Global Debentures will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in "Notice to Investors; Transfer Restrictions," unless that legend is not required by applicable law.

NOTICE TO INVESTORS; TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any purchase, resale, pledge or transfer of Debentures.

The Debentures have not been registered under the Securities Act or any securities laws of any jurisdiction, and may not be offered or sold within the United States or to U.S. Persons, as such terms are defined under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of, the Securities Act and such other securities laws. Accordingly, the Debentures are being offered hereby only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. We will have no obligation to register resales of the Debentures offered hereby or exchange registered securities for the Debentures, and make no representations with respect to and take no responsibility for the registration of the Debentures or the circumstances under which the Debentures may be lawfully sold or delivered.

Each purchaser of the Debentures that is purchasing in a sale made in reliance on Rule 144A will be deemed to have acknowledged, represented to, warranted and agreed as follows:

(1) The purchaser is:

(a) a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A and is acquiring such Debentures for its own account or for the account of another qualified institutional buyer; and

(b) not our affiliate (as defined in Rule 144 under the Securities Act) and is not acting on our behalf.

(2) The purchaser understands that the Debentures are being offered in transactions not involving any public offering in the United States within the meaning of the Securities Act, that the Debentures have not been registered under the Securities Act or any securities laws of any jurisdiction and that:

(a) the Debentures may be offered, resold, pledged or otherwise transferred only (i) to a person who the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in accordance with another exemption from the registration requirements of the Securities Act or pursuant to an effective registration statement under the Securities Act or (ii) to us or one of our affiliates and, in each case, in accordance with any applicable securities laws of any state of the United States or any other applicable jurisdiction; and

(b) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser from it of the resale restrictions set forth in (a) above and no representation is being made as to the availability of the exemption provided by Rule 144 under the Securities Act for resales of the Debentures.

(3) The purchaser represents and warrants that:

(a) such purchaser has such knowledge and experience in financial and business matters and that it is capable of evaluating the merits and risks of purchasing the Debentures, and such purchaser and any accounts for which it is acting are each able to bear the economic risks of its or their investment;

(b) such purchaser is not acquiring the Debentures with a view towards any distribution thereof in a transaction that would violate the Securities Act or the securities laws of any state of the United States or any other applicable jurisdiction; provided that the disposition of its property and the property of any accounts for which such purchaser is acting as fiduciary shall remain at all times within its control;

(c) such purchaser has received a copy of the offering memorandum and acknowledges that no representation or warranty is being made by the initial purchaser as to the accuracy or completeness of such materials. Such purchaser further acknowledges that neither we nor the initial purchaser nor any person representing us or the initial purchaser have made any representation to them with respect to us or this offering or the sale of any Debentures other than information contained in this offering memorandum and that such purchaser has had access to such financial and other information, and has been afforded the opportunity to ask such questions of our representatives and receive answers thereto, as it deemed necessary in connection with its decision to purchase the Debentures; and

(d) such purchaser will not transfer the Debentures to any person or entity, unless such person or entity could itself truthfully make the foregoing representations and covenants.

(4) The purchaser understands that the certificates evidencing the Debentures will, unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

"THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER SECTION 5 OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER ("RULE 144A").

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF DUKE ENERGY KENTUCKY, INC. (THE "COMPANY") THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (I) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (II) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (III) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (IV) TO THE COMPANY OR ONE OF ITS AFFILIATES, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN CLAUSE (A) ABOVE. THIS SECURITY AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF

THIS SECURITY SHALL BE DEEMED BY THE ACCEPTANCE OF THIS SECURITY TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

(5) The Debentures may not be sold or transferred to, and each purchaser or transferee, by its purchase or acquisition of the Debentures, shall be deemed to have represented and covenanted that it is not acquiring the Debentures, directly or indirectly, for or on behalf of, any pension or welfare plan (as defined in Section 3 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) or plan (as defined in Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code")), except that such purchase for or on behalf of a pension or welfare plan shall be permitted:

(a) to the extent such purchase is made by or on behalf of a bank collective investment fund maintained by the purchaser in which, at any time while the Debentures are outstanding, no plan (together with any other plans maintained by the same employer or employee organization) has an interest in excess of 10% of the total assets in such collective investment fund and the conditions of Section III of Prohibited Transaction Class Exemption 91-38 issued by the Department of Labor are satisfied;

(b) to the extent such purchase is made by or on behalf of an insurance company pooled separate account maintained by the purchaser in which, at any time while the Debentures are outstanding, no plan (together with any other plans maintained by the same employer or employee organization) has an interest in excess of 10% of the total assets in such pooled separate account and the conditions of Section III of Prohibited Transaction Class Exemption 90-1 issued by the Department of Labor are satisfied;

(c) to the extent such purchase is made from an insurance company general account, the conditions of Sections I and IV of Prohibited Transaction Class Exemption 95-60 issued by the Department of Labor are satisfied;

(d) to the extent such purchase is made on behalf of a plan by (i) an investment advisor registered under the Investment Advisers Act of 1940 that had as of the last day of its most recent fiscal year total assets under its management and control in excess of $50,000,000 and had shareholders' or partners' equity in excess of $750,000, as shown in its most recent balance sheet prepared in accordance with generally accepted accounting principles, (ii) a bank as defined in Section 202(a)(2) of the Investment Advisers Act of 1940 with equity capital in excess of $1,000,000 as of the last day of its most recent fiscal year or (iii) an insurance company which is qualified under the laws of more than one state to manage, acquire or dispose of any assets of a plan, which insurance company had as of the last day of its most recent fiscal year net worth in excess of $1,000,000 and which is subject to supervision and examination by state authorities having supervision over insurance companies, and in any case, such investment adviser, bank or insurance company is otherwise a qualified professional asset manager, as such term is used in Prohibited Transaction Class Exemption 84-14 issued by the Department of Labor, and the assets of such plan when combined with the assets of other plans established or maintained by the same employer (or affiliate thereof) or employee organization and managed by such investment adviser, bank or insurance company do not represent more than 20% of the total client assets managed by such investment adviser, bank or insurance company, and the conditions of Section I of such exemption are otherwise satisfied;

(e) to the extent such plan is a governmental plan (as defined in Section 3 of ERISA) which is not subject to the provisions of Title I of ERISA or Section 401 of the Code; or

(f) to the extent such purchase is made on behalf of a plan by an in-house asset manager and the conditions of Part I of the Prohibited Transactions Class Exemption 96-23 issued by the Department of Labor are satisfied.

Each purchaser acknowledges that we, the initial purchaser and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements, and agrees that if any of the acknowledgments, representations, warranties and agreements deemed to have been made by it by its purchase of the Debentures are no longer accurate, it shall promptly notify us and the initial purchaser. If it is acquiring any Debentures as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgments, representations, warranties and agreements on behalf of each such investor account.

PLAN OF DISTRIBUTION

Under the terms and subject to conditions provided in a purchase agreement dated September 17, 2009, the initial purchaser has agreed to purchase, and we have agreed to sell to the initial purchaser, the full principal amount of the Debentures.

The initial purchaser is offering the Debentures subject to its acceptance of the Debentures from us and subject to prior sale. The purchase agreement provides that the obligation of the initial purchaser to pay for and accept delivery of the Debentures is subject to the approval of legal matters by their counsel and to certain other conditions being satisfied. The initial purchaser is obligated to purchase all of the Debentures offered by this offering memorandum if any are purchased.

The Debentures will initially be offered at the price indicated on the cover page to this offering memorandum. After the initial offering of the Debentures, the offering price and other selling terms of the Debentures may from time to time be varied by the initial purchaser. The purchase agreement provides that we will indemnify the initial purchaser against certain liabilities, including liabilities under the Securities Act, or contribute to payments which we may be required to make in respect of indemnification. The expenses of the offering, not including the initial purchaser's discount, are estimated to be approximately $250,000.

We have been advised by the initial purchaser that the initial purchaser proposes to resell the Debentures initially to qualified institutional buyers in reliance on Rule 144A. The Debentures have not been registered under the Securities Act and may not be offered or sold in the United States or to U.S. persons unless the Debentures are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See "Notice to Investors; Transfer Restrictions."

In connection with the offering of the Debentures, the initial purchaser may engage in over allotment, stabilizing transactions and syndicate covering transactions. Over allotment involves sales in excess of the offering size, which creates a short position for the initial purchaser. Stabilizing transactions involve bids to purchase the Debentures in the open market for the purpose of pegging, fixing or maintaining the price of the Debentures. Syndicate covering transactions involve purchases of the Debentures in the open market after the distribution has been completed in order to cover short positions. Finally, the initial purchaser may reclaim selling concessions allowed to any dealer for distributing the Debentures in the offering, if the initial purchaser repurchases previously distributed Debentures in transactions to cover short positions established by it, in stabilization transactions or otherwise. Any of these activities may cause the market price of the Debentures to be higher than it would otherwise be in the absence of these activities. The initial purchaser is not required to engage in these activities, and may discontinue any of these activities at any time without notice.

The Debentures will be a new issue of securities for which there is no established market. We do not intend to apply for the Debentures to be listed on any securities exchange or on any automated dealer quotation system. The initial purchaser has advised us that it currently intends to make a market in the Debentures. However, the initial purchaser is not obligated to do so and any market making with respect to the Debentures may be discontinued without notice. Accordingly, we cannot assure you that a liquid trading market will develop for the Debentures, that you will be able to sell your Debentures at a particular time or that the prices that you receive when you sell will be equal to or greater than their fair market value.

In the ordinary course of business, the initial purchaser and its affiliates have from time to time provided and may in the future continue to provide investment banking, commercial banking and other financial services to us and our affiliates for which they have received, and may receive, customary fees. Affiliates of the initial purchaser are currently lenders under unsecured revolving credit agreements with us and with our parent, for which they receive customary fees.

LEGAL MATTERS

The validity of the Debentures will be passed upon for Duke Energy Kentucky by Richard G. Beach, Esq., Assistant General Counsel of Duke Energy Business Services LLC. Certain legal matters with respect to the offering of the Debentures will be passed upon for Duke Energy Kentucky by Frost Brown Todd LLC, Cincinnati, Ohio, and for the initial purchaser by Sidley Austin LLP, New York, New York.

INDEPENDENT AUDITORS

The financial statements of Duke Energy Kentucky, Inc. as of and for the years ended December 31, 2008 and 2007, included in this offering memorandum, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

Duke Energy Kentucky, Inc.

Financial Statements

For the Years Ended December 31, 2008 and 2007, and
For the Six Months Ended June 30, 2009 and 2008

Duke Energy Kentucky, Inc.

Index

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
Duke Energy Kentucky, Inc.
Cincinnati, Ohio

We have audited the accompanying balance sheets of Duke Energy Kentucky, Inc. (the "Company") as of December 31, 2008 and 2007, and the related statements of operations, stockholder's equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, 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.

Deloitte & Touche LLP

March 26, 2009

Member of
Deloitte Touche Tohmatsu

DUKE ENERGY KENTUCKY, INC.
STATEMENTS OF OPERATIONS

	Year To Date December 31,	
	2008	2007
	(in thousands)	
Operating Revenues		
Electric	**$338,434**	$330,547
Gas	**143,678**	140,132
Other	**20,315**	22,005
Total Operating Revenues	**502,427**	492,684
Operating Expenses		
Fuel used in electric generation and purchased power	**156,952**	153,883
Operation, maintenance and other	**123,437**	127,079
Natural gas purchased	**106,913**	94,931
Depreciation and amortization	**37,392**	39,869
Property and other taxes	**7,475**	11,589
(Gain) Loss on sales of other assets, net	**(65)**	50
Total Operating Expenses	**432,104**	427,401
Operating Income	**70,323**	65,283
Other Income and Expenses, net	**4,853**	4,052
Interest Expense	**17,669**	17,414
Income Before Income Taxes	**57,507**	51,921
Income Tax Expense	**20,026**	18,452
Net Income	**$ 37,481**	$ 33,469

See Notes to Financial Statements

DUKE ENERGY KENTUCKY, INC.
BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 11,768	$ 9,302
Receivables (net of allowance for doubtful accounts of $432 at December 31, 2008 and $315 at December 31, 2007)	52,336	44,043
Inventory	33,045	27,391
Other	26,051	19,372
Total current assets	123,200	100,108
Investments and Other Assets		
Intangible assets	10,503	7,064
Other	4,392	3,430
Total investments and other assets	14,895	10,494
Property, Plant, and Equipment		
Cost	1,536,785	1,499,357
Less accumulated depreciation and amortization	625,727	617,530
Net property, plant, and equipment	911,058	881,827
Regulatory Assets and Deferred Debits		
Deferred debt expense	5,308	5,445
Regulatory assets related to income taxes	460	—
Other	47,282	17,093
Total regulatory assets and deferred debits	53,050	22,538
Total Assets	$1,102,203	$1,014,967
LIABILITIES AND COMMON STOCKHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	$ 51,936	$ 53,989
Notes payable	3,241	27,470
Taxes accrued	11,212	16,777
Interest accrued	3,828	3,553
Current maturities of long-term debt	22,461	21,678
Other	14,274	12,807
Total current liabilities	106,952	136,274
Long-term Debt	316,168	265,334
Deferred Credits and Other Liabilities		
Deferred income taxes	171,851	153,315
Investment tax credit	4,519	5,581
Accrued pension and other postretirement benefit costs	39,180	22,505
Regulatory liabilities	40,482	33,901
Asset retirement obligations	6,390	6,179
Other	22,636	6,332
Total deferred credits and other liabilities	285,058	227,813
Commitments and Contingencies (See Note 14)		
Common Stockholder's Equity		
Common stock—$15.00 par value; 1,000,000 shares authorized and 585,333 shares outstanding at December 31, 2008 and December 31, 2007	8,780	8,780
Paid-in capital	167,494	167,494
Retained earnings	217,751	210,270
Accumulated other comprehensive loss	—	(998)
Total common stockholder's equity	394,025	385,546
Total Liabilities and Common Stockholder's Equity	$1,102,203	$1,014,967

See Notes to Financial Statements

DUKE ENERGY KENTUCKY, INC.

STATEMENTS OF CHANGES IN COMMON STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME

(in thousands)

				Accumulated Other Comprehensive Income (Loss)	
	Common Stock	Paid-in Capital	Retained Earnings	Net Gains (Losses) on Cash Flow Hedges	Total Common Stockholder's Equity
Balance at December 31, 2006	$8,780	$164,344	$176,965	$(741)	$349,348
Net income			33,469		33,469
Other comprehensive loss					
Cash flow hedges, net of tax benefit of $146				(257)	(257)
Total comprehensive income					33,212
Capital contribution from parent		3,150			3,150
Adjustment due to SFAS No. 158 adoption			(164)		(164)
Balance at December 31, 2007	$8,780	$167,494	$210,270	$(998)	$385,546
Net income			37,481		37,481
Other comprehensive income					
Cash flow hedges, net of tax expense of ($628)				998	998
Total comprehensive income					38,479
Dividends on common stock			(30,000)		(30,000)
Balance at December 31, 2008	$8,780	$167,494	$217,751	$ —	$394,025

See Notes to Financial Statements

DUKE ENERGY KENTUCKY, INC.
STATEMENTS OF CASH FLOWS

	Twelve Months Ended December 31,	
	2008	2007
	(in thousands)	
Cash Flows from Operating Activities		
Net income	$ 37,481	$ 33,469
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,955	40,475
(Gains) Losses on sales of other assets	(65)	50
Deferred income taxes	6,920	4,701
Regulatory asset/liability amortization	1,792	1,889
Contribution to company sponsored pension plan	—	(9,696)
Accrued pension and other post-retirement benefit costs	2,240	3,931
(Increase) decrease in:		
Net realized and unrealized mark-to-market and hedging transactions	516	(27)
Receivables	(6,832)	(9,057)
Inventory	(4,158)	1,611
Other current assets	(5,787)	(6,909)
Increase (decrease) in:		
Accounts payable	(7,143)	9,686
Taxes accrued	(326)	7,362
Other current liabilities	440	3,499
Regulatory asset/liability deferrals	(6,363)	(4,187)
Other assets	(899)	5,308
Other liabilities	10,604	(4,639)
Net cash provided by operating activities	66,375	77,466
Cash Flows from Investing Activities		
Capital expenditures	(61,090)	(64,199)
Purchases of emission allowances	—	(343)
Sale of emission allowances	149	343
Other	55	—
Net cash used in investing activities	(60,886)	(64,199)
Cash Flows from Financing Activities		
Issuance of long-term debt	123,517	3,067
Redemption of long-term debt	(71,963)	(1,492)
Notes payable to affiliate, net	(24,229)	(15,133)
Dividends paid	(30,000)	—
Contribution from parent	—	3,150
Other	(348)	(150)
Net cash used in financing activities	(3,023)	(10,558)
Net increase in cash and cash equivalents	2,466	2,709
Cash and cash equivalents at beginning of period	9,302	6,593
Cash and cash equivalents at end of period	$ 11,768	$ 9,302
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 17,010	$ 16,669
Income taxes	$ 14,143	$ 6,912
Non-cash financing and investing activities:		
Allowance for funds used during construction (AFUDC)—equity component	$ 778	$ 219
Accrued capital expenditures	$ 5,789	$ 2,885

See Notes to Financial Statements

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements

For the Years Ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies

Nature of Operations. Duke Energy Kentucky, a Kentucky corporation organized in 1901, is a combination electric and gas public utility company that provides service in northern Kentucky. Duke Energy Kentucky's principal lines of business include generation, transmission and distribution of electricity as well as the sale of and/or transportation of natural gas. Duke Energy Kentucky's common stock is wholly owned by Duke Energy Ohio, an Ohio corporation organized in 1837, which is wholly owned by Cinergy Corp. (Cinergy), a Delaware corporation organized in 1993.

On April 3, 2006, Duke Energy Corporation (Old Duke Energy) and Cinergy merged into wholly owned subsidiaries of Duke Energy Holding Corp. (Duke Energy HC), resulting in Duke Energy HC becoming the parent entity. In connection with the closing of the merger transactions, Duke Energy HC changed its name to Duke Energy Corporation (New Duke Energy or Duke Energy) and Old Duke Energy converted into a limited liability company named Duke Power Company LLC (subsequently renamed Duke Energy Carolinas LLC effective October 1, 2006). As a result of the merger transactions, each outstanding share of Cinergy common stock was converted into 1.56 shares of common stock of New Duke Energy, which resulted in the issuance of approximately 313 million shares of Duke Energy common stock. Both Old Duke Energy and New Duke Energy are referred to as Duke Energy herein. Duke Energy is a public registrant trading on the New York Stock Exchange under DUK.

The assets and liabilities of Duke Energy Kentucky were not adjusted to reflect their fair values as of the merger date since push-down accounting is not required by generally accepted accounting principles in the United States (GAAP).

These statements reflect Duke Energy Kentucky's proportionate share of the East Bend generating station which is jointly owned with Dayton Power & Light.

Use of Estimates. To conform to GAAP in the United States (U.S.), management makes estimates and assumptions that affect the amounts reported in the Financial Statements and Notes. Although these estimates are based on management's best available knowledge at the time, actual results could differ.

Cash and Cash Equivalents. All highly liquid investments with remaining maturities of three months or less at the date of purchase are considered cash equivalents.

Inventory. Inventory consists primarily of coal held for electric generation, materials and supplies and natural gas held in storage for transmission and sales commitments. Inventory is recorded primarily using the average cost method.

Components of Inventory

	December 31, 2008	December 31, 2007
	(in thousands)	
Coal held for electric generation	$18,445	$ 9,010
Materials and supplies	13,360	9,241
Natural gas	1,240	9,140
Total Inventory	$33,045	$27,391

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

Effective November 1, 2008, Duke Energy Kentucky executed agreements with a third party to transfer title of natural gas inventory purchased by Duke Energy Kentucky to the third party. Under the agreements, the gas inventory will be stored and managed for Duke Energy Kentucky and will be delivered on demand. The gas storage agreements will expire on October 31, 2009, unless extended by the third party for an additional 12 months. As a result of the agreements, the commitment from a third party to provide natural gas inventory of approximately $10 million as of December 31, 2008 has been classified as Other within Current Assets on the Balance Sheets. At December 31, 2008, this balance exceeded 5% of total current assets.

Cost-Based Regulation. Duke Energy Kentucky accounts for certain of its regulated operations under the provisions of SFAS No. 71, *"Accounting for the Effects of Certain Types of Regulation"* (SFAS No. 71). The economic effects of regulation can result in a regulated company recording assets for costs that have been or are expected to be approved for recovery from customers in a future period or recording liabilities for amounts that are expected to be returned to customers in the rate-setting process in a period different from the period in which the amounts would be recorded by an unregulated enterprise. Accordingly, Duke Energy Kentucky records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. Regulatory assets and liabilities are amortized consistent with the treatment of the related costs in the ratemaking process. Management continually assesses whether regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes, recent rate orders applicable to other regulated entities and the status of any pending or potential deregulation legislation. Additionally, management continually assesses whether any regulatory liabilities have been incurred. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery and that no regulatory liabilities, other than those recorded, have been incurred. These regulatory assets and liabilities are primarily classified in the Balance Sheets as Regulatory Assets and Deferred Debits, and Deferred Credits and Other Liabilities. Duke Energy Kentucky periodically evaluates the applicability of SFAS No. 71, and considers factors such as regulatory changes and the impact of competition. If cost-based regulation ends or competition increases, Duke Energy Kentucky may have to reduce its asset balances to reflect a market basis less than cost and write off their associated regulatory assets and liabilities. For further information see Note 2.

In order to apply the accounting provisions of SFAS No. 71 and record regulatory assets and liabilities, the scope criteria in SFAS No. 71 must be met. Management makes significant judgments in determining whether the scope criteria of SFAS No. 71 are met for its operations, including determining whether revenue rates for services provided to customers are subject to approval by an independent, third-party regulator, whether the regulated rates are designed to recover specific costs of providing the regulated service, and a determination of whether, in view of the demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the operations' costs can be charged to and collected from customers. This final criterion requires consideration of anticipated changes in levels of demand or competition, direct and indirect, during the recovery period for any capitalized costs. If facts and circumstances change so that a portion of Duke Energy Kentucky's regulated operations meet all of the scope criteria set forth in SFAS No. 71 when such criteria had not been previously met, SFAS No. 71 would be reapplied to all or a separable portion of the operations. Such reapplication includes adjusting the balance sheet for amounts that meet the definition of a regulatory asset or regulatory liability of SFAS No. 71.

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

Accounting for Risk Management and Hedging Activities and Financial Instruments. All derivative instruments not designated and qualifying for the normal purchases and normal sales exception under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" as amended (SFAS No. 133), are recorded on the Balance Sheet at their fair value.

Since Duke Energy Kentucky receives regulatory treatment for derivatives related to its native load, those mark-to-market gains and losses associated with those derivative contracts are reflected as regulatory assets or regulatory liabilities on the Balance Sheets.

Cash Flow and Fair Value Hedges. Changes in the fair value of a derivative designated and qualified as a cash flow hedge, to the extent effective, are included in the Statements of Common Stockholder's Equity and Comprehensive Income as Accumulated Other Comprehensive Income (Loss) (AOCI) until earnings are affected by the hedged item. Duke Energy Kentucky discontinues hedge accounting prospectively when it has determined that a derivative no longer qualifies as an effective hedge, or when it is no longer probable that the hedged forecasted transaction will occur. When hedge accounting is discontinued because the derivative no longer qualifies as an effective hedge, the derivative is subject to the Mark-to-Market model of accounting (MTM Model) prospectively. Gains and losses related to discontinued hedges that were previously accumulated in AOCI will remain in AOCI until the underlying contract is reflected in earnings, unless it is probable that the hedged forecasted transaction will not occur at which time associated deferred amounts in AOCI are immediately recognized in current earnings.

Valuation. Quoted market prices or prices obtained through external sources are used to measure a contract's fair value.

Property, Plant and Equipment. Property, plant and equipment are stated at the lower of historical cost less accumulated depreciation or fair value, if impaired. Duke Energy Kentucky capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of funds used during construction. The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements and major maintenance projects, which do not extend the useful life or increase the expected output of property, plant and equipment, is expensed as incurred. Depreciation is generally computed over the asset's estimated useful life using the straight-line method. The composite weighted-average depreciation rate was 2.6% for both 2008 and 2007. Depreciation studies are conducted periodically to update the composite rates and are approved by the Kentucky Public Service Commission (KPSC). Also, see "Allowance for Funds Used During Construction (AFUDC)," discussed below.

When Duke Energy Kentucky retires its regulated property, plant and equipment, it charges the original cost plus the cost of retirement, less salvage value, to accumulated depreciation and amortization. When it sells entire regulated operating units, the cost is removed from the property account and the related accumulated depreciation and amortization accounts are reduced. Any gain or loss is recorded in earnings, unless otherwise required by the applicable regulatory body (See Note 11).

Asset Retirement Obligations. Duke Energy Kentucky recognizes asset retirement obligations (ARO's) in accordance with SFAS No. 143, "*Accounting For Asset Retirement Obligations*" (SFAS

DUKE ENERGY KENTUCKY, INC
Notes to Financial Statements (Continued)
For the Years Ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

No. 143), for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset and FIN No. 47, "*Accounting for Conditional Asset Retirement Obligations*" (FIN 47), for conditional ARO's. The term conditional asset retirement obligation as used in SFAS No. 143 and FIN 47 refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Both SFAS No. 143 and FIN 47 require that the present value of the projected liability for an ARO be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The present value of the liability is added to the carrying amount of the associated asset. This additional carrying amount is then depreciated over the estimated useful life of the asset. See Note 5 for further information.

Unamortized Debt Premium, Discount and Expense. Premiums, discounts and expenses incurred with the issuance of outstanding long-term debt are amortized over the terms of the debt issues. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations to finance regulated assets and operations are amortized consistent with regulatory treatment of those items, where appropriate. The amortization expense is recorded as a component of interest expense in the Statements of Operations and is reflected as Depreciation and amortization within Net cash provided by operating activities on the Statements of Cash Flows.

Loss Contingencies. Duke Energy Kentucky is involved in certain legal and environmental matters that arise in the normal course of business. Loss contingencies are accounted for under SFAS No. 5, "*Accounting for Contingencies*" (SFAS No. 5). Under SFAS No. 5, contingent losses are recorded when it is determined that it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. When a range of the probable loss exists and no amount within the range is a better estimate than any other amount, Duke Energy Kentucky records a loss contingency at the minimum amount in the range. Unless otherwise required by GAAP, legal fees are expensed as incurred. See Note 14 for further information.

Environmental Expenditures. Duke Energy Kentucky expenses environmental expenditures related to conditions caused by past operations that do not generate current or future revenues. Environmental expenditures related to operations that generate current or future revenues are expensed or capitalized, as appropriate. Liabilities are recorded on an undiscounted basis when the necessity for environmental remediation becomes probable and the costs can be reasonably estimated, or when other potential environmental liabilities are reasonably estimable and probable.

Revenue Recognition and Unbilled Revenue. Revenues on sales of electricity and gas are recognized when either the service is provided or the product is delivered. Unbilled revenues are estimated by applying an average revenue per kilowatt hour or per thousand cubic feet (Mcf) for all customer classes to the number of estimated kilowatt hours or Mcf's delivered but not billed. The amount of unbilled revenues can vary significantly from period to period as a result of factors, including seasonality, weather, customer usage patterns and customer mix. The receivables for unbilled revenues of approximately $26 million and $25 million at December 31, 2008 and 2007, respectively,

DUKE ENERGY KENTUCKY, INC
Notes to Financial Statements (Continued)
For the Years Ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

related to retail accounts receivable at Duke Energy Kentucky are included in the sales of accounts receivable to Cinergy Receivables Company, LLC (Cinergy Receivables). See Note 10 for additional information.

Allowance for Funds Used During Construction (AFUDC). AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities, consists of two components, an equity component and an interest component. The equity component is a non-cash item. AFUDC is capitalized as a component of Property, Plant and Equipment cost, with offsetting credits to the Statements of Operations. After construction is completed, Duke Energy Kentucky is permitted to recover these costs through inclusion in the rate base and in the depreciation provision. The total amount of AFUDC included in the Statements of Operations was $1 million in 2008. The total amount of AFUDC included in the Statements of Operations was less than $500 thousand in 2007.

Accounting For Purchases and Sales of Emission Allowances. Emission allowances are issued by the Environmental Protection Agency (EPA) at zero cost and permit the holder of the allowance to emit certain gaseous by-products of fossil fuel combustion, including sulfur dioxide (SO_2) and nitrogen oxide (NO_x). Allowances may also be bought and sold via third party transactions or consumed as the emissions are generated. Allowances allocated to or acquired by Duke Energy Kentucky are held primarily for consumption. Duke Energy Kentucky records emission allowances as Intangible Assets on its Balance Sheets and recognizes the allowances in earnings as they are consumed or sold. Any gains or losses on sales of recoverable emission allowances are returned to customers via profit sharing mechanism riders included in the rate structure of the regulated entity and are deferred as a regulatory asset or liability. Purchases and sales of emission allowances are presented gross as investing activities on the Statements of Cash Flows.

Income Taxes. The taxable income of Duke Energy Kentucky is reflected in Duke Energy's U.S. federal and state income tax returns. Duke Energy Kentucky has a tax sharing agreement with Duke Energy, where the separate return method is used to allocate tax expenses and benefits to the subsidiaries whose investments or results of operations provide these tax expenses and benefits. The accounting for income taxes essentially represents the income taxes that Duke Energy Kentucky would incur if Duke Energy Kentucky were a separate company filing its own federal tax return as a C-Corporation.

Management evaluates and records contingent tax liabilities and related interest based on the probability of ultimately sustaining the tax deductions or income positions. Management assesses the probabilities of successfully defending the tax deductions or income positions based upon statutory, judicial or administrative authority.

Management evaluates and records uncertain tax positions in accordance with FIN 48, "*Accounting For Uncertainty in Income Taxes—an Interpretation of FASB Statement 109*" (FIN 48), which was adopted by Duke Energy Kentucky on January 1, 2007. Duke Energy Kentucky records unrecognized tax benefits for positions taken or expected to be taken on tax returns, including the decision to exclude certain income or transactions from a return, when a more-likely-than-not threshold is met for a tax position and management believes that the position will be sustained upon examination by the taxing authorities. Management evaluates each position based solely on the technical merits and facts and

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. In accordance with FIN 48, Duke Energy Kentucky records the largest amount of the unrecognized tax benefit that is greater than 50% likely of being realized upon settlement or effective settlement. Management considers a tax position effectively settled for the purpose of recognizing previously unrecognized tax benefits when the following conditions exist: (i) the taxing authority has completed its examination procedures, including all appeals and administrative reviews that the taxing authority is required and expected to perform for the tax positions, (ii) Duke Energy Kentucky does not intend to appeal or litigate any aspect of the tax position included in the completed examination, and (iii) it is remote that the taxing authority would examine or reexamine any aspect of the tax position. See Note 4 for further information.

Duke Energy Kentucky records, as it relates to taxes, interest expense as Interest Expense and interest income and penalties in Other Income and Expenses, net, in the Statements of Operations.

New Accounting Standards. The following new accounting standards were adopted by Duke Energy Kentucky during the year ended December 31, 2008 and the impact of such adoption, if applicable, has been presented in the accompanying Financial Statements:

SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). Refer to Note 7 for a discussion of Duke Energy Kentucky's adoption of SFAS No. 157.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities- including an amendment of FASB Statement No. 115" (SFAS No. 159). Refer to Note 7 for a discussion of Duke Energy Kentucky's adoption of SFAS No. 159.

FASB Staff Position (FSP) No. FIN 39-1, "Amendment of FASB Interpretation No 39, Offsetting of Amounts Related to Certain Contracts" (FSP No. FIN 39-1). The impact of adopting FSP FIN 39-1 was not significant in 2008.

The following new accounting standards were adopted by Duke Energy Kentucky during the year ended December 31, 2007 and the impact of such adoption, if applicable, has been presented in the accompanying Financial Statements:

SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" (SFAS No. 155). In February 2006, the FASB issued SFAS No. 155, which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for at fair value at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS No. 155 was effective for Duke Energy Kentucky for all financial instruments acquired, issued, or subject to remeasurement after January 1, 2007, and for certain hybrid financial instruments that have been bifurcated prior to the effective date, for which the effect is to be reported as a cumulative-effect adjustment to beginning retained earnings. The adoption of SFAS No. 155 did not have a material impact on Duke Energy Kentucky's results of operations, cash flows or financial position.

1. Summary of Significant Accounting Policies (Continued)

SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140" (SFAS No. 156). In March 2006, the FASB issued SFAS No. 156, which amends SFAS No. 140. SFAS No. 156 requires recognition of a servicing asset or liability when an entity enters into arrangements to service financial instruments in certain situations. Such servicing assets or servicing liabilities are required to be initially measured at fair value, if practicable. SFAS No. 156 also allows an entity to subsequently measure its servicing assets or servicing liabilities using either an amortization method or a fair value method. SFAS No. 156 was effective for Duke Energy Kentucky as of January 1, 2007, and must be applied prospectively, except that where an entity elects to remeasure separately recognized existing arrangements and reclassify certain available-for-sale securities to trading securities, any effects must be reported as a cumulative-effect adjustment to retained earnings. The adoption of SFAS No. 156 did not have a material impact on Duke Energy Kentucky's results of operations, cash flows or financial position.

SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158). In October 2006, the FASB issued SFAS No. 158, which changes the recognition and disclosure provisions and measurement date requirements for an employer's accounting for defined benefit pension and other postretirement plans. The recognition and disclosure provisions require an employer to (1) recognize the funded status of a benefit plan—measured as the difference between plan assets at fair value and the benefit obligation—in its statement of financial position, (2) recognize as a component of other comprehensive loss, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost, and (3) disclose in the notes to financial statements certain additional information. SFAS No. 158 does not change the amounts recognized in the income statement as net periodic benefit cost. Duke Energy Kentucky recognized the funded status of its defined benefit pension and other postretirement plans and provided the required additional disclosures as of December 31, 2006. The adoption of SFAS No. 158 recognition and disclosure provisions resulted in an increase in regulatory assets of approximately $22 million and an increase in liabilities of approximately $22 million as of December 31, 2006. The adoption of SFAS No. 158 did not have a material impact on Duke Energy Kentucky's results of operations or cash flows.

Under the measurement date requirements of SFAS No. 158, an employer is required to measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions). Historically, Duke Energy Kentucky has measured its plan assets and obligations up to three months prior to the fiscal year-end, as allowed under the authoritative accounting literature. Duke Energy Kentucky adopted the change in measurement date effective January 1, 2007 by remeasuring plan assets and benefit obligations as of that date, pursuant to the transition requirements of SFAS No. 158. In the first quarter of 2007, the changes in plan assets and plan obligations between the September 30, 2006 and December 31, 2006 measurement dates not related to net periodic benefit cost was required to be recognized, net of tax, as a separate adjustment of the opening balance of accumulated other comprehensive income (loss) (AOCI) and regulatory assets. This adjustment was not material. During the second quarter of 2007, Duke Energy Kentucky completed these calculations. The finalization of these actuarial calculations resulted in an insignificant adjustment to AOCI and regulatory assets.

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies (Continued)

The adoption of SFAS No. 158 did not have a material impact on Duke Energy Kentucky's results of operations or cash flows.

FIN 48. In July 2006, the FASB issued FIN 48, which provides guidance on accounting for income tax positions about which Duke Energy Kentucky has concluded there is a level of uncertainty with respect to the recognition of a tax benefit in Duke Energy Kentucky's financial statements. FIN 48 prescribes the minimum recognition threshold a tax position is required to meet. Tax positions are defined very broadly and include not only tax deductions and credits but also decisions not to file in a particular jurisdiction, as well as the taxability of transactions. Duke Energy Kentucky adopted FIN 48 effective January 1, 2007. See Note 4 for additional information.

FASB Staff Position (FSP) No. FIN 48-1, Definition of "Settlement" in FASB Interpretation No. 48 (FSP No. FIN 48-1). In May 2007, the FASB staff issued FSP No. FIN 48-1 which clarifies the conditions under FIN 48 that should be met for a tax position to be considered effectively settled with the taxing authority. Duke Energy Kentucky's adoption of FIN 48 as of January 1, 2007 was consistent with the guidance in this FSP.

2. Regulatory Matters

Regulatory Assets and Liabilities. Duke Energy Kentucky's regulated operations apply the provisions of SFAS No. 71. Accordingly, Duke Energy Kentucky records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. See Note 1 for further information.

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

2. Regulatory Matters (Continued)

Duke Energy Kentucky's Regulatory Assets and Liabilities:

	As of December 31, 2008	As of December 31, 2007	Recovery/Refund Period Ends
	(in thousands)		
Regulatory Assets(a)(b)			
Accrued pension and post retirement	**$29,149**	$12,517	(g)
Merger Costs	**2,319**	3,278	(e)
Vacation accrual(h)	**2,349**	1,624	2009
Storm cost deferrals	**4,913**	—	(g)
Hedge Costs and Other Deferrals	**10,236**	—	2009
Unamortized costs of reacquiring debt(j)	**3,663**	3,676	2025
Other	**4,706**	3,415	(g)
Total Regulatory Assets	**$57,335**	$24,510	
Regulatory Liabilities(a)			
Removal costs(d)(k)	**$33,208**	$31,372	(f)
Amounts due from Customers—Income Taxes(e)(k)	**1,554**	1,756	(g)
Over-recovery of fuel costs(c)	**7,696**	—	2009
Other(i)(k)	**117**	680	(g)
Total Regulatory Liabilities	**$42,575**	$33,808	

(a) All regulatory assets and liabilities are excluded from rate base unless otherwise noted.

(b) Included in Regulatory Assets and Deferred Debits on the Balance Sheet unless otherwise noted.

(c) Included in Accounts payable on the Balance Sheet.

(d) Included in rate base.

(e) Recovery/refund is over the life of the associated asset or liability.

(f) Liability is extinguished over the lives of the associated assets.

(g) Recovery/Refund period currently unknown.

(h) Included in Other within Current Assets on the Balance Sheet.

(i) The current portion of the amounts in the other category are included in accounts payable on the balance sheet.

(j) Included in Deferred Debt Expense on the Balance Sheets.

(k) Included in Regulatory Liabilities within Deferred Credits and Other Liabilities on the Balance Sheets.

Regulatory Merger Approvals. As discussed in Note 1, on April 3, 2006, the merger between Duke Energy and Cinergy was consummated to create a newly formed company, Duke Energy Holding Corp. (subsequently renamed Duke Energy Corporation). As a condition to the merger approval, the

2. Regulatory Matters (Continued)

Kentucky Public Service Commission (KPSC) required that certain merger related savings be shared with consumers in Kentucky. The commission also required Duke Energy Kentucky to meet additional conditions. Key elements of these conditions include:

- The KPSC required that Duke Energy Kentucky provide $8 million in rate reductions to its customers over five years, ending when new rates are established in the next rate case after January 1, 2008. Approximately $2 million of the rate reduction was passed through to customers during each of the years ended December 31, 2008 and 2007.
- The FERC approved the merger without conditions.

Restrictions on the Ability of Duke Energy Kentucky to Make Dividends, Advances and Loans to Duke Energy Corporation. As a condition of the Duke Energy and Cinergy merger approval, the state utility commissions imposed conditions (the Merger Conditions) on the ability of Duke Energy Kentucky to transfer funds to Duke Energy through loans or advances, as well as restricted amounts available to pay dividends to Duke Energy. Pursuant to the Merger Conditions, Duke Energy Kentucky is required to pay dividends solely out of retained earnings and to maintain a minimum of 35% equity in its capital structure.

Franchised Electric and Gas.

Rate Related Information. The KPSC approves rates for retail electric and gas services within the Commonwealth of Kentucky. The FERC approves rates for electric sales to wholesale customers served under cost-based rates.

Duke Energy Kentucky Gas Rate Cases. In 2002, the KPSC approved Duke Energy Kentucky's gas base rate case which included, among other things, recovery of costs associated with an accelerated gas main replacement program. The approval authorized a tracking mechanism to recover certain costs including depreciation and a rate of return on the program's capital expenditures. The Kentucky Attorney General appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism as well as the KPSC's subsequent approval of annual rate adjustments under this tracking mechanism. In 2005, both Duke Energy Kentucky and the KPSC requested that the court dismiss these cases.

In February 2005, Duke Energy Kentucky filed a gas base rate case with the KPSC requesting approval to continue the tracking mechanism and for a $14 million annual increase in base rates. A portion of the increase is attributable to recovery of the current cost of the accelerated gas main replacement program in base rates. In June 2005, the Kentucky General Assembly enacted Kentucky Revised Statue 278.509 (KRS 278.509), which specifically authorizes the KPSC to approve tracker recovery for utilities' gas main replacement programs. In December 2005, the KPSC approved an annual rate increase of $8 million and re-approved the tracking mechanism through 2011. In February 2006, the Kentucky Attorney General appealed the KPSC's order to the Franklin Circuit Court, claiming that the order improperly allows Duke Energy Kentucky to increase its rates for gas main replacement costs in between general rate cases, and also claiming that the order improperly allows Duke Energy Kentucky to earn a return on investment for the costs recovered under the tracking mechanism which permits Duke Energy Kentucky to recover its gas main replacement costs.

DUKE ENERGY KENTUCKY, INC
Notes to Financial Statements (Continued)
For the Years Ended December 31, 2008 and 2007

2. Regulatory Matters (Continued)

In August 2007, the Franklin Circuit Court consolidated all the pending appeals and ruled that the KPSC lacks legal authority to approve the gas main replacement tracking mechanism, which were approved prior to the enactment of KRS 278.509. To date, Duke Energy Kentucky has collected approximately $9 million in annual rate adjustments under the tracking mechanism. Per the KPSC order, Duke Energy Kentucky collected these revenues subject to refund pending the final outcome of this litigation. Duke Energy Kentucky and the KPSC have requested that the Kentucky Court of Appeals grant a rehearing of its decision. On February 5, 2009, the Kentucky Court of Appeals denied the rehearing requests of both Duke Energy Kentucky and the KPSC. Duke Energy Kentucky filed a motion for discretionary review to the Kentucky Supreme Court on March 9, 2009. At this time, Duke Energy Kentucky cannot predict whether the Kentucky Supreme Court will accept the case for review.

Duke Energy Kentucky Electric Rate Case. In May 2006, Duke Energy Kentucky filed an application for an increase in its base electric rates of approximately $67 million in revenue, or approximately 28 percent, to be effective in January 2007 pursuant to the KPSC's 2003 Order approving the transfer of 1,100 MW of generating assets from Duke Energy Ohio to Duke Energy Kentucky. In the fourth quarter of 2006, the KPSC approved the settlement agreement resolving all the issues raised in the proceeding. Among other things, the settlement agreement provided for a $49 million increase in Duke Energy Kentucky's base electric rates and reinstitution of the fuel cost recovery mechanism, which had been frozen since 2001. The settlement agreement also provided for Duke Energy Kentucky to obtain KPSC approval for a back-up power supply plan. In January 2007, Duke Energy Kentucky filed a back-up power supply plan with the KPSC. The plan provided for Duke Energy Kentucky to purchase back-up power through bilateral contracts for unscheduled outages. Duke Energy Kentucky will recover these costs through base rates. The plan provided for Duke Energy Kentucky to purchase back-up power through the Midwest Independent System Operator, Inc. (Midwest ISO) energy markets for unscheduled outages. The KPSC issued an order in March 2007 approving Duke Energy Kentucky's back-up power supply plan.

Energy Efficiency. On November 15, 2007, Duke Energy Kentucky filed its annual application to continue existing energy efficiency programs, consisting of nine residential and two commercial and industrial programs, and to true-up its gas and electric tracking mechanism for recovery of lost revenues, program costs and shared savings. On February 11, 2008, Duke Energy Kentucky filed a motion to amend its energy efficiency programs and applied to reinstitute a low income Home Energy Assistance Program. The KPSC bifurcated the proposed Home Energy Assistance Program from the other energy efficiency programs. On May 14, 2008, the KPSC approved the energy efficiency programs. On September 25, 2008, the KPSC approved Duke Energy Kentucky's Home Energy Assistance program, making it available for customers at or below 150% of the federal poverty level. On December 1, 2008, Duke Energy Kentucky filed an application for a new save-a-watt Energy Efficiency Plan. The application seeks a new energy efficiency recovery mechanism similar to what was proposed in Ohio. An evidentiary hearing with the KPSC is expected to occur in the third quarter of 2009.

Other Franchised Electric and Gas Matters

Midwest Independent Transmission System Operator, Inc. (Midwest ISO) Resource Adequacy Filing. On December 28, 2007, the Midwest ISO filed its Electric Tariff Filing Regarding Resource Adequacy in

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

2. Regulatory Matters (Continued)

compliance with the FERC's request of Midwest ISO to file Phase II of its long-term Resource Adequacy plan by December 2007. The proposal includes establishment of a resource adequacy requirement in the form of planning reserve margin. On March 26, 2008, the FERC ruled on the Midwest ISO's Resource Adequacy filing and ordered that the new Module E tariff be effective March 27, 2008. This action established a Midwest ISO-wide resource adequacy requirement for the first Planning Year, which begins June 2009. In the Order, the FERC, among other things, clarified that States have the authority to set their own Planning Reserve Margins, as long as they are not inconsistent with any reliability standard approved by the FERC.

Midwest ISO's Establishment of an Ancillary Services Market. On February 25, 2008, the FERC conditionally accepted the Midwest ISO proposal to implement a day-ahead and real-time ancillary services market (ASM), including a scarcity pricing proposal. By approving the ASM proposal, the FERC essentially approved the transfer and consolidation of Balancing Authority for the entire Midwest ISO area. This will allow the Midwest ISO to determine operating reserve requirements and procure operating reserves from all qualified resources from an organized market, in place of the current system of local management and procurement of reserves by the 24 Balancing Authorities. The Midwest ISO delayed the ASM launch date, previously scheduled for September 9, 2008 to January 6, 2009.

Other Matters.

Application for the Establishment of a Regulatory Asset. On November 14, 2008, Duke Energy Kentucky petitioned the KPSC for permission to create a regulatory asset to defer, for future recovery, approximately $5 million for its expenses incurred to repair damage and restore service to its customers following extensive storm-related damage caused by Hurricane Ike on September 14, 2008. The KPSC approved the requested accounting order on January 7, 2009.

3. Joint Ownership of Generating Facilities

Duke Energy Kentucky and Dayton Power & Light jointly own an electric generating unit.

Duke Energy Kentucky's share in the jointly-owned plant included on the December 31, 2008 Balance Sheet was as follows:

	Ownership Share	Property, Plant, and Equipment	Accumulated Depreciation	Construction Work in Progress
		(in thousands)		
Duke Energy Kentucky				
Production:				
East Bend Station	69.0	$422,532	$219,411	$4,652

Duke Energy Kentucky's share of revenues and operating costs of the above jointly owned generating facilities are included within the corresponding line on the Statements of Operations. Each participant in the jointly owned facilities must provide its own financing.

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

4. Income Taxes

The following details the components of income tax expense:

Income Tax Expense

	Year Ended December 31, 2008	Year Ended December 31, 2007
	(in thousands)	
Current income taxes		
Federal	**$10,889**	$11,387
State	**2,217**	2,364
Total current income taxes(a)	**13,106**	13,751
Deferred income taxes		
Federal	**6,634**	4,559
State	**1,063**	927
Total deferred income taxes	**7,697**	5,486
Investment tax credit amortization	**(777)**	(785)
Total income tax expense presented in Statements of Operations	**$20,026**	$18,452

(a) Included are FIN 48 benefits relating primarily to certain temporary differences of approximately $95 thousand for 2008 and no amount for 2007.

Reconciliation of Income Tax Expense at the U.S. Federal Statutory Tax Rate to the Actual Tax Expense (Statutory Rate Reconciliation)

	Year Ended December 31, 2008	Year Ended December 31, 2007
	(in thousands)	
Income tax expense, computed at the statutory rate of 35%	**$20,128**	$18,173
State income tax, net of federal income tax effect	**2,132**	2,139
Depreciation and other PP&E related differences	**51**	173
ITC amortization	**(777)**	(785)
Manufacturing Deduction	**(1,305)**	(477)
Other items, net	**(203)**	(771)
Total income tax expense from continuing operations	**$20,026**	$18,452
Effective Tax Rates	**34.8%**	35.5%

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

4. Income Taxes (Continued)

The manufacturing deduction was created by the American Job Creation Act of 2004 (the Act). The Act provides a deduction for income from qualified domestic production activities. During the years ended December 31, 2008 and 2007, the Act provided for a 6% deduction on qualified production activities.

Net Deferred Income Tax Liability Components

	As of December 31,	
	2008	2007
	(in thousands)	
Deferred credits and other liabilities	$ 696	$ 6,273
Other	8,741	3,250
Total deferred income tax assets	9,437	9,523
Investments and other assets	9,178	6,164
Accelerated depreciation rates	164,930	159,444
Regulatory assets and deferred debits	(315)	(1,144)
Total deferred income tax liabilities	173,793	164,464
Total net deferred income tax liabilities	$(164,356)	$(154,941)

The above amounts have been classified in the Balance Sheets as follows:

Net Deferred Income Tax Liabilities

	As of December 31,	
	2008	2007
	(in thousands)	
Current deferred tax assets/(liabilities), included in other current assets/(liabilities)	$ 7,495	$ 1,626
Non-current deferred tax liabilities	(171,851)	(153,315)
Total net deferred income tax liabilities	$(164,356)	$(154,941)

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

4. Income Taxes (Continued)

Changes to Unrecognized Tax Benefits

	2008 Increase/(Decrease) (in thousands)	2007 Increase/(Decrease) (in thousands)
Unrecognized Tax Benefits—January 1	$ 252	$ 420
Unrecognized Tax Benefits Changes		
Gross increases—tax positions in prior periods	0	0
Gross decreases—tax positions in prior periods	(252)	(10)
Gross increases—current period tax positions	0	0
Settlements	0	(158)
Total Changes	(252)	(168)
Unrecognized Tax Benefits—December 31	$ 0	$ 252

At December 31, 2008, and December 31, 2007, no portion of the total unrecognized tax benefits would, if recognized, affect the effective tax rate.

During the years ended December 31, 2008 and December 31, 2007, Duke Energy Kentucky recognized net interest income of approximately $224 thousand and net interest expense of approximately $215 thousand, respectively. At December 31, 2008 and December 31, 2007, Duke Energy Kentucky had approximately $529 thousand and $305 thousand, respectively, of interest receivable which reflects all interest related to income taxes, and no amount has been accrued for the payment of penalties in the Balance Sheets.

Duke Energy Kentucky has the following tax years open:

Jurisdiction	Tax Years
Federal	2000 and after
State	Closed through 2001, with the exception of any adjustments related to open federal years

5. Asset Retirement Obligations

Asset retirement obligations, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected costs for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate of fair value can be made. The present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred. This additional carrying amount is then depreciated over the life of the asset. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the asset retirement obligation (with corresponding adjustments to property, plant and equipment), which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired and changes in federal, state or local regulations, as well as for accretion of the liability due to the passage of time until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset.

DUKE ENERGY KENTUCKY, INC
Notes to Financial Statements (Continued)
For the Years Ended December 31, 2008 and 2007

5. Asset Retirement Obligations (Continued)

Asset retirement obligations at Duke Energy Kentucky relate primarily to the retirement of gas mains, asbestos abatement at certain generating stations and closure and post-closure activities of landfills. In accordance with SFAS No.143, Duke Energy Kentucky identified certain assets that have an indeterminate life, and thus the fair value of the retirement obligation is not reasonably estimable. These assets include transmission pipelines. A liability for these asset retirement obligations will be recorded when a fair value is determinable.

The following table presents the changes to liability associated with asset retirement obligations during the years ended December 31, 2008 and 2007:

Reconciliation of Asset Retirement Obligation Liability

	Years Ended December 31,	
	2008	2007
	(in thousands)	
Balance as of January 1,	**$6,179**	$ 8,266
Accretion expense	**345**	466
Liabilities settled(a)	**(134)**	(2,553)
Balance as of December 31,	**$6,390**	$ 6,179

(a) Liabilities settled are related to the retirement of gas mains.

Upon adoption of SFAS No. 143, Duke Energy Kentucky's regulated electric and regulated natural gas operations classifies removal costs for property that does not have an associated legal retirement obligation as a regulatory liability, in accordance with regulatory treatment under SFAS No. 71. The total amount of removal costs included in Regulatory Liabilities within Deferred Credits and Other Liabilities on the Balance Sheets was $33 million and $31 million as of December 31, 2008 and 2007, respectively.

6. Risk Management and Hedging Activities and Credit Risk

Duke Energy Kentucky has limited exposure to market price changes of fuel and emission allowance costs incurred for its retail customers due to the use of cost tracking and recovery mechanisms in the state of Kentucky. Duke Energy Kentucky does have exposure to the impact of market fluctuations in the prices of electricity, fuel and emission allowances associated with its generation output not utilized to serve native load or committed load (off-system, wholesale power sales). Exposure to interest rate risk exists as a result of the issuance of variable and fixed rate debt. Duke Energy Kentucky employs established policies and procedures to manage its risks associated with these market fluctuations using various commodity and financial derivative instruments, including swaps, futures, forwards and options.

Interest Rate (Fair Value or Cash Flow) Hedges. Changes in interest rates expose Duke Energy Kentucky to risk as a result of its issuance of variable and fixed rate debt. Duke Energy Kentucky manages its interest rate exposure by limiting its variable-rate exposures to a percentage of total capitalization and by monitoring the effects of market changes in interest rates. Duke Energy Kentucky

6. Risk Management and Hedging Activities and Credit Risk (Continued)

also enters into financial derivative instruments, including, but not limited to, interest rate swaps, swaptions and U.S. Treasury lock agreements to manage and mitigate interest rate risk exposure. Duke Energy Kentucky's existing interest rate derivative instruments and related ineffectiveness were insignificant to its results of operations, cash flows and financial position in 2008 and 2007.

Credit Risk. Where exposed to credit risk, Duke Energy Kentucky analyzes the counterparties' financial condition prior to entering into an agreement, establishes credit limits and monitors the appropriateness of those limits on an ongoing basis.

Duke Energy Kentucky's industry has historically operated under negotiated credit lines for physical delivery contracts. Duke Energy Kentucky may use master collateral agreements to mitigate certain credit exposures. The collateral agreements provide for a counterparty to post cash or letters of credit to the exposed party for exposure in excess of an established threshold. The threshold amount represents an unsecured credit limit, determined in accordance with the corporate credit policy. Collateral agreements also provide that the inability to post collateral is sufficient cause to terminate contracts and liquidate all positions.

Duke Energy Kentucky also obtains cash or letters of credit from customers to provide credit support outside of collateral agreements, where appropriate, based on its financial analysis of the customer and the regulatory or contractual terms and conditions applicable to each transaction.

7. Fair Value of Financial Assets and Liabilities

On January 1, 2008, Duke Energy Kentucky adopted SFAS No. 157. Duke Energy Kentucky's adoption of SFAS No. 157 is currently limited to financial instruments and to non-financial derivatives as, in February 2008, the FASB issued FSP No. 157-2, which delayed the effective date of SFAS No. 157 until January 1, 2009 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. There was no cumulative effect adjustment to retained earnings for Duke Energy Kentucky as a result of the adoption of SFAS No. 157.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP in the U.S. and expands disclosure requirements about fair value measurements. Under SFAS No. 157, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition under SFAS No. 157 focuses on an exit price, which is the price that would be received by Duke Energy Kentucky to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. Although SFAS No. 157 does not require additional fair value measurements, it applies to other accounting pronouncements that require or permit fair value measurements. In October 2008, the FASB issued FSP No. FAS 157-3, which illustrated key considerations in determining the fair value of a financial asset when the market for that asset is not active. The application of FSP FAS 157-3 did not change the way Duke Energy Kentucky determined fair value of its financial assets and liabilities.

7. Fair Value of Financial Assets and Liabilities (Continued)

Duke Energy Kentucky determines fair value of financial assets and liabilities based on the following fair value hierarchy, as prescribed by SFAS No. 157, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs—unadjusted quoted prices in active markets for identical assets or liabilities that Duke Energy Kentucky has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information. Duke Energy Kentucky does not adjust quoted market prices on Level 1 inputs for any blockage factor.

Level 2 inputs—inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.

Level 3 inputs—unobservable inputs for the asset or liability.

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), which permits entities to elect to measure many financial instruments and certain other items at fair value. For Duke Energy Kentucky, SFAS No. 159 was effective as of January 1, 2008 and had no impact on amounts presented for periods prior to the effective date. Duke Energy Kentucky does not currently have any financial assets or financial liabilities for which the provisions of SFAS No. 159 have been elected. However, in the future, Duke Energy Kentucky may elect to measure certain financial instruments at fair value in accordance with this standard.

The following table provides the fair value measurement amounts for assets and liabilities recorded in Other in both Current Assets and Current Liabilities and Other within Deferred Credits and Other Liabilities on Duke Energy Kentucky's Balance Sheets at fair value at December 31, 2008:

Description	Total Fair Value Amounts at December 31, 2008	Level 1	Level 2	Level 3
	(in thousands)			
Derivatives Assets	$ 178	$ —	$ —	$178
Derivatives Liabilities	$(7,977)	$ —	$(7,977)	$ —

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

7. Fair Value of Financial Assets and Liabilities (Continued)

The following table provides a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis where the determination of fair value includes significant unobservable inputs (Level 3):

	Derivatives (net)
	(in thousands)
Balance at January 1, 2008	$ 0
Total gains included on balance sheet	841
Net purchases, sales, issuances and settlements	(663)
Balance at December 31, 2008	$ 178

The valuation method of the primary fair value measurements disclosed above is as follows:

Fair Value Disclosures Required Under SFAS No. 107, "*Disclosures About Fair Value of Financial Instruments.*" The fair value of financial instruments, excluding financial assets included in the scope of SFAS No. 157 disclosed in the tables above, is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 2008 and 2007, are not necessarily indicative of the amounts Duke Energy Kentucky could have realized in current markets.

Financial Instruments

	As of December 31,			
	2008		2007	
	Book Value	Approximate Fair Value	Book Value	Approximate Fair Value
	(in thousands)			
Long-term debt, including current maturities	**$338,629**	**$327,228**	$287,012	$283,183

The fair value of cash and cash equivalents, accounts receivable, accounts payable and notes payable are not materially different from their carrying amounts because of the short-term nature of these instruments and/or because the stated rates approximate market rates.

8. Intangibles

The carrying amount of emission allowances in intangible assets as of December 31, 2008 and December 31, 2007 were $11 million and $7 million, respectively.

The carrying values of emission allowances sold or consumed were $5 million and $6 million as of December 31, 2008 and December 31, 2007, respectively.

The table below shows the expected amortization expense for the next five years for intangible assets as of December 31, 2007. The expected amortization expense includes estimates of emission allowances consumption. The amortization amounts discussed below are estimates. Actual amounts may differ from these estimates due to such factors as changes in consumption patterns, sales or

DUKE ENERGY KENTUCKY, INC
Notes to Financial Statements (Continued)
For the Years Ended December 31, 2008 and 2007

8. Intangibles (Continued)

impairments of emission allowances or other intangible assets, additional intangible acquisitions and other events.

	2009	2010-2012
	(in thousands)	
Expected Amortization expense	$10,503	—

9. Related Party Transactions

Duke Energy Kentucky engages in related party transactions. These transactions are generally performed at cost and in accordance with the applicable state and federal commission regulations. Balances due to or due from related parties included in the Balance Sheets as of December 31, 2008 and December 31, 2007 are as follows:

	December 31, 2008	December 31, 2007
	(in thousands)	
Accounts Receivable	**$10,765**	$ 3,660
Accounts Payable	**$13,478**	$26,429

Duke Energy Kentucky is charged its proportionate share of corporate governance and other costs by a consolidated affiliate of Duke Energy. Duke Energy Kentucky is also charged its proportionate share of other corporate governance costs from a consolidated affiliate of Cinergy. Corporate governance and other shared services costs are primarily related to human resources, legal and accounting fees, as well as other third party costs. The expenses associated with certain allocated corporate governance and other service costs for Duke Energy Kentucky, which are recorded in Operation, Maintenance and Other within Operating Expenses on the Statements of Operations were as follows:

	December 31, 2008	December 31, 2007
	(in thousands)	
Corporate governance and shared services expenses	**$56,979**	$47,495

Duke Energy Kentucky incurs expenses from Duke Energy Ohio related to purchasing network integration transmission service from the Midwest Independent Transmission System Operator (MISO) and ancillary services. These expenses, which are recorded in Operation, maintenance and other within Operating Expenses on the Consolidated Statements of Operations, were approximately $16 million and $17 million for the years ended December 31, 2008 and 2007, respectively.

See Note 15 for detail on expense amounts allocated from Cinergy to Duke Energy Kentucky related to Duke Energy Kentucky's participation in Cinergy's qualified and non-qualified defined benefit pension plans and post-retirement health care and insurance benefits. Additionally, Duke Energy Kentucky has been allocated accrued pension and other post-retirement and post-employment benefit obligations from Cinergy of approximately $39 million at December 31, 2008 and approximately

DUKE ENERGY KENTUCKY, INC
Notes to Financial Statements (Continued)
For the Years Ended December 31, 2008 and 2007

9. Related Party Transactions (Continued)

$23 million at December 31, 2007. The above amounts have been classified in the Balance Sheet as follows:

	December 31, 2008	December 31, 2007
	(in thousands)	
Other current liabilities	$ 108	$ 101
Accrued pension and other postretirement benefit costs	$39,195	$22,505

Additionally, certain trade receivables have been sold by Duke Energy Kentucky to Cinergy Receivables, an unconsolidated entity formed by Cinergy. The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables for a portion of the purchase price. This subordinated note is classified by Duke Energy Kentucky as Receivables in the Balance Sheets and was approximately $29 million as of December 31, 2008 and 2007. See Note 10 for additional information. See Note 12 for information on money pool.

10. Sales of Accounts Receivable

Accounts Receivable Securitization. Duke Energy Kentucky sells, on a revolving basis, nearly all of its retail accounts receivable and related collections to Cinergy Receivables, a bankruptcy remote, special purpose entity that is a wholly-owned limited liability company of Cinergy. The securitization transaction was structured to meet the criteria for sale treatment under SFAS No. 140, and, accordingly, Cinergy does not consolidate Cinergy Receivables and the transfers of receivables are accounted for as sales.

The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables for a portion of the purchase price (typically approximates 25 percent of the total proceeds). The note, which amounts to approximately $29 million at December 31, 2008 and 2007, is subordinate to senior loans that Cinergy Receivables obtain from commercial paper conduits controlled by unrelated financial institutions which is the source of funding for the subordinated note. This subordinated note is a retained interest (right to receive a specified portion of cash flows from the sold assets) under SFAS No. 140 and is classified within Receivables in the accompanying Balance Sheets at December 31, 2008 and 2007.

The carrying values of the retained interests are determined by allocating the carrying value of the receivables between the assets sold and the interests retained based on relative fair value. The key assumptions in estimating fair value are the anticipated credit losses, the selection of discount rates, and expected receivables turnover rate. Because (a) the receivables generally turnover in less than two months, (b) credit losses are reasonably predictable due to Duke Energy Kentucky's broad customer base and lack of significant concentration, and (c) the purchased beneficial interest is subordinate to all retained interests and thus would absorb losses first, the allocated bases of the subordinated notes are not materially different than their face value. Interest accrues to Duke Energy Kentucky on the retained interests using the accretable yield method, which generally approximates the stated rate on the notes since the allocated basis and the face value are nearly equivalent. An impairment charge is recorded against the carrying value of both the retained interests and purchased beneficial interest

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

10. Sales of Accounts Receivable (Continued)

whenever it is determined that an other-than-temporary impairment has occurred (which is unlikely unless credit losses on the receivables far exceed the anticipated level).

The key assumptions used in estimating the fair value are as follows:

	Years Ended December 31,	
	2008	2007
Anticipated credit loss rate	**0.9%**	0.9%
Discount rate on expected cash flows	**5.3%**	7.7%
Receivables turnover rate	**12.1%**	11.9%

The hypothetical effect on the fair value of the retained interests assuming both a 10% and a 20% unfavorable variation in credit losses or discount rates is not material due to the short turnover of receivables and historically low credit loss history.

Duke Energy Kentucky retains servicing responsibilities for its role as a collection agent on the amounts due on the sold receivables. However, Cinergy Receivables assumes the risk of collection on the purchased receivables without recourse to Duke Energy Kentucky in the event of a loss. While no direct recourse to Duke Energy Kentucky exists, it risks loss in the event collections are not sufficient to allow for full recovery of its retained interests. No servicing asset or liability is recorded since the servicing fee paid to Duke Energy Kentucky approximates a market rate.

The following table shows the gross and net receivables sold, retained interests, sales, and cash flows during the periods ending:

	December 31, 2008	December 31, 2007
	(in thousands)	
Receivables sold as of period end	**$ 71,340**	$ 63,936
Less: Retained interests	**28,530**	29,165
Net receivables sold as of period end	**$ 42,810**	$ 34,771
Sales during period		
Receivables sold	**$486,988**	$468,617
Loss recognized on sale	**5,350**	6,583
Cash flows during period		
Cash proceeds from receivables sold	**$484,916**	$453,052
Return received on retained interests	**3,214**	3,694

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

11. Property, Plant and Equipment

	Estimated Useful Life	December 31, 2008	December 31, 2007
	(Years)	(in thousands)	
Land	—	$ 17,755	$ 17,894
Plant			
Electric generation, distribution and transmission(a)	8 - 100	1,083,826	1,085,286
Natural gas transmission and distribution(a)	12 - 50	341,547	315,763
Other buildings and improvements(a)	15 - 100	29,063	29,064
Equipment	11 - 25	7,599	7,097
Vehicles	9 - 15	314	314
Construction in process	—	36,504	24,572
Other	5 - 10	20,177	19,367
Total property, plant and equipment		1,536,785	1,499,357
Total accumulated depreciation(b)		(625,727)	(617,530)
Total net property, plant and equipment		$ 911,058	$ 881,827

(a) Includes capitalized leases, for which the totals were $29 million for 2008 and $24 million for 2007.

(b) Includes accumulated amortization of capitalized leases: $3 million for 2008 and $2 million for 2007.

Capitalized interest, which includes the interest expense component of AFUDC, was less than $500 thousand for the years ended December 31, 2008 and 2007.

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

12. Debt and Credit Facilities

Summary of Debt and Related Terms

	Weighted-Average Rate	Year Due	December 31, 2008	December 31, 2007
			(in thousands)	
Unsecured debt	6.0%	2009 - 2036	**$175,000**	$195,000
Capital leases	5.6%	2009 - 2020	**13,126**	15,089
Other debt(a)	1.5%	2009 - 2027	**77,572**	77,571
Notes payable	2.3%	2012	**73,517**	—
Money Pool	.5%		**3,241**	27,470
Unamortized debt discount and premium, net			**(586)**	(648)
Total debt			**341,870**	314,482
Current maturities of long-term debt			**(22,461)**	(21,678)
Short-term notes payable			**(3,241)**	(27,470)
Total long-term debt			**$316,168**	$265,334

(a) Includes $77 million of Duke Energy Kentucky pollution control bonds as of December 31, 2008 and 2007.

Unsecured and Other Debt. In December 2008, Duke Energy Kentucky refunded $50 million of tax-exempt auction rate bonds through the issuance of $50 million of tax-exempt variable-rate demand bonds, which are supported by a direct-pay letter of credit. The variable-rate demand bonds, which are due August 1, 2027, had an initial interest rate of 0.65% which is reset on a weekly basis.

Money Pool. Duke Energy Kentucky receives support for its short-term borrowing needs through its participation with Duke Energy and other Duke Energy subsidiaries in a money pool arrangement. Under this arrangement, those companies with short-term funds may provide short-term loans to affiliates participating under this arrangement. The money pool is structured such that Duke Energy Kentucky separately manages its cash needs and working capital requirements. Accordingly, there is no net settlement of receivables and payables of the participating subsidiaries, as each entity independently participates in the money pool. As of December 31, 2008 and December 31, 2007, Duke Energy Kentucky had amounts outstanding of approximately $3 million and $27 million, respectively, classified within Notes payable in the Balance Sheets. During the years ended December 31, 2008 and 2007, the $24 million and $15 million decrease, respectively, in the money pool activity is reflected as a cash outflow in Notes payable and commercial paper within Net cash (used in) provided by financing activities on the Statements of Cash Flows.

Floating Rate Debt. Unsecured debt and other debt included approximately $150 million and $77 million of floating-rate debt as of December 31, 2008 and 2007, respectively. Floating-rate debt is primarily based on commercial paper rates or a spread relative to an index such as a London Interbank Offered Rate (LIBOR). As of December 31, 2008 and 2007, the weighted-average interest rate associated with floating-rate debt was approximately 1.9% and 4.4%, respectively.

12. Debt and Credit Facilities (Continued)

Auction Rate Debt. As of December 31, 2008 and 2007, Duke Energy Kentucky had approximately $27 million and $77 million, respectively, of auction rate pollution control bonds outstanding. While these debt instruments are long-term in nature and cannot be put back to Duke Energy Kentucky prior to maturity, the interest rates on these instruments are designed to reset periodically through an auction process. In February 2008, Duke Energy Kentucky began to experience failed auctions. When failed auctions occur on a series of this debt, Duke Energy Kentucky is required to pay the maximum auction rate as prescribed by the bond document. The maximum auction rate for the auction rate debt is 2.0 times one-month LIBOR. Payment of the failed-auction interest rates will continue until Duke Energy Kentucky is able to either successfully remarket these instruments through the auction process or refund and refinance the existing debt through the issuance of an equivalent amount of tax exempt bonds. As noted above, Duke Energy Kentucky refunded $50 million of these auction rate bonds in December 2008. While Duke Energy Kentucky intends to refund and refinance the remaining tax exempt auction rate bond, the timing of such refinancing transaction is uncertain and subject to market conditions. However, even if Duke Energy Kentucky is unable to successfully refund and refinance this debt instrument, the impact of paying higher interest rates on the outstanding auction rate debt is not expected to materially effect Duke Energy Kentucky's results of operations, cash flows or financial position. The weighted-average interest rate associated with Duke Energy Kentucky's auction rate pollution control bonds, was .94% as of December 31, 2008 and 4.39% as of December 31, 2007.

Maturities, Call Options and Acceleration Clauses.

Annual Maturities as of December 31, 2008

	(in thousands)
2009	$ 22,461
2010	1,628
2011	1,439
2012	75,126
2013	1,408
Thereafter	236,567
Total long-term debt (including current maturities)	$338,629

Duke Energy Kentucky has the ability under certain debt facilities to call and repay the obligation prior to its scheduled maturity. Therefore, the actual timing of future cash repayments could be materially different than the above as a result of Duke Energy Kentucky's ability to repay these obligations prior to their scheduled maturity.

Available Credit Facilities and Capacity Utilized Under Available Credit Facilities. In June 2007, Duke Energy closed the syndication of an amended and restated credit facility, which replaced existing credit facilities, with a 5-year, $2.65 billion master credit facility. In March 2008, Duke Energy entered into an amendment to its $2.65 billion master credit facility whereby the borrowing capacity was increased by $550 million to $3.2 billion. In October 2008, Duke Energy terminated the participation of one of the financial institutions supplying approximately $63 million of credit commitment under its

DUKE ENERGY KENTUCKY, INC
Notes to Financial Statements (Continued)
For the Years Ended December 31, 2008 and 2007

12. Debt and Credit Facilities (Continued)

master credit facility. The total credit facility capacity under the master credit facility subsequent to this termination is approximately $3.14 billion. Duke Energy has the unilateral ability under the master credit facility to increase or decrease the borrowing sub limits of each borrower, subject to maximum cap limitation, at any time. At December 31, 2008, Duke Energy Kentucky had borrowing sub limit under Duke Energy's master credit facility of $100 million. The amount available to Duke Energy Kentucky under their sub limit to Duke Energy's master credit facility has been reduced by drawdowns of cash, borrowings through the money pool arrangement, and the use of the master credit facility to backstop issuances of letters of credit, as discussed below.

In September 2008, Duke Energy and its wholly-owned subsidiaries, including Duke Energy Kentucky, borrowed a total of approximately $1 billion under Duke Energy's master credit facility. As of December 31, 2008, outstanding borrowings totaled approximately $750 million under Duke Energy's master credit facility, of which Duke Energy Kentucky's portion is approximately $74 million. The loan, which is a revolving credit loan, bears interest at one-month LIBOR plus an applicable spread of 24 basis points and is due in September 2009; however, Duke Energy Kentucky has the ability under the master credit facility to renew the loan up through the date the master credit facility matures, which is in June 2012. As Duke Energy Kentucky has the intent and ability to refinance this obligation on a long-term basis, either through renewal of the terms of the loan through the master credit facility, which has non-cancelable terms in excess of one-year, or through issuance of long-term debt to replace the amounts drawn under the master credit facility, Duke Energy Kentucky's borrowing is reflected as Long-Term Debt on the Balance Sheets at December 31, 2008. This borrowing reduces Duke Energy Kentucky's available credit capacity under Duke Energy's Master Credit Facility, as discussed above.

At December 31, 2008 and December 31, 2007, approximately $50 million and $0 million, respectively, of certain pollution control bonds, which are short-term obligations by nature, are classified as Long-Term Debt on the Consolidated Balance Sheets due to Duke Energy Kentucky's intent and ability to utilize such borrowings as long-term financing. Duke Energy Kentucky's credit facility with non-cancelable terms in excess of one year as of the balance sheet date give Duke Energy Kentucky the ability to refinance these short-term obligations on a long-term basis. The specific credit facility discussed below backstopped the $50 million of pollution control bonds outstanding at December 31, 2008.

In September 2008, Duke Energy Kentucky and Duke Energy Indiana, Inc., a wholly-owned subsidiary of Duke Energy, collectively entered into a $330 million letter of credit agreement with a syndicate of banks. Under this letter of credit agreement, Duke Energy Kentucky may request the issuance of letters of credit up to approximately $51 million on its behalf to support various series of variable rate demand bonds issued or to be issued on behalf of Duke Energy Kentucky. This credit facility, which is not part of Duke Energy's master credit facility, may not be used for any purpose other than to support variable rate demand bonds issued by Duke Energy Kentucky and Duke Energy Indiana, Inc.

Restrictive Debt Covenants. Duke Energy's debt and credit agreement contains various financial and other covenants, including, but not limited to, a covenant regarding the debt-to-total capitalization ratio at Duke Energy and Duke Energy Kentucky to not exceed 65%. Duke Energy Kentucky's debt agreements also contain various financial and other covenants. Failure to meet these covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As

12. Debt and Credit Facilities (Continued)

of December 31, 2008, Duke Energy and Duke Energy Kentucky were in compliance with all covenants that would impact Duke Energy Kentucky's ability to borrow funds under the debt and credit facilities. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment, or the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

13. Common Stock

Common Stock. Duke Energy Kentucky's common stock is wholly owned by Duke Energy Ohio. See Note 1 for additional information.

During the year ended December 31, 2008, Duke Energy Kentucky paid dividends of $30 million. Duke Energy Kentucky did not pay dividends during the year ended December 31, 2007.

14. Commitments and Contingencies

General Insurance

Effective with the date of the merger between Duke Energy and Cinergy, Duke Energy Kentucky carries, either directly or through Duke Energy's captive insurance company, Bison Insurance Company Limited, insurance and reinsurance coverages consistent with companies engaged in similar commercial operations with similar type properties. Duke Energy Kentucky's insurance coverage includes (1) commercial general public liability insurance for liabilities arising to third parties for bodily injury and property damage resulting from Duke Energy Kentucky's operations; (2) workers' compensation liability coverage to required statutory limits; (3) automobile liability insurance for all owned, non-owned and hired vehicles covering liabilities to third parties for bodily injury and property damage; (4) insurance policies in support of the indemnification provisions of Duke Energy Kentucky's by-laws and (5) property insurance covering the replacement value of all real and personal property damage, excluding electric transmission and distribution lines, including damages arising from boiler and machinery breakdowns, earthquake, flood damage and extra expense. All coverages are subject to certain deductibles, terms and conditions common for companies with similar types of operations.

Duke Energy Kentucky also maintains excess liability insurance coverage above the established primary limits for commercial general liability and automobile liability insurance. Limits, terms, conditions and deductibles are comparable to those carried by other companies with similar types of operations.

The cost of Duke Energy Kentucky's general insurance coverages continued to fluctuate over the past year reflecting the changing conditions of the insurance markets.

Environmental

Duke Energy Kentucky is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can be changed from time to time, imposing new obligations on Duke Energy Kentucky.

14. Commitments and Contingencies (Continued)

Remediation activities. Duke Energy Kentucky is responsible for environmental remediation at various contaminated sites. These include some properties that are part of ongoing Duke Energy Kentucky operations, sites formerly owned or used by Duke Energy Kentucky entities, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, Duke Energy Kentucky could potentially be held responsible for contamination caused by other parties. In some instances, Duke Energy Kentucky may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliate operations. Management, in the normal course of business, continually assesses the nature and extent of known or potential environmental-related contingencies and records liabilities when losses become probable and are reasonably estimable.

Clean Water Act 316(b). The Environmental Protection Agency (EPA) finalized its cooling water intake structures rule in July 2004. The rule established aquatic protection requirements for existing facilities that withdraw 50 million gallons or more of water per day from rivers, streams, lakes, reservoirs, estuaries, oceans, or other U.S. waters for cooling purposes. Coal-fired generating facilities in which Duke Energy Kentucky is either a whole or partial owner are affected sources under that rule. On January 25, 2007, the U.S. Court of Appeals for the Second Circuit issued its opinion in *Riverkeeper, Inc. v. EPA*, Nos. 04-6692-ag(L) et. al. (2d Cir. 2007) remanding most aspects of EPA's rule back to the agency. The court effectively disallowed those portions of the rule most favorable to industry, and the decision creates a great deal of uncertainty regarding future requirements and their timing. On April 14, 2008, the U.S. Supreme Court issued an order granting review of the case and briefs was filed on July 14, 2008. Oral argument occurred on December 2, 2008. A decision is expected in 2009. If the Supreme Court upholds the lower court decision, it is expected that costs will increase as a result of the court's decision; however, Duke Energy Kentucky is unable to estimate at this time its costs to comply.

Clean Air Interstate Rule (CAIR). The EPA finalized its CAIR in May 2005. The CAIR limits total annual and summertime NO_x emissions and annual SO_2 emissions from electric generating facilities across the Eastern U.S. through a two-phased cap-and-trade program. Phase 1 begins in 2009 for NO_x and in 2010 for SO_2. Phase 2 begins in 2015 for both NO_x and SO_2. On March 25, 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Circuit) heard oral argument in a case involving multiple challenges to the CAIR. On July 11, 2008, the D.C. Circuit issued its decision in *North Carolina v. EPA* No. 05-1244 vacating the CAIR. The EPA filed a petition for rehearing on September 24, 2008 with the D.C. Circuit asking the court to reconsider various parts of its ruling vacating CAIR. In December 2008, the D.C. Circuit issued a decision remanding the CAIR to the EPA without vacatur. EPA must now conduct a new rulemaking to modify the CAIR in accordance with the court's July 11, 2008 opinion. This decision means that the CAIR as initially finalized in 2005 remains in effect until the new EPA rule takes effect. The court did not impose a deadline or schedule on the EPA. It is uncertain how long the current CAIR will remain in effect or how the new rulemaking will alter the CAIR.

14. Commitments and Contingencies (Continued)

Duke Energy Kentucky is currently unable to estimate the costs to comply with any new rule the EPA will issue in the future as a result of the D.C. District Court's December 2008 decision discussed above.

Clean Air Mercury Rule (CAMR). The EPA finalized its CAMR in May 2005. The CAMR was to have limited total annual mercury emissions from coal-fired power plants across the U.S. through a two-phased cap-and-trade program beginning in 2010. On February 8, 2008, the D.C. Circuit issued its opinion in *New Jersey v. EPA*, No. 05-1097 vacating the CAMR. Requests for rehearing were denied. The U.S. EPA and the Utility Air Regulatory Group have requested that the U.S. Supreme Court review the D.C. Circuit's decision. The D.C. Circuit's decision creates uncertainty regarding future mercury emission reduction requirements and their timing, but makes it fairly certain that there will be a delay in the implementation of federal mercury requirements for existing coal-fired power plants. On January 29, 2009, the EPA requested the U.S. Department of Justice withdraw its Petition for Writ of Certiorari filed on October 17, 2008. On February 23, 2009, the Supreme Court denied the Utility Air Regulatory Group's petition. The EPA will not develop emission standards for utility units under section 112 of the Clean Air Act, thus abiding by the D.C. Circuit's decision. At this point, Duke Energy Kentucky is unable to estimate the costs to comply with any future mercury regulations that might result from the D.C. Circuit's decision.

Coal Combustion Product (CCP) Management. Duke Energy Kentucky currently estimates that it will spend approximately $2 million over the period 2009-2013 to install synthetic caps and liners at existing and new CCP landfills and to convert CCP handling systems from wet to dry systems.

Comprehensive Environmental Response, Compensation, and Liability Act Matter. In August 2008, Duke Energy Kentucky received a notice from the EPA that it has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act at the LWD, Inc., Superfund Site in Calvert City, Kentucky. At this time, Duke Energy Kentucky does not have any further information regarding the scope of potential liability associated with this matter.

Extended Environmental Activities and Accruals. Included in Other within Deferred Credits and Other Liabilities on the Balance Sheets were total accruals related to extended environmental-related activities of approximately $2 million as of both December 31, 2008 and 2007. These accruals represent Duke Energy Kentucky's provisions for costs associated with remediation activities at some of its current and former sites, as well as other relevant environmental contingent liabilities. Management, in the normal course of business, continually assesses the nature and extent of known or potential environmental-related contingencies and records liabilities when losses become probable and are reasonably estimable.

Litigation

Section 126 Petitions. In March 2004, the state of North Carolina filed a petition under Section 126 of the CAA in which it alleges that sources in 13 upwind states, including Kentucky, significantly contribute to North Carolina's non-attainment with certain ambient air quality standards. In August 2005, the EPA issued a proposed response to the petition. The EPA proposed to deny the ozone portion of the petition based upon a lack of contribution to air quality by the named states. The EPA also proposed to deny the particulate matter portion of the petition based upon the CAIR Federal

14. Commitments and Contingencies (Continued)

Implementation Plan (FIP) that would address the air quality concerns from neighboring states. On April 28, 2006, the EPA denied North Carolina's petition based upon the final CAIR FIP described above. North Carolina has filed a legal challenge to the EPA's denial. Briefing in that case is under way. The EPA has conceded that the D.C. Circuit's July 18, 2008 decision in the CAIR litigation, North Carolina v. EPA No. 05-1244, discussed above, and a subsequent order issued by the D.C. Circuit on December 23, 2008, have eliminated the legal basis for the EPA's denial of North Carolina's Section 126 petition. At this time, Duke Energy Kentucky cannot predict the outcome of this proceeding.

Carbon Dioxide (CO_2) Litigation. In July 2004, the states of Connecticut, New York, California, Iowa, New Jersey, Rhode Island, Vermont, Wisconsin and the City of New York brought a lawsuit in the U.S. District Court for the Southern District of New York against Cinergy, American Electric Power Company, Inc., American Electric Power Service Corporation, The Southern Company, Tennessee Valley Authority, and Xcel Energy Inc. A similar lawsuit was filed in the U.S. District Court for the Southern District of New York against the same companies by Open Space Institute, Inc., Open Space Conservancy, Inc., and The Audubon Society of New Hampshire. These lawsuits allege that the defendants' emissions of CO_2 from the combustion of fossil fuels at electric generating facilities contribute to global warming and amount to a public nuisance. The complaints also allege that the defendants could generate the same amount of electricity while emitting significantly less CO_2. The plaintiffs are seeking an injunction requiring each defendant to cap its CO_2 emissions and then reduce them by a specified percentage each year for at least a decade. In September 2005, the District Court granted the defendants' motion to dismiss the lawsuit. The plaintiffs have appealed this ruling to the Second Circuit Court of Appeals. Oral arguments were held before the Second Circuit Court of Appeals on June 7, 2006. It is not possible to predict with certainty whether Duke Energy Kentucky will incur any liability or to estimate the damages, if any, that Duke Energy Kentucky might incur in connection with this matter.

Hurricane Katrina Lawsuit. In April 2006, Cinergy was named in the third amended complaint of a purported class action lawsuit filed in the U.S. District Court for the Southern District of Mississippi. Plaintiffs claim that Cinergy, along with numerous other utilities, oil companies, coal companies and chemical companies, are liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that defendants' greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. On August 30, 2007, the court dismissed the case. The plaintiffs have filed their appeal to the Fifth Circuit Court of Appeals, and oral arguments were heard on August 6, 2008. Due to the late recusal of one of the judges on the Fifth Circuit panel, the court held a new oral argument on November 3, 2008. It is not possible to predict with certainty whether Duke Energy will incur any liability or to estimate the damages, if any, that Duke Energy might incur in connection with this matter.

Other Litigation and Legal Proceedings. Duke Energy Kentucky is involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which involve substantial amounts. Duke Energy Kentucky believes that the final disposition of these proceedings will not have a material adverse effect on its results of operations, cash flows or financial position.

14. Commitments and Contingencies (Continued)

Duke Energy Kentucky has exposure to certain legal matters that are described herein. As of December 31, 2008 and December 31, 2007, Duke Energy Kentucky has recorded insignificant reserves for these proceedings and exposures. Duke Energy Kentucky expenses legal costs related to the defense of loss contingencies as incurred.

Other Commitments and Contingencies

General. Duke Energy Kentucky enters into various commitments to purchase or sell power or capacity that may or may not be recognized on the Balance Sheets.

Operating and Capital Lease Commitments

Duke Energy Kentucky leases assets in several areas of its operations. Rental expense for operating leases was $6 million for the year ended December 31, 2008 and $4 million for the year ended December 31, 2007, which is included in Operation, Maintenance and Other on the Statements of Operations. Capitalized lease obligations are classified as debt on the Balance Sheets (see Note 12). Amortization of assets recorded under capital leases was included in Depreciation and Amortization on the Statements of Operations. The following is a summary of future minimum lease payments under operating leases, which at inception had a noncancelable term of more than one year, and capital leases as of December 31, 2008:

	Operating Leases	Capital Leases
	(in thousands)	
2009	$ 2,909	$ 2,519
2010	2,464	1,680
2011	2,135	1,492
2012	1,721	1,662
2013	1,550	1,461
Thereafter	4,044	4,311
Total future minimum lease payments	$14,823	$13,125

15. Employee Benefit Obligations

Cinergy Retirement Plans. Duke Energy Kentucky participates in qualified and non-qualified defined benefit pension plans as well as other post-retirement benefit plans sponsored by Cinergy. Cinergy allocates pension and other post-retirement obligations and costs related to these plans to Duke Energy Kentucky.

Upon consummation of the merger with Duke Energy, Cinergy's benefit plan obligations were remeasured. Cinergy updated the assumptions used to determine their accrued benefit obligations and prospective net periodic benefit/post-retirement costs to be allocated to Duke Energy Kentucky.

Cinergy adopted the change in measurement date transition requirements of SFAS No. 158 effective January 1, 2007 by remeasuring plan assets and benefit obligations as of that date. Previously, Cinergy used a September 30 measurement date for its defined benefit and other post-retirement plans.

15. Employee Benefit Obligations (Continued)

The adoption of SFAS No. 158 did not have a material impact on Duke Energy Kentucky's results of operations or cash flows. See Note 1 for additional information related to the adoption of SFAS No. 158.

Qualified Pension Plans

Cinergy's qualified defined benefit pension plans cover substantially all employees meeting certain minimum age and service requirements. The plans cover most employees using a cash balance formula. Under a cash balance formula, a plan participant accumulates a retirement benefit consisting of pay credits that are based upon a percentage (which varies with age and years of service) of current eligible earnings and current interest credits. Certain legacy Cinergy employees are covered under plans that use a final average earnings formula. Under a final average earnings formula, a plan participant accumulates a retirement benefit equal to a percentage of their highest 3-year average earnings, plus a percentage of the their highest 3-year average earnings in excess of covered compensation per year of participation (maximum of 35 years), plus a percentage of their highest 3-year average earnings times years of participation in excess of 35 years.

Funding for the qualified defined benefit pension plans is based on actuarially determined contributions, the maximum of which is generally the amount deductible for tax purposes and the minimum being that required by the Employee Retirement Income Security Act of 1974, as amended. The pension plans' assets consist of investments in equity and debt securities.

Actuarial gains and losses are amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the retirement plan is 11 years. Cinergy determines the market-related value of plan assets using a calculated value that recognizes changes in fair value of the plan assets over five years.

Duke Energy Kentucky's Qualified Pension Plan Pre-Tax Net Periodic Pension Benefit costs as allocated by Cinergy were as follows:

	December 31, 2008	December 31, 2007
	(in thousands)	
Qualified Pension Benefits	**$1,674**	$2,353

The fair value of Cinergy's plan assets was approximately $1,110 million and $1,701 million as of December 31, 2008 and 2007, respectively. The projected benefit obligation for the plans was approximately $1,992 million and $1,941 million as of December 31, 2008 and 2007, respectively. The accumulated benefit obligation for the plans was approximately $1,729 million as of December 31, 2008 and approximately $1,753 million at December 31, 2007. The accrued pension liability as allocated by Cinergy to Duke Energy Kentucky and recognized in Accrued pension and other postretirement benefit costs within the Balance Sheets at December 31, 2008 and 2007 was approximately $32 million and approximately $9 million, respectively. Regulatory assets, as allocated by Cinergy to Duke Energy Kentucky, and recognized in Other within Regulatory Assets and Deferred Debits on the Balance Sheets was approximately $28 million and $7 million as of December 31, 2008 and 2007, respectively.

15. Employee Benefit Obligations (Continued)

Duke Energy's policy is to fund amounts on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. Duke Energy did not make any contributions to its defined benefit retirement plans in 2008. Duke Energy made qualified pension benefit contributions of approximately $350 million to the legacy Cinergy qualified pension benefit plans during the year ended December 31, 2007, of which approximately $9 million represents contributions made by Duke Energy Kentucky. In February 2009, Duke Energy Kentucky made a cash contribution of approximately $14 million, which represented its proportionate share of an approximate $500 million total contribution to Cinergy's and Duke Energy's qualified pension plans.

Qualified Plans—Assumptions Used for Cinergy's Pension Benefits Accounting

	2008	2007
	Percentages	
Benefit Obligations		
Discount rate	6.50	6.00
Salary increase	5.00	5.00
Net Periodic Benefit Cost		
Discount rate	6.00	5.75
Salary increase	5.00	5.00
Expected long-term rate of return on plan assets	8.50	8.50

Non-Qualified Pension Plans

In addition, Cinergy also maintains, and Duke Energy Kentucky participates in, non-qualified, non-contributory defined benefit retirement plans (plans that do not meet the criteria for certain tax benefits) that cover officers, certain other key employees, and non-employee directors. There are no plan assets. The projected benefit obligation for the plans was approximately $113 million as of December 31, 2008 and approximately $105 million as of December 31, 2007. The accumulated benefit obligation for the plans was approximately $104 million as of December 31, 2008 and approximately $102 million at December 31, 2007. The accrued pension liability as allocated by Cinergy to Duke Energy Kentucky and recognized in Accrued pension and other postretirement benefit costs within the Balance Sheets at December 31, 2008 and 2007 was approximately $155 thousand and $131 thousand, respectively, and as recognized in Other within Current Liabilities on the Balance Sheets at December 31, 2008 and 2007 was approximately $11 thousand and $10 thousand, respectively.

Duke Energy Kentucky's Non-Qualified Pension Plan pre-tax Net Periodic Pension Benefit Costs as allocated by Cinergy were as follows:

	December 31, 2008	December 31, 2007
	(in thousands)	
Non-Qualified Pension	**$19**	**$19**

DUKE ENERGY KENTUCKY, INC
Notes to Financial Statements (Continued)
For the Years Ended December 31, 2008 and 2007

15. Employee Benefit Obligations (Continued)

Non-Qualified Plans—Assumptions Used for Cinergy's Pension Benefits Accounting

	2008	2007
	Percentages	
Benefit Obligations		
Discount rate	6.50	6.00
Salary increase	5.00	5.00
Net Periodic Benefit Cost		
Discount rate	6.00	5.75
Salary increase	5.00	5.00

Other Post-Retirement Benefit Plans

Duke Energy Kentucky participates in other postretirement benefit plans sponsored by Cinergy. Cinergy provides certain health care and life insurance benefits to retired employees and their eligible dependents on a contributory and non-contributory basis. These benefits are subject to minimum age and service requirements. The health care benefits include medical coverage, dental coverage, and prescription drug coverage and are subject to certain limitations, such as deductibles and co-payments. These benefit costs are accrued over an employee's active service period to the date of full benefits eligibility. The net unrecognized transition obligation is amortized over approximately 20 years. Actuarial gains and losses are amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the plan is 13 years. Duke Energy Kentucky's Other Post-Retirement Plan pre-tax Net Periodic Benefit costs as allocated by Cinergy were as follows:

	December 31, 2008	December 31, 2007
	(in thousands)	
Other Postretirement	**$547**	$1,559

The fair value of Cinergy's plans assets was approximately $23 million as of December 31, 2008 and $32 million as of December 31, 2007. The accumulated other post-retirement benefit obligation for the plans was approximately $330 million as of December 31, 2008 and $464 million as of December 31, 2007. The accrued other post-retirement liability as allocated by Cinergy to Duke Energy Kentucky and recognized in Accrued Pension and Other Postretirement Benefit Costs within the Balance Sheets at December 31, 2008 and 2007 was $7 million and $13 million, respectively. The accrued other post-retirement liability as allocated by Cinergy to Duke Energy Kentucky and recognized in Other within Current Liabilities on the Balance Sheets at December 31, 2008 and 2007 was $97 thousand and $86 thousand, respectively. Regulatory assets, as allocated by Cinergy to Duke Energy Kentucky, and recognized in Regulatory Assets and Deferred Debits within the Balance Sheets was approximately $1 million as of December 31, 2008 and $5 million as of December 31, 2007.

Duke Energy did not make any contributions to its other post-retirement plans in 2008. Duke Energy made other post-retirement plan contributions during 2007 of approximately $32 to the legacy Cinergy other post-retirement plans, of which approximately $1 million represents contribution made by Duke Energy Kentucky.

DUKE ENERGY KENTUCKY, INC

Notes to Financial Statements (Continued)

For the Years Ended December 31, 2008 and 2007

15. Employee Benefit Obligations (Continued)

Duke Energy Kentucky recognized regulatory assets related to its other post-retirement benefit plans of approximately a credit of $4 million and approximately zero as of December 31, 2008 and 2007, respectively, within the Balance Sheets.

Assumptions Used in Cinergy's Other Post-retirement Benefits Accounting

Determined Benefit Obligations	2008	2007
Discount rate	6.50	6.00
Determined Expense	**2008**	**2007**
Discount rate	6.00	5.75
Expected long-term rate of return on plan assets	8.50	8.50

Assumed Health Care Cost Trend Rates

	Medicare Trend Rate		Prescription Drug Trend Rate	
	2008	2007	2008	2007
Health care cost trend rate assumed for next year	8.50%	8.00%	11.00%	12.50%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2013	2013	2022	2022

16. Other Income and Expenses, net

The components of Other Income and Expenses, net on the Statements of Operations for the years ended December 31, 2008 and 2007 are as follows:

	December 31, 2008	December 31, 2007
	(in thousands)	
Income/(Expense):		
Interest Income	$4,020	$3,656
AFUDC Equity	778	219
Other	55	177
Total	$4,853	$4,052

17. Subsequent Events

For information on subsequent events related to regulatory matters, and commitments and contingencies, and employee benefit obligations, see Notes 2, 14 and 15, respectively.

DUKE ENERGY KENTUCKY, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Year To Date June 30,	
	2009	2008
	(in thousands)	
Operating Revenues		
Electric	**$162,025**	$152,046
Gas	**72,107**	93,780
Other	**8,811**	10,935
Total Operating Revenues	**242,943**	256,761
Operating Expenses		
Natural gas purchased	**46,709**	69,660
Operation, maintenance and other	**61,576**	62,002
Fuel used in electric generation and purchased power	**72,036**	67,314
Depreciation and amortization	**21,672**	18,070
Property and other taxes	**6,624**	6,064
Total Operating Expenses	**208,617**	223,110
Operating Income	**34,326**	33,651
Other Income and Expenses, net	**1,541**	2,557
Interest Expense	**8,241**	8,198
Income Before Income Taxes	**27,626**	28,010
Income Tax Expense	**11,076**	10,475
Net Income	**$ 16,550**	$ 17,535

See Notes to Unaudited Financial Statements

DUKE ENERGY KENTUCKY, INC.
BALANCE SHEETS
(UNAUDITED)

	June 30, 2009	December 31, 2008
	(in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 8,932	$ 11,768
Receivables (net of allowance for doubtful accounts of $334 at June 30, 2009 and $432 at December 31, 2008)	44,883	52,336
Inventory	35,375	33,045
Other	16,392	26,051
Total current assets	105,582	123,200
Investments and Other Assets		
Intangible assets	8,849	10,503
Other	3,802	4,392
Total investments and other assets	12,651	14,895
Property, Plant, and Equipment		
Cost	1,557,085	1,536,785
Less accumulated depreciation and amortization	634,053	625,727
Net property, plant, and equipment	923,032	911,058
Regulatory Assets and Deferred Debits		
Deferred debt expense	5,101	5,308
Regulatory Assets	45,198	47,742
Total regulatory assets and deferred debits	50,299	53,050
Total Assets	$1,091,564	$1,102,203
LIABILITIES AND COMMON STOCKHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	$ 35,803	$ 51,936
Notes payable	—	3,241
Taxes accrued	(11,826)	11,212
Interest accrued	2,974	3,828
Current maturities of long-term debt	22,562	22,461
Other	13,531	14,274
Total current liabilities	63,044	106,952
Long-term Debt	318,602	316,168
Deferred Credits and Other Liabilities		
Deferred income taxes	201,193	171,851
Investment tax credit	4,025	4,519
Accrued pension and other postretirement benefit costs	30,207	39,180
Regulatory liabilities	43,394	40,482
Asset retirement obligations	6,555	6,390
Other	13,969	22,636
Total deferred credits and other liabilities	299,343	285,058
Commitments and Contingencies (See Note 9)		
Common Stockholder's Equity		
Common stock—$15.00 par value; 1,000,000 shares authorized and 585,333 shares outstanding at June 30, 2009 and December 31, 2008	8,780	8,780
Paid-in capital	167,494	167,494
Retained earnings	234,301	217,751
Total common stockholder's equity	410,575	394,025
Total Liabilities and Common Stockholder's Equity	$1,091,564	$1,102,203

See Notes to Unaudited Financial Statements

DUKE ENERGY KENTUCKY, INC.

STATEMENTS OF CHANGES IN COMMON STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) Net Gains (Losses) on Cash Flow Hedges	Total Common Stockholder's Equity
Balance at December 31, 2007	$8,780	$167,494	$210,270	$(998)	$385,546
Net income			17,535		17,535
Other comprehensive income					
Cash flow hedges, net of tax expense of $628				998	998
Total comprehensive income					18,533
Balance at June 30, 2008	$8,780	$167,494	$227,805	$ —	$404,079
Balance at December 31, 2008	$8,780	$167,494	$217,751	$ —	$394,025
Net income and total comprehensive income			16,550		16,550
Balance at June 30, 2009	$8,780	$167,494	$234,301	$ —	$410,575

See Notes to Unaudited Financial Statements

DUKE ENERGY KENTUCKY, INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2009	2008
	(in thousands)	
Cash Flows from Operating Activities		
Net income	**$ 16,550**	$ 17,535
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**21,976**	18,369
Deferred income taxes	**30,943**	(1,938)
Regulatory asset/liability amortization	**870**	903
Contribution to company sponsored pension plan	**(13,554)**	—
Accrued pension and other postretirement benefit costs	**639**	1,483
(Increase) decrease in:		
Net realized and unrealized mark-to-market and hedging transactions	**529**	(423)
Receivables	**17,083**	18,451
Inventory	**(2,330)**	(10,337)
Other current assets	**9,120**	10,700
Increase (decrease) in:		
Accounts payable	**(14,550)**	20,394
Taxes accrued	**(23,132)**	(3,404)
Other current liabilities	**(1,587)**	484
Regulatory asset/liability deferrals	**(4,072)**	3,416
Other assets	**3,991**	914
Other liabilities	**(5,814)**	(2,465)
Net cash provided by operating activities	**36,662**	74,082
Cash Flows from Investing Activities		
Capital expenditures	**(30,826)**	(30,532)
Notes from affiliate, net	**(7,923)**	—
Sale of Emission Allowances	**22**	190
Other	**7**	65
Net cash used in investing activities	**(38,720)**	(30,277)
Cash Flows from Financing Activities		
Proceeds from the:		
Issuance of long-term debt	**3,429**	—
Payments for the redemption of:		
Long-term debt	**(925)**	(20,886)
Notes payable and commercial paper	**(3,241)**	(19,807)
Other	**(41)**	(80)
Net cash used in financing activities	**(778)**	(40,773)
Net (decrease) increase in cash and cash equivalents	**(2,836)**	3,032
Cash and cash equivalents at beginning of period	**11,768**	9,302
Cash and cash equivalents at end of period	**$ 8,932**	$ 12,334

See Notes to Unaudited Financial Statements

DUKE ENERGY KENTUCKY, INC

Notes to Unaudited Financial Statements

1. Basis of Presentation

Nature of Operations. Duke Energy Kentucky, Inc. (Duke Energy Kentucky), a Kentucky corporation organized in 1901, is a combination electric and gas public utility company that provides service in northern Kentucky. Duke Energy Kentucky's principal lines of business include generation, transmission and distribution of electricity as well as the sale of and/or transportation of natural gas. Duke Energy Kentucky's common stock is wholly owned by Duke Energy Ohio, Inc. (Duke Energy Ohio), an Ohio corporation organized in 1837, which is wholly owned by Cinergy Corp. (Cinergy), a Delaware corporation organized in 1993. Cinergy is a wholly owned subsidiary of Duke Energy Corporation (Duke Energy).

These statements reflect Duke Energy Kentucky's proportionate share of the East Bend generating station which is jointly owned with Dayton Power & Light.

These Unaudited Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present Duke Energy Kentucky's financial position and results of operations. Amounts reported in the interim Unaudited Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, regulatory rulings, the timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices, and other factors.

Use of Estimates. To conform to generally accepted accounting principles (GAAP) in the United States (U.S.), management makes estimates and assumptio ns that affect the amounts reported in the Unaudited Financial Statements and Notes. Although these estimates are based on management's best available knowledge at the time, actual results could differ.

Unbilled Revenue. Revenues on sales of electricity and gas are recognized when either the service is provided or the product is delivered. Unbilled retail revenues are estimated by applying an average revenue per kilowatt-hour or per thousand cubic feet (Mcf) for all customer classes to the number of estimated kilowatt-hours or Mcfs delivered but not billed. Unbilled wholesale energy revenues are calculated by applying the contractual rate per megawatt hour (MWh) to the number of estimated MWh delivered, but not yet billed. Unbilled wholesale demand revenues are calculated by applying the contractual rate per megawatt (MW) to the MW volume not yet billed. The amount of unbilled revenues can vary significantly from period to period as a result of factors including seasonality, weather, customer usage patterns and customer mix. Unbilled revenues, which are primarily recorded as Receivables on the Balance Sheets, primarily relate to wholesale sales and were approximately $1 million at June 30, 2009 and December 31, 2008. Additionally, Duke Energy Kentucky sells, on a revolving basis, nearly all of its retail accounts receivable and related collections to Cinergy Receivables Company, LLC (Cinergy Receivables), a bankruptcy remote, special purpose entity that is a wholly-owned limited liability company of Cinergy. The securitization transaction was structured to meet the criteria for sale treatment under Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125" (SFAS No. 140), and, accordingly, the transfers of receivables are accounted for as sales. Receivables for unbilled revenues of approximately $15 million and $26 million at June 30, 2009 and December 31, 2008, respectively, related to retail accounts receivable at Duke Energy Kentucky were included in the sales of accounts receivable to Cinergy Receivables. See Note 13 for additional information regarding Cinergy Receivables.

2. Inventory

Inventory consists primarily of coal held for electric generation; materials and supplies; and natural gas held in storage for transmission and sales commitments. Inventory is recorded primarily using the average cost method.

	June 30, 2009	December 31, 2008
	(in thousands)	
Coal held for electric generation	$20,581	$18,445
Materials and supplies	13,656	13,360
Natural gas	1,138	1,240
Total Inventory	$35,375	$33,045

Effective November 1, 2008, Duke Energy Kentucky executed agreements with a third party to transfer title of natural gas inventory purchased by Duke Energy Kentucky to the third party. Under the agreements, the gas inventory will be stored and managed for Duke Energy Kentucky and will be delivered on demand. The gas storage agreements will expire on October 31, 2009, unless extended by the third party for an additional 12 months. As a result of the agreements, the combined natural gas inventory of approximately $6 million and $10 million being held by a third party as of June 30, 2009 and December 31, 2008, respectively, has been classified as Other within Current Assets on the Consolidated Balance Sheets.

3. Debt and Credit Facilities

Money Pool. Duke Energy Kentucky receives support for its short-term borrowing needs through its participation with Duke Energy and other Duke Energy subsidiaries in a money pool arrangement. Under this arrangement, those companies with short-term funds may provide short-term loans to affiliates participating under this arrangement. The money pool is structured such that Duke Energy Kentucky separately manages its cash needs and working capital requirements. Accordingly, there is no net settlement of receivables and payables of the participating subsidiaries, as each entity independently participates in the money pool. As of June 30, 2009, Duke Energy Kentucky had a receivable balance of approximately $8 million, which is classified within Receivables in the accompanying Balance Sheets. As of December 31, 2008, Duke Energy Kentucky had amounts outstanding of approximately $3 million, which is classified within Notes Payable in the accompanying Balance Sheets. The $8 million increase in the money pool activity during the six months ended June 30, 2009 is reflected in Notes from affiliate, net within Net cash used in investing activities on the Statements of Cash Flows. In addition, the $3 million decrease in the money pool activity during the six months ended June 30, 2009 is reflected in Notes payable and commercial paper within Net cash used in financing activities on the Statements of Cash Flows.

Available Credit Facilities and Capacity Utilized Under Available Credit Facilities. The total credit facility capacity under Duke Energy's master credit facility is approximately $3.14 billion. Duke Energy has the unilateral ability under the master credit facility to increase or decrease the borrowing sub limits of each borrower, subject to maximum cap limitation, at any time. At June 30, 2009, Duke Energy Kentucky had a borrowing sub limit under Duke Energy's master credit facility of $100 million. The amount available to Duke Energy Kentucky under their sub limits to Duke Energy's master credit facility has been reduced by drawdowns of cash, borrowings through the money pool arrangement, and

3. Debt and Credit Facilities (Continued)

the use of the master credit facility to backstop issuances of letters of credit and pollution control bonds, as discussed below.

At June 30, 2009, Duke Energy and its wholly-owned subsidiaries, including Duke Energy Kentucky, had outstanding borrowings of approximately $750 million under Duke Energy's master credit facility, of which Duke Energy Kentucky's portion is $74 million. The loans, which are revolving credit loans, bear interest at one-month London Interbank Offered Rate (LIBOR) plus an applicable spread ranging from 19 to 24 basis points and are due in September 2009; however, Duke Energy Kentucky has the ability under the master credit facility to renew the loan up through the date the master credit facility matures, which is in June 2012. As Duke Energy Kentucky has the intent and ability to refinance this obligation on a long-term basis, either through renewal of the terms of the loan through the master credit facility, which has non-cancelable terms in excess of one-year, or through issuance of long-term debt to replace the amounts drawn under the master credit facility, Duke Energy Kentucky's borrowing is reflected as Long-Term Debt on the Balance Sheets at June 30, 2009. This borrowing reduces Duke Energy Kentucky's available credit capacity under Duke Energy's master credit facility, as discussed above.

At both June 30, 2009 and December 31, 2008, approximately $50 million of certain pollution control bonds, which are short-term obligations by nature, are classified as Long-Term Debt on the Balance Sheets due to Duke Energy Kentucky's intent and ability to utilize such borrowings as long-term financing. Duke Energy Kentucky's credit facility with non-cancelable terms in excess of one year as of the balance sheet date give Duke Energy Kentucky the ability to refinance these short-term obligations on a long-term basis. This specific purpose credit facility backstopped the $50 million of pollution control bonds outstanding at June 30, 2009.

Restrictive Debt Covenants. Duke Energy's debt and credit agreement contains various financial and other covenants. Duke Energy Kentucky's debt agreements also contain various financial and other covenants. Failure to meet these covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of June 30, 2009, Duke Energy and Duke Energy Kentucky were in compliance with all covenants that would impact Duke Energy Kentucky's ability to borrow funds under the debt and credit facilities. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment, or the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

4. Employee Benefit Obligations

Duke Energy Kentucky participates in pension and other post-retirement benefit plans sponsored by Cinergy. Duke Energy Kentucky's net periodic benefit costs as allocated by Cinergy were as follows:

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in thousands)	
Qualified Pension Benefits	$298	$837
Other Postretirement Benefits	$331	$636

4. Employee Benefit Obligations (Continued)

Duke Energy's policy is to fund amounts for its U.S. qualified pension plans on an actuarial basis to provide assets sufficient to meet benefit payments to be paid to plan participants. In February 2009, Duke Energy Kentucky made a cash contribution of approximately $14 million, which represented its proportionate share of an approximate $500 million total contribution to Cinergy's and Duke Energy's qualified pension plans. Duke Energy did not make contributions to the legacy Cinergy qualified or non-qualified pension plans during the six months ended June 30, 2008. Duke Energy does not anticipate making additional contributions to the legacy Cinergy qualified or non-qualified pension plans during the remainder of 2009. Cinergy also sponsors employee savings plans that cover substantially all employees. Duke Energy Kentucky expensed pre-tax employer matching contributions of approximately $439 thousand and $514 thousand for the six months ended June 30, 2009 and 2008.

5. Intangibles

The carrying amount of emission allowances in intangible assets as of June 30, 2009 and December 31, 2008 is $9 million and $11 million, respectively.

During the six months ended June 31, 2009 and 2008, the carrying value of emission allowances sold or consumed was $3 million and $2 million, respectively.

6. Related Party Transactions

Duke Energy Kentucky engages in related party transactions which are generally performed at cost and in accordance with the applicable state and federal commission regulations. Balances due to or due from related parties included in the Balance Sheets as of June 30, 2009 and December 31, 2008 are as follows:

	June 30, 2009	December 31, 2008
	(in thousands)	
Accounts Receivable	$ 2,551	$10,765
Accounts Payable	$11,663	$13,478

Duke Energy Kentucky is charged its proportionate share of corporate governance and other costs by a consolidated affiliate of Duke Energy. Duke Energy Kentucky is also charged its proportionate share of other corporate governance costs from a consolidated affiliate of Cinergy. Corporate governance and other shared services costs are primarily related to human resources, legal and accounting fees, as well as other third party costs. The expenses associated with certain allocated corporate governance and other shared service costs for Duke Energy Kentucky, which are recorded in Operation, Maintenance and Other within Operating Expenses on the Statements of Operations were $40 million for the six months ended June 30, 2009 and 2008.

See Note 4 for detail on expense amounts allocated from Cinergy to Duke Energy Kentucky related to Duke Energy Kentucky's participation in Cinergy's qualified and non-qualified defined benefit pension plans and post-retirement health care and insurance benefits. Additionally, Duke Energy Kentucky has been allocated accrued pension and other post-retirement and post-employment benefit obligations from Cinergy of approximately $29 million at June 30, 2009 and approximately

DUKE ENERGY KENTUCKY, INC

Notes to Unaudited Financial Statements (Continued)

6. Related Party Transactions (Continued)

$39 million at December 31, 2008. The above amounts have been classified in the Balance Sheet as follows:

	June 30, 2009	December 31, 2008
	(in thousands)	
Other current liabilities	**$ 108**	$ 108
Accrued pension and other postretirement benefit costs	**$29,088**	$39,195

As discussed in Note 1, certain trade receivables have been sold by Duke Energy Kentucky to Cinergy Receivables. The proceeds obtained from the sales of receivables are largely cash, but do include a subordinated note from Cinergy Receivables for a portion of the purchase price. This subordinated note is classified as Receivables in the Balance Sheets and was approximately $26 million and $29 million as of June 30, 2009 and December 31, 2008, respectively. The interest income associated with the subordinated note, which is recorded in Other Income and Expenses, net on the Statements of Operations, was approximately $1 million and $2 million for the six months ended June 30, 2009 and 2008, respectively.

As discussed further in Note 3, Duke Energy Kentucky participates in a money pool arrangement with Duke Energy and other Duke Energy subsidiaries. As of March 31, 2009, Duke Energy Kentucky was in a receivable position of approximately $8 million. As of December 31, 2008, Duke Energy Kentucky was in a payable position of approximately $3 million.

7. *Risk Management Instruments*

Duke Energy Kentucky has limited exposure to market price changes of fuel and emission allowance costs incurred for its retail customers due to the use of cost tracking and recovery mechanisms in the state of Kentucky. Duke Energy Kentucky does have exposure to the impact of market fluctuations in the prices of electricity, fuel and emission allowances associated with its generation output not utilized to serve native load or committed load. Exposure to interest rate risk exists as a result of the issuance of variable and fixed rate debt. Duke Energy Kentucky employs established policies and procedures to manage its risks associated with these market fluctuations using various commodity and financial derivative instruments, including swaps, futures, forwards and options.

Interest Rate (Fair Value or Cash Flow) Hedges. Changes in interest rates expose Duke Energy Kentucky to risk as a result of its issuance of variable and fixed rate debt. Duke Energy Kentucky manages its interest rate exposure by limiting its variable-rate exposures to a percentage of total capitalization and by monitoring the effects of market changes in interest rates. Duke Energy Kentucky also enters into interest rate swaps to manage and mitigate interest rate risk exposure.

Duke Energy Kentucky's recognized interest rate derivative ineffectiveness was not material to its results of operations, cash flows or financial position in 2009 and 2008.

See Note 10 for additional information related to the fair value of Duke Energy Kentucky's derivative instruments.

8. Regulatory Matters

Franchised Electric and Gas

Rate Related Information. The Kentucky Public Service Commission (KPSC) approves rates for retail electric and gas services within the Commonwealth of Kentucky.

Duke Energy Kentucky Gas Rate Cases. In 2002, the KPSC approved Duke Energy Kentucky's gas base rate case which included, among other things, recovery of costs associated with an accelerated gas main replacement program. The approval authorized a tracking mechanism to recover certain costs including depreciation and a rate of return on the program's capital expenditures. The Kentucky Attorney General appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism as well as the KPSC's subsequent approval of annual rate adjustments under this tracking mechanism. In 2005, both Duke Energy Kentucky and the KPSC requested that the court dismiss these cases.

In February 2005, Duke Energy Kentucky filed a gas base rate case with the KPSC requesting approval to continue the tracking mechanism and for a $14 million annual increase in base rates. A portion of the increase was attributable to recovery of the current cost of the accelerated gas main replacement program in base rates. In June 2005, the Kentucky General Assembly enacted Kentucky Revised Statute 278.509 (KRS 278.509), which specifically authorizes the KPSC to approve tracker recovery for utilities' gas main replacement programs. In December 2005, the KPSC approved an annual rate increase of $8 million and re-approved the tracking mechanism through 2011. In February 2006, the Kentucky Attorney General appealed the KPSC's order to the Franklin Circuit Court, claiming that the order improperly allows Duke Energy Kentucky to increase its rates for gas main replacement costs in between general rate cases, and also claiming that the order improperly allows Duke Energy Kentucky to earn a return on investment for the costs recovered under the tracking mechanism which permits Duke Energy Kentucky to recover its gas main replacement costs.

In August 2007, the Franklin Circuit Court consolidated all the pending appeals and ruled that the KPSC lacks legal authority to approve the gas main replacement tracking mechanism, which were approved prior to enactment of KRS 278.509. To date, Duke Energy Kentucky has collected approximately $9 million in annual rate adjustments under the tracking mechanism. Per the KPSC order, Duke Energy Kentucky collected these revenues subject to refund pending the final outcome of this litigation. Duke Energy Kentucky and the KPSC have requested that the Kentucky Court of Appeals grant a rehearing of its decision. On February 5, 2009, the Kentucky Court of Appeals denied the rehearing requests of both Duke Energy Kentucky and the KPSC. Duke Energy Kentucky filed a motion for discretionary review to the Kentucky Supreme Court on March 9, 2009. At this time, Duke Energy Kentucky cannot predict whether the Kentucky Supreme Court will accept the case for review.

On July 1, 2009, Duke Energy Kentucky filed its application for an increase of approximately $17.5 million in base natural gas rates. Duke Energy Kentucky also proposed to implement a new rate design for residential customers, which involves moving more of the fixed charges of providing gas service, such as capital investment in pipes and regulating equipment, billing and meter reading, from the per unit charges to the monthly charge. The application is pending and at this time, Duke Energy Kentucky cannot predict the outcome of this proceeding. A procedural schedule excluding a hearing date was issued on July 31, 2009. Intervenor testimony is due on October 12, 2009. Discovery from intervenors must be completed by November 9, 2009. Duke Energy Kentucky must file rebuttal testimony by November 23, 2009.

DUKE ENERGY KENTUCKY, INC

Notes to Unaudited Financial Statements (Continued)

8. Regulatory Matters (Continued)

Duke Energy Kentucky Electric Rate Case. In May 2006, Duke Energy Kentucky filed an application for an increase in its base electric rates of approximately $67 million in revenue, or approximately 28 percent, to be effective in January 2007 pursuant to the KPSC's 2003 Order approving the transfer of 1,100 MW of generating assets from Duke Energy Ohio to Duke Energy Kentucky. In the fourth quarter of 2006, the KPSC approved the settlement agreement resolving all the issues raised in the proceeding. Among other things, the settlement agreement provided for a $49 million increase in Duke Energy Kentucky's base electric rates and reinstitution of the fuel cost recovery mechanism, which had been frozen since 2001. The settlement agreement also provided for Duke Energy Kentucky to obtain KPSC approval for a back-up power supply plan. In January 2007, Duke Energy Kentucky filed a back-up power supply plan with the KPSC which was approved in March 2007. The back-up power supply plan included provisions for purchasing fixed-price products for backup power associated with planned outages using fixed price products, and from the Day-Ahead and Real-Time energy markets available from the Midwest Independent Transmission System Operator, Inc. (Midwest ISO) for forced outages.

Energy Efficiency. On November 15, 2007, Duke Energy Kentucky filed its annual application to continue existing energy efficiency programs, consisting of nine residential and two commercial and industrial programs, and to true-up its gas and electric tracking mechanism for recovery of lost revenues, program costs and shared savings. On February 11, 2008, Duke Energy Kentucky filed a motion to amend its energy efficiency programs and applied to reinstitute a low income Home Energy Assistance Program. The KPSC bifurcated the proposed Home Energy Assistance Program from the other energy efficiency programs. On May 14, 2008, the KPSC approved the energy efficiency programs. On September 25, 2008, the KPSC approved Duke Energy Kentucky's Home Energy Assistance program, making it available for customers at or below 150% of the federal poverty level. On December 1, 2008, Duke Energy Kentucky filed an application for a save-a-watt Energy Efficiency Plan. The application seeks a new energy efficiency recovery mechanism similar to what was proposed in Ohio. On August 21, 2009, the evidentiary hearing with the KPSC scheduled to occur on August 27, 2009 was continued by Order of the Commission. The Order allows for a brief continuance to allow for additional discovery. A new hearing date will be determined.

Application for the Establishment of a Regulatory Asset. On November 14, 2008, Duke Energy Kentucky petitioned the KPSC for permission to create a regulatory asset to defer, for future recovery, approximately $5 million for its expenses incurred to repair damage and restore service to its customers following extensive storm-related damage caused by Hurricane Ike on September 14, 2008. The KPSC approved the requested accounting order on January 7, 2009.

Midwest Independent Transmission System Operator, Inc. (Midwest ISO) Resource Adequacy Filing. On December 28, 2007, the Midwest ISO filed its Electric Tariff Filing Regarding Resource Adequacy in compliance with the FERC's request of Midwest ISO to file Phase II of its long-term Resource Adequacy plan by December 2007. The proposal includes establishment of a resource adequacy requirement in the form of planning reserve margin. On March 26, 2008, the FERC ruled on the Midwest ISO's Resource Adequacy filing and ordered that the new Module E tariff be effective March 27, 2008. This action established a Midwest ISO-wide resource adequacy requirement for the first Planning Year, which began June 2009. In the Order, the FERC, among other things, clarified that States have the authority to set their own Planning Reserve Margins, as long as they are not inconsistent with any reliability standard approved by the FERC.

8. Regulatory Matters (Continued)

Midwest ISO's Establishment of an Ancillary Services Market (ASM). On February 25, 2008, the FERC conditionally accepted the Midwest ISO proposal to implement a day-ahead and real-time ASM, including a scarcity pricing proposal. By approving the ASM proposal, the FERC essentially approved the transfer and consolidation of balancing authority for the entire Midwest ISO area. This will allow the Midwest ISO to determine operating reserve requirements and procure operating reserves from all qualified resources from an organized market, in place of the current system of local management and procurement of reserves by the 24 balancing authorities in the Midwest ISO area. The Midwest ISO launched the ASM on January 6, 2009.

9. Commitments and Contingencies

Environmental

Duke Energy Kentucky is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can be changed from time to time, imposing new obligations on Duke Energy Kentucky.

Remediation activities. Duke Energy Kentucky and its affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of ongoing Duke Energy Kentucky operations, sites formerly owned or used by Duke Energy Kentucky entities, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, Duke Energy Kentucky could potentially be held responsible for contamination caused by other parties. In some instances, Duke Energy Kentucky may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliate operations.

Included in Other Deferred Credits and Other Liabilities on the Balance Sheets were total accruals related to extended environmental-related activities of approximately $1 million and $2 million as of June 30, 2009 and December 31, 2008, respectively. These accruals represent Duke Energy Kentucky's provisions for costs associated with remediation activities at some of its current and former sites, as well as other relevant environmental contingent liabilities. Management, in the normal course of business, continually assesses the nature and extent of known or potential environmental-related contingencies and records liabilities when losses become probable and are reasonably estimable.

Clean Water Act 316(b). The U.S. Environmental Protection Agency (EPA) finalized its cooling water intake structures rule in July 2004. The rule established aquatic protection requirements for existing facilities that withdraw 50 million gallons or more of water per day from rivers, streams, lakes, reservoirs, estuaries, oceans, or other U.S. waters for cooling purposes. Coal-fired generating facilities in which Duke Energy Kentucky is either a whole or partial owner are affected sources under that rule. On April 1, 2009, the U.S. Supreme Court ruled in favor of the plaintiff that the EPA may consider costs when determining which technology option each site should implement. Depending on how the cost-benefit analysis is incorporated into the revised EPA rule, the analysis could narrow the range of technology options required for the affected facilities. Because of the wide range of potential outcomes, Duke Energy Kentucky is unable to estimate its costs to comply at this time.

DUKE ENERGY KENTUCKY, INC

Notes to Unaudited Financial Statements (Continued)

9. Commitments and Contingencies (Continued)

Clean Air Interstate Rule (CAIR). The EPA finalized its CAIR in May 2005. The CAIR limits total annual and summertime NO_x emissions and annual SO_2 emissions from electric generating facilities across the Eastern U.S. through a two-phased cap-and-trade program. Phase 1 begins in 2009 for NO_x and in 2010 for SO_2. Phase 2 begins in 2015 for both NO_x and SO_2. On March 25, 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Circuit) heard oral argument in a case involving multiple challenges to the CAIR. On July 11, 2008, the D.C. Circuit issued its decision in *North Carolina v. EPA* No. 05-1244 vacating the CAIR. The EPA filed a petition for rehearing on September 24, 2008 with the D.C. Circuit asking the court to reconsider various parts of its ruling vacating CAIR. In December 2008, the D.C. Circuit issued a decision remanding the CAIR to the EPA without vacatur. EPA must now conduct a new rulemaking to modify the CAIR in accordance with the court's July 11, 2008 opinion. This decision means that the CAIR as initially finalized in 2005 remains in effect until the new EPA rule takes effect. The court did not impose a deadline or schedule on the EPA. It is uncertain how long the current CAIR will remain in effect or how the new rulemaking will alter the CAIR.

Duke Energy Kentucky is currently unable to estimate the costs to comply with any new rule the EPA will issue in the future as a result of the D.C. District Court's December 2008 decision discussed above.

Coal Combustion Product (CCP) Management. Duke Energy Kentucky currently estimates that it will spend approximately $2 million over the period 2009-2013 to install synthetic caps and liners at existing and new CCP landfills and to convert CCP handling systems from wet to dry systems.

Comprehensive Environmental Response, Compensation, and Liability Act Matter. In August 2008, Duke Energy Kentucky received a notice from the EPA that it has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act at the LWD, Inc., Superfund Site in Calvert City, Kentucky. At this time, Duke Energy Kentucky does not have any further information regarding the scope of potential liability associated with this matter.

Litigation

Section 126 Petitions. In March 2004, the state of North Carolina filed a petition under Section 126 of the CAA in which it alleges that sources in 13 upwind states, including Kentucky, significantly contribute to North Carolina's non-attainment with certain ambient air quality standards. In August 2005, the EPA issued a proposed response to the petition. The EPA proposed to deny the ozone portion of the petition based upon a lack of contribution to air quality by the named states. The EPA also proposed to deny the particulate matter portion of the petition based upon the CAIR Federal Implementation Plan (FIP), that would address the air quality concerns from neighboring states. On April 28, 2006, the EPA denied North Carolina's petition based upon the final CAIR FIP described above. North Carolina has filed a legal challenge to the EPA's denial. Briefing in that case is under way. On March 5, 2009 the D.C. Circuit remanded the case to the EPA for reconsideration. The EPA has conceded that the D.C. Circuit's July 18, 2008 decision in the CAIR litigation, *North Carolina v. EPA* No. 05-1244, discussed above, and a subsequent order issued by the D.C. Circuit on December 23, 2008, have eliminated the legal basis for the EPA's denial of North Carolina's Section 126 petition. At this time, Duke Energy Kentucky cannot predict the outcome of this proceeding.

Carbon Dioxide (CO_2) Litigation. In July 2004, the states of Connecticut, New York, California, Iowa, New Jersey, Rhode Island, Vermont, Wisconsin and the City of New York brought a lawsuit in

DUKE ENERGY KENTUCKY, INC

Notes to Unaudited Financial Statements (Continued)

9. Commitments and Contingencies (Continued)

the U.S. District Court for the Southern District of New York against Cinergy, American Electric Power Company, Inc., American Electric Power Service Corporation, The Southern Company, Tennessee Valley Authority, and Xcel Energy Inc. A similar lawsuit was filed in the U.S. District Court for the Southern District of New York against the same companies by Open Space Institute, Inc., Open Space Conservancy, Inc., and The Audubon Society of New Hampshire. These lawsuits allege that the defendants' emissions of CO_2 from the combustion of fossil fuels at electric generating facilities contribute to global warming and amount to a public nuisance. The complaints also allege that the defendants could generate the same amount of electricity while emitting significantly less CO_2. The plaintiffs are seeking an injunction requiring each defendant to cap its CO_2 emissions and then reduce them by a specified percentage each year for at least a decade. In September 2005, the District Court granted the defendants' motion to dismiss the lawsuit. The plaintiffs have appealed this ruling to the Second Circuit Court of Appeals. Oral argument was held before the Second Circuit Court of Appeals on June 7, 2006. It is not possible to predict with certainty whether Duke Energy Kentucky will incur any liability or to estimate the damages, if any, that Duke Energy Kentucky might incur in connection with this matter.

Hurricane Katrina Lawsuit. In April 2006, Cinergy was named in the third amended complaint of a purported class action lawsuit filed in the U.S. District Court for the Southern District of Mississippi. Plaintiffs claim that Cinergy, along with numerous other utilities, oil companies, coal companies and chemical companies, are liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that defendants' greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. On August 30, 2007, the court dismissed the case. The plaintiffs have filed their appeal to the Fifth Circuit Court of Appeals, and oral arguments were heard on August 6, 2008. Due to the late recusal of one of the judges on the Fifth Circuit panel, the court held a new oral argument on November 3, 2008. It is not possible to predict with certainty whether Duke Energy Kentucky will incur any liability or to estimate the damages, if any, that Duke Energy Kentucky might incur in connection with this matter.

Other Litigation and Legal Proceedings. Duke Energy Kentucky is involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which involve substantial amounts. Duke Energy Kentucky believes that the final disposition of these proceedings will not have a material adverse effect on its results of operations, cash flows or financial position.

Duke Energy Kentucky has exposure to certain legal matters that are described herein. As of June 30, 2009 and December 31, 2008, Duke Energy Kentucky has recorded insignificant reserves for these proceedings and exposures. Duke Energy Kentucky expenses legal costs related to the defense of loss contingencies as incurred.

10. Fair Value of Financial Assets and Liabilities

On January 1, 2008, Duke Energy Kentucky adopted SFAS No. 157 for financial instruments and non-financial derivatives. In February 2008, the FASB issued FSP No. 157-2, "*Effective Date of FASB Statement No. 157*," which delayed the effective date of SFAS No. 157 until January 1, 2009 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Accordingly, effective January 1, 2009, Duke Energy Kentucky adopted SFAS No. 157 for non-financial assets and liabilities. Duke Energy Kentucky did not record any cumulative effect adjustment to retained earnings as a result of the adoption of SFAS No. 157.

10. Fair Value of Financial Assets and Liabilities (Continued)

SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP in the U.S. and expands disclosure requirements about fair value measurements. Under SFAS No. 157, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition under SFAS No. 157 focuses on an exit price, which is the price that would be received by Duke Energy Kentucky to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. Although SFAS No. 157 does not require additional fair value measurements, it applies to other accounting pronouncements that require or permit fair value measurements.

Duke Energy Kentucky determines fair value of financial assets and liabilities based on the following fair value hierarchy, as prescribed by SFAS No. 157, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs—unadjusted quoted prices in active markets for identical assets or liabilities that Duke Energy Kentucky has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information. Duke Energy Kentucky does not adjust quoted market prices on Level 1 inputs for any blockage factor.

Level 2 inputs—inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.

Level 3 inputs—unobservable inputs for the asset or liability.

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), which permits entities to elect to measure many financial instruments and certain other items at fair value. For Duke Energy Kentucky, SFAS No. 159 was effective as of January 1, 2008 and had no impact on amounts presented for periods prior to the effective date. Duke Energy Kentucky does not currently have any financial assets or financial liabilities for which the provisions of SFAS No. 159 have been elected. However, in the future, Duke Energy Kentucky may elect to measure certain financial instruments at fair value in accordance with this standard.

The following table provides the fair value measurement amounts for assets and liabilities recorded in Unrealized gains on mark-to-market and hedging transactions and Unrealized losses on

DUKE ENERGY KENTUCKY, INC

Notes to Unaudited Financial Statements (Continued)

10. Fair Value of Financial Assets and Liabilities (Continued)

mark-to-market and hedging transactions on Duke Energy Kentucky's Balance Sheets at fair value at June 30, 2009:

	Total Fair Value Amounts at June 30, 2009	Level 1	Level 2	Level 3
		(in thousands)		
Description				
Derivative Assets	$ 65	$—	$ —	$65
Derivative Liabilities	(4,222)	—	(4,222)	—
Net (Liabilities) Assets	$(4,157)	$—	$(4,222)	$65

	Total Fair Value Amounts at December 31, 2008	Level 1	Level 2	Level 3
		(in thousands)		
Description				
Derivative Assets	$ 178	$—	$ —	$178
Derivative Liabilities	(7,977)	—	(7,977)	—
Net (Liabilities) Assets	$(7,799)	$—	$(7,977)	$178

The following table provides a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis where the determination of fair value includes significant unobservable inputs (Level 3):

Rollforward of Level 3 Measurements

	Derivatives (net)
	(in thousands)
Balance at January 1, 2009	$ 178
Total gains included on balance sheet	108
Net purchases, sales, issuances and settlements	(221)
Balance at June 30, 2009	$ 65
Balance at January 1, 2008	$ —
Total gains included on balance sheet	646
Net purchases, sales, issuances and settlements	—
Balance at June 30, 2008	$ 646

Fair Value Disclosures Required Under FSP No. FAS 107-1 and Accounting Principles Board (APB) 28-1, "*Interim Disclosures About Fair Value of Financial Instruments*." The fair value of financial instruments, excluding financial assets and certain financial liabilities included in the scope of SFAS No. 157 disclosed in the tables above, is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined

DUKE ENERGY KENTUCKY, INC

Notes to Unaudited Financial Statements (Continued)

10. Fair Value of Financial Assets and Liabilities (Continued)

as of June 30, 2009 and December 31, 2008 are not necessarily indicative of the amounts Duke Energy Kentucky could have realized in current markets.

	As of June 30, 2009		As of December 31, 2008	
	Book Value	Approximate Fair Value	Book Value	Approximate Fair Value
	(in thousands)			
Long-term debt, including current maturities	$341,164	$338,933	$338,629	$327,228

The fair value of cash and cash equivalents, accounts receivable, restricted funds held in trust, accounts payable and notes payable are not materially different from their carrying amounts because of the short-term nature of these instruments and/or because the stated rates approximate market rates.

11. New Accounting Standards

The following new accounting standards were adopted by Duke Energy Kentucky subsequent to June 30, 2008 and the impact of such adoption, if applicable, has been presented in the accompanying Financial Statements:

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment to FASB Statement No. 133" (SFAS No. 161). In March 2008, the FASB issued SFAS No. 161, which amends and expands the disclosure requirements for derivative instruments and hedging activities prescribed by SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities.*" SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. Duke Energy Kentucky adopted SFAS No. 161 as of January 1, 2009. The adoption of SFAS No. 161 did not have any impact on Duke Energy Kentucky's results of operations, cash flows or financial position. See Note 10 for the disclosures required under SFAS No. 161.

The following new accounting standards have been issued, but have not yet been adopted by Duke Energy Kentucky as of June 30, 2009:

SFAS No. 166, "Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140" (SFAS No. 166). In June 2009, the FASB issued SFAS No. 166, which revises SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS No. 140), to require additional information about transfers of financial assets, including securitization transactions, as well as additional information about an enterprise's continuing exposure to the risks related to transferred financial assets. SFAS No. 166 also eliminates the concept of a qualifying special-purpose entity (QSPE) and requires those entities, which were not subject to consolidation under SFAS No. 140 and FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" (FIN No. 46R), to now be assessed for consolidation. In addition, this statement clarifies and amends the derecognition criteria for transfers of financial assets (including transfers of portions of financial assets) and requires additional disclosures about a transferor's continuing involvement in transferred financial assets. For Duke Energy Kentucky, SFAS No. 166 is effective prospectively for transfers of financial assets occurring on or after January 1, 2010, and early adoption of this statement is prohibited. As described further in Note 13, since 2002, Duke Energy Kentucky has sold, on a revolving basis, nearly

DUKE ENERGY KENTUCKY, INC

Notes to Unaudited Financial Statements (Continued)

11. New Accounting Standards (Continued)

all of its accounts receivable and related collections through Cinergy Receivables, a bankruptcy-remote QSPE. The securitization transaction was structured to meet the criteria for sale accounting treatment under SFAS No. 140, and accordingly, the transfers have been accounted for as sales. Upon adoption of SFAS No. 166, the accounting treatment and/or financial statement presentation of Duke Energy Kentucky's accounts receivable securitization programs could potentially be impacted, as Cinergy Receivables must be assessed for consolidation and any transfers of accounts receivables on or after the effective date of SFAS No. 166 would be subject to that statement's amended derecognition criteria for financial assets. Duke Energy Kentucky is currently evaluating the potential impact of the adoption of SFAS No. 166, and is unable to estimate at this time the impact of SFAS No. 166 on its results of operations, cash flows or financial position.

SFAS No. 167, "Amendments to FASB Interpretation No. 46R" (SFAS No. 167). In June 2009, the FASB issued SFAS No. 167, which amends FIN No. 46R to eliminate the exemption from consolidation for QSPEs, and clarifies, but does not significantly change, the criteria for determining whether an entity meets the definition of a variable interest entity (VIE). SFAS No. 167 also requires an enterprise to qualitatively assess the determination of the primary beneficiary of a VIE based on whether that enterprise has both the power to direct matters that most significantly impact the activities of a VIE and the obligation to absorb losses or the right to receive benefits of a VIE that could potentially be significant to a VIE. In addition, SFAS No. 167 modifies FIN No. 46R to require an ongoing evaluation of a VIE's primary beneficiary and amends the types of events that trigger a reassessment of whether an entity is a VIE. Furthermore, SFAS No. 167 requires enterprises to provide additional disclosures about their involvement with VIEs and any significant changes in their risk exposure due to that involvement. For Duke Energy Kentucky, SFAS No. 167 is effective beginning on January 1, 2010, and is applicable to all entities in which Duke Energy Kentucky is involved with, including entities previously subject to the provisions of FIN No. 46R, as well as any QSPEs that exist as of the effective date. Early adoption of SFAS No. 167 is prohibited. Duke Energy Kentucky is currently evaluating the potential impact of the adoption of SFAS No. 167, and is unable to estimate at this time the impact of SFAS No. 167 on its results of operations, cash flows or financial position.

SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" (SFAS No. 168). In June 2009, the FASB issued SFAS No. 168, which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP. On the effective date of SFAS No. 168, which is for financial statements issued for interim and annual periods ending after September 15, 2009, the Codification will supersede all then-existing non-SEC accounting and reporting standards. Once the Codification is in effect, all of its content will carry the same level of authority, thus superseding SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," and the GAAP hierarchy will include only two levels of GAAP: authoritative and non-authoritative. While the adoption of SFAS No. 168 will not have an impact on the accounting followed in Duke Energy Kentucky's financial statements, SFAS No. 168 will impact the references to authoritative and non-authoritative accounting literature contained within the Notes.

12. Income Taxes and Other Taxes

The taxable income of Duke Energy Kentucky is reflected in Duke Energy's U.S. federal and state income tax returns. Duke Energy Kentucky has a tax sharing agreement with Duke Energy, where the separate return method is used to allocate tax expenses and benefits to the subsidiaries whose investments or results of operations provide these tax expenses and benefits. The accounting for income taxes essentially represents the income taxes that Duke Energy Kentucky would incur if Duke Energy Kentucky were a separate company filing its own tax return as a C-Corporation.

Duke Energy Kentucky has the following tax years open:

Jurisdiction	Tax Years
Federal	2005 and after
State	Closed through 2001, with the exception of any adjustments related to open federal years

Income tax expense for the six months ended June 30, 2009 increased $601 thousand compared to the same period in 2008. This increase is primarily the result of an increase in the effective tax rate that is partially offset by lower pre-tax income for the six months ended June 30, 2009 compared to 2008. The effective tax rate increased for the six months ended June 30, 2009 (40.1%) compared to the same period in 2008 (37.4%) and is primarily due to a true up of prior year taxes related to the manufacturing deduction.

13. Sales of Accounts Receivable

Accounts Receivable Securitization. Duke Energy Kentucky sells, on a revolving basis, nearly all of its retail accounts receivable and related collections to Cinergy Receivables. The securitization transaction was structured to meet the criteria for sale treatment under SFAS No. 140 and, accordingly, the transfers of receivables are accounted for as sales. However, as discussed further in Note 11, the accounting treatment and/or the financial statement presentation of Cinergy Receivables could potentially be impacted by the adoption of SFAS No. 166 and SFAS No. 167 on January 1, 2010.

The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables for a portion of the purchase price (typically approximates 25 percent of the total proceeds). The note, which amounts to approximately $26 million and $29 million at June 30, 2009 and December 31, 2008, respectively, is subordinate to senior loans that Cinergy Receivables obtain from commercial paper conduits controlled by unrelated financial institutions which is the source of funding for the subordinated note. This subordinated note is a retained interest (right to receive a specified portion of cash flows from the sold assets) under SFAS No. 140 and is classified within Receivables in the accompanying Balance Sheets at June 30, 2009 and December 31, 2008.

In 2008, the governing purchase and sale agreement was amended to allow Cinergy Receivables to convey its bankrupt receivables to the applicable originator for consideration equal to the fair market value of such receivables as of the disposition date. The amount of bankrupt receivables sold is limited to 1% of aggregate sales of the originator during the most recently completed 12 month period. Cinergy Receivables and Duke Energy Kentucky completed a sale under this amendment in 2008.

Duke Energy Kentucky retains servicing responsibilities for its role as a collection agent on the amounts due on the sold receivables. However, Cinergy Receivables assumes the risk of collection on the purchased receivables without recourse to Duke Energy Kentucky in the event of a loss. While no

13. Sales of Accounts Receivable (Continued)

direct recourse to Duke Energy Kentucky exists, it risks loss in the event collections are not sufficient to allow for full recovery of its retained interests. No servicing asset or liability is recorded since the servicing fee paid to Duke Energy Kentucky approximates a market rate.

The carrying value of the retained interest is determined by allocating the carrying value of the receivables between the assets sold and the interests retained based on relative fair value. The key assumptions used in estimating the fair value for 2009 were an anticipated credit loss ratio of .9%, a discount rate of 2.8% and a receivable turnover rate of 12.2%. Because (a) the receivables generally turnover in less than two months, (b) credit losses are reasonably predictable due to Duke Energy Kentucky's broad customer base and lack of significant concentration, and (c) the purchased beneficial interest is subordinate to all retained interests and thus would absorb losses first, the allocated bases of the subordinated notes are not materially different than their face value. The hypothetical effect on the fair value of the retained interests assuming both a 10% and a 20% unfavorable variation in credit losses or discount rates is not material due to the short turnover of receivables and historically low credit loss history. Interest accrues to Duke Energy Kentucky on the retained interests using the accretable yield method, which generally approximates the stated rate on the notes since the allocated basis and the face value are nearly equivalent. An impairment charge is recorded against the carrying value of both the retained interests and purchased beneficial interest whenever it is determined that an other-than-temporary impairment has occurred.

The following table shows the gross and net receivables sold, retained interests, sales, and cash flows during the six months ended June 30, 2009:

	Six Months Ended June 30, 2009
	(in thousands)
Receivables sold as of June 30,	$ 53,613
Less: Retained interests	25,744
Net receivables sold as of June 30,	$ 27,869
Sales	
Receivables sold	$260,635
Loss recognized on sale	2,145
Cash flows	
Cash proceeds from receivables sold	$261,276
Collection fees received	130
Return received on retained interests	1,340

14. Subsequent Events

No significant events have occurred subsequent to June 30, 2009. Management has evaluated these Unaudited Financial Statements and Notes for subsequent events up through August 25, 2009.

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Kentucky

4.65% Debentures due 2019

OFFERING MEMORANDUM
SEPTEMBER 17, 2009

SOLE BOOK-RUNNING MANAGER

KEYBANC CAPITAL MARKETS

Duke Energy Kentucky, Inc. 144A Proj: P26359CHI09 Job: 09ZDG45901 (09-26359-1) Color1: Mred
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THE UNION LIGHT, HEAT AND POWER COMPANY

AND

DEUTSCHE BANK TRUST COMPANY AMERICAS, Trustee

Indenture

Dated as of December 1, 2004

Trust Indenture Act Section	Indenture Section
Section 310(a)(1)	609
(a)(2)	609
(a)(3)	Not Applicable
(a)(4)	Not Applicable
(b)	608
	610
Section 311(a)	613
(b)	613
Section 312(a)	701
	702
(b)	702
(c)	702
Section 313(a)	703
(b)	703
(c)	703
(d)	703
Section 314(a)	704
(a)(4)	101
	1004
(b)	Not Applicable
(c)(1)	102
(c)(2)	102
(c)(3)	Not Applicable
(d)	Not Applicable
(e)	102
Section 315(a)	601
(b)	602
(c)	601
(d)	601
(e)	514
Section 316(a)	101
(a)(1)(A)	502
	512
(a)(1)(B)	513
(a)(2)	Not Applicable
(b)	508
(c)	104
Section 317(a)(1)	503
(a)(2)	504
(b)	1003
Section 318(a)	107

Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

THE UNION LIGHT, HEAT AND POWER COMPANY

Indenture

Dated as of December 1, 2004

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INDENTURE, dated as of December 1, 2004, between The Union Light, Heat and Power Company, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company"), having its principal office at 139 East Fourth Street, Cincinnati, Ohio 45202, and Deutsche Bank Trust Company Americas, a New York banking corporation, as Trustee (herein called the "Trustee").

Recitals of the Company

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the "Securities"), to be issued in one or more series as in this Indenture provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

Now, therefore, this Indenture witnesseth:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually agreed, subject to Article Fourteen, if applicable, for the equal and proportionate benefit of the Holders of the Securities of each series thereof, as follows:

ARTICLE ONE

Definitions and Other Provisions of General Application

Section 101. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles;

(4) unless the context otherwise requires, any reference to an "Article" or a "Section" refers to an Article or a Section, as the case may be, of this Indenture; and

(5) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Act", when used with respect to any Holder, has the meaning specified in Section 104.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 614 to act on behalf of the Trustee to authenticate Securities of one or more series.

"Board of Directors" means the board of directors of the Company, or any duly authorized committee of that board, or any Person duly authorized to act on behalf of that board.

"Board Resolution" means a copy of a resolution or resolutions certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day", when used with respect to any Place of Payment, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by law or executive order to close.

"Commission" means the Securities and Exchange Commission, from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company either by (i) its Chairman of the Board, its Vice Chairman, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee, or (ii) any two Persons designated in a Board Resolution, or in a Company Order previously delivered to the Trustee signed by any two of the foregoing, and delivered to the Trustee.

"Corporate Trust Office" means the office of the Trustee for Securities of any series at which at any particular time its corporate trust business shall be principally administered, which office at the date of execution of this Indenture is located at

"Corporation" means a corporation, association, company, joint-stock company or business trust.

"Covenant Defeasance" has the meaning specified in Section 1303.

"Defaulted Interest" has the meaning specified in Section 307.

"Defeasance" has the meaning specified in Section 1302.

"Depositary" means, with respect to Securities of any series issuable in whole or in part in the form of one or more Global Securities, a clearing agency registered under the Exchange Act that is designated to act as Depositary for such Securities as contemplated by Section 301.

"Event of Default" has the meaning specified in Section 501.

"Exchange Act" means the Securities Exchange Act of 1934 and any statute successor thereto, in each case as amended from time to time.

"Expiration Date" has the meaning specified in Section 104.

"Global Security" means a Security that evidences all or part of the Securities of any series and bears the legend set forth in Section 204 (or such legend as may be specified as contemplated by Section 301 for such Securities).

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively. The term "Indenture" shall also include the terms of particular series of Securities established as contemplated by Section 301.

"interest", when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"Investment Company Act" means the Investment Company Act of 1940 and any statute successor thereto, in each case as amended from time to time.

"Junior Subordinated Securities" shall have the meaning specified in Section 1401.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Notice of Default" means a written notice of the kind specified in Section 501(4).

"Officers' Certificate" means a certificate signed in the same manner and by Persons as provided for in a Company Request or a Company Order, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be an employee of or counsel for the Company.

"Original Issue Discount Security" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(1) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(2) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(3) Securities as to which Defeasance has been effected pursuant to Section 1302; and

(4) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given, made or taken any request, demand, authorization, direction, notice, consent, waiver or other action hereunder as of any date, (A) the principal amount of an Original Issue Discount Security which shall be deemed to be Outstanding shall be the amount of the principal thereof which would be due and payable as of such date upon acceleration of the

Maturity thereof to such date pursuant to Section 502, (B) if, as of such date, the principal amount payable at the Stated Maturity of a Security is not determinable, the principal amount of such Security which shall be deemed to be Outstanding shall be the amount as specified or determined as contemplated by Section 301, (C) the principal amount of a Security denominated in one or more foreign currencies or currency units which shall be deemed to be Outstanding shall be the U.S. dollar equivalent, determined as of such date in the manner provided as contemplated by Section 301, of the principal amount of such Security (or, in the case of a Security described in Clause (A) or (B) above, of the amount determined as provided in such Clause), and (D) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, waiver or other action, only Securities which the Trustee actually knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means, if not the Company, then any Person authorized by the Company to pay the principal of or any premium or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment", when used with respect to the Securities of any series, means the place or places where the principal of and any premium and interest on the Securities of that series are payable as specified as contemplated by Section 301.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 301.

"Responsible Officer", when used with respect to the Trustee, means any vice president, any assistant vice-president, any trust officer or assistant trust officer of the Trustee assigned to the Trustee's corporate trust department and customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular

corporate trust matter, any other officer to whom such matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Securities Act" means the Securities Act of 1933 and any statute successor thereto, in each case as amended from time to time.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Senior Debt" of the Company means the principal of, premium, if any, interest on and any other payment due pursuant to any of the following, whether outstanding at the date of execution of this Indenture or thereafter incurred, created or assumed: (a) all indebtedness of the Company evidenced by notes, debentures, bonds or other securities sold by the Company for money, excluding Junior Subordinated Securities, but including all first mortgage bonds of the Company outstanding from time to time; (b) all indebtedness of others of the kinds described in the preceding clause (a) assumed by or guaranteed in any manner by the Company, including through an agreement to purchase, contingent or otherwise; and (c) all renewals, extensions or refundings of indebtedness of the kinds described in any of the preceding clauses (a) and (b); unless, in the case of any particular indebtedness, renewal, extension or refunding, the instrument creating or evidencing the same or the assumption or guarantee of the same expressly provides that such indebtedness, renewal, extension or refunding is not superior in right of payment to or is pari passu with the Junior Subordinated Securities.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity", when used with respect to any Security or any installment of principal thereof or interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such installment of principal or interest is due and payable.

"Subsidiary" means a corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. For the purposes of this definition, "voting stock" means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed, except as provided in Section 905.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee

hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"U.S. Government Obligation" has the meaning specified in Section 1304.

"Vice President", when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

Section 102. Compliance Certificates and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act. Each such certificate or opinion shall be given in the form of an Officers' Certificate, if to be given by an officer of the Company, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirements set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include,

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a statement that, in the opinion of each such individual, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(3) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

Section 103. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his or her certificate or opinion is based are

erroneous. Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 104. Acts of Holders; Record Dates.

Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him or her the execution thereof. Where such execution is by a signer acting in a capacity other than his or her individual capacity, such certificate or affidavit shall also constitute sufficient proof of his or her authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

The ownership of Securities shall be proved by the Security Register.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

The Company may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to give, make or take any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders of Securities of such series, provided that the

Company may not set a record date for, and the provisions of this paragraph shall not apply with respect to, the giving or making of any notice, declaration, request or direction referred to in the next paragraph. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of the relevant series on such record date, and no other Holders, shall be entitled to take the relevant action, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Company from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Company, at its own expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Trustee in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 106.

The Trustee may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to join in the giving or making of (i) any Notice of Default, (ii) any declaration of acceleration referred to in Section 502, (iii) any request to institute proceedings referred to in Section 507(2) or (iv) any direction referred to in Section 512, in each case with respect to Securities of such series. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of such series on such record date, and no other Holders, shall be entitled to join in such notice, declaration, request or direction, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Trustee from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Trustee, at the Company's expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Company in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 106.

With respect to any record date set pursuant to this Section, the party hereto which sets such record date may designate any day as the "Expiration Date" and from time to time may change the Expiration Date to any earlier or later day; provided that no such change shall be effective unless notice of the proposed new Expiration Date is given to the other party hereto in writing, and to each Holder of Securities of the relevant series in the manner set forth in Section 106, on or prior to the existing Expiration Date. If an Expiration Date is not designated with respect to any record date set pursuant to this Section, the party hereto which set such record date shall be deemed to have initially designated the 180th day after such record date as the Expiration Date with respect thereto,

subject to its right to change the Expiration Date as provided in this paragraph. Notwithstanding the foregoing, no Expiration Date shall be later than the 180th day after the applicable record date.

Without limiting the foregoing, a Holder entitled hereunder to take any action hereunder with regard to any particular Security may do so with regard to all or any part of the principal amount of such Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any part of such principal amount.

Section 105. Notices, Etc., to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trust Administration, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company.

Section 106. Notice to Holders; Waiver.

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, to each Holder affected by such event, at his or her address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Any notice when mailed to a Holder in the aforesaid manner shall be conclusively deemed to have been received by such Holder whether or not actually received by such Holder. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 107. Conflict with Trust Indenture Act.

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act which is required under such Act to be a part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act which may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

Section 108. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 109. Successors and Assigns.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 110. Separability Clause.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 111. Benefits of Indenture.

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder, the Holders, and the holders of any Senior Debt, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 112. Governing Law.

This Indenture and the Securities shall be governed by and construed in accordance with the law of the State of New York.

Section 113. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Securities (other than a provision of any Security which

specifically states that such provision shall apply in lieu of this Section)) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, and no interest shall accrue with respect to such payment for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be, to such next succeeding Business Day.

Section 114. Certain Matters Relating to Currencies.

Whenever any action or Act is to be taken hereunder by the Holders of Securities denominated in different currencies or currency units, then for purposes of determining the principal amount of Securities held by such Holders, the aggregate principal amount of the Securities denominated in a foreign currency or currency unit shall be deemed to be that amount of Dollars that could be obtained for such principal amount on the basis of a spot exchange rate specified to the Trustee for such series in an Officers' Certificate for exchanging such foreign currency or currency unit into Dollars as of the date of the taking of such action or Act by the Holders of the requisite percentage in principal amount of the Securities.

The Trustee shall segregate moneys, funds and accounts held by the Trustee in one currency or currency unit from any moneys, funds or accounts held in any other currencies or currency units, notwithstanding any provision herein that would otherwise permit the Trustee to commingle such amounts.

Section 115. Immunity of Incorporators, Stockholders, Officers and Directors.

No recourse shall be had for the payment of the principal of (and premium, if any), or the interest, if any, on any Securities of any series, or for any claim based thereon, or upon any obligation, covenant or agreement of this Indenture, against any incorporator, stockholder, officer or director, as such, past, present or future, of the Company or of any successor corporation, either directly or indirectly through the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law or by the enforcement of any assessment of penalty or otherwise; it being expressly agreed and understood that this Indenture and all the Securities of each series are solely corporate obligations, and that no personal liability whatever shall attach to, or is incurred by, any incorporator, stockholder, officer or director, past, present or future, of the Company or of any successor corporation, either directly or indirectly through the Company or any successor corporation, because of the incurring of the indebtedness hereby authorized or under or by reason of any of the obligations, covenants or agreements contained in this Indenture or in any of the Securities of any series, or to be implied herefrom or therefrom; and that all such personal liability is hereby expressly released and waived as a condition of, and as part of the consideration for, the execution of this Indenture and the issuance of the Securities of each series.

Section 116. Counterparts.

This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 117. Assignment to Affiliate.

The Company will have the right at all times to assign by indenture supplemental hereto any of its rights or obligations under the Indenture to a direct, indirect, or wholly owned Affiliate of the Company; provided that, in the event of any such assignment, the Company will remain liable for all such obligations.

ARTICLE TWO

Security Forms

Section 201. Forms Generally.

The Securities of each series shall be in substantially the form set forth in this Article, or in such other form as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or Depositary therefor or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution thereof. If the form of Securities of any series is established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for the authentication and delivery of such Securities.

The definitive Securities shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

Section 202. Form of Face of Security.

[Insert any legend required by the Internal Revenue Code and the regulations thereunder.]

THE UNION LIGHT, HEAT AND POWER COMPANY

No. _____ $_____

CUSIP NO. _____

The Union Light, Heat and Power Company, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to ....., or registered assigns, the principal sum of ..... Dollars on ..... [if the Security is to bear interest prior to Maturity, insert: , and to pay interest thereon from ..... or from the most recent Interest Payment Date to which interest has been paid or duly provided for, ... on ..... and ..... in each year, commencing ....., at the rate of ....% per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the ..... or ..... (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture].

[If the Security is not to bear interest prior to Maturity, insert: The principal of this Security shall not bear interest except in the case of a default in payment of principal upon acceleration, upon redemption or at Stated Maturity and in such case the overdue principal and any overdue premium shall bear interest at the rate of ....% per annum (to the extent that the payment of such interest shall be legally enforceable), from the dates such amounts are due until they are paid or made available for payment. Interest on any overdue principal or premium shall be payable on demand. Any such interest on overdue principal or premium which is not paid on demand shall bear interest at the rate of .....% per annum (to the extent that the payment of such interest on interest shall be legally enforceable), from the date of such demand until the amount so demanded is paid or made available for payment. Interest on any overdue interest shall be payable on demand.]

Payment of the principal of (and premium, if any) and [if applicable, insert: any such] interest on this Security will be made at the office or agency of the Company maintained for that purpose in ....., in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts [if applicable, insert: ;provided,

however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register].

Any payment on this Security due on any day which is not a Business Day in the City of New York need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on the due date and no interest shall accrue for the period from and after such date.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, [if subordinated, insert: including, without limitation, provisions subordinating the payment of the principal hereof and any premium and interest hereon to the payment in full of all Senior Debt as defined in the Indenture] which such further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

In Witness Whereof, the Company has caused this instrument to be duly executed.

THE UNION LIGHT, HEAT AND POWER COMPANY

By_____

Section 203. Form of Reverse of Security.

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of , 2004 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and Deutsche Bank Trust Company Americas, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof [if applicable, insert: , limited in aggregate principal amount to $.....].

[If applicable, insert: The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, [if applicable, insert: (1) on ..... in any year commencing with the year ..... and ending with the year ..... through operation of the sinking fund for this series at a Redemption Price equal to 100% of the principal amount, and (2)] at any time [if applicable, insert: on or after ....., ..], as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal amount): If redeemed [if applicable,

insert: on or before ....., ...%, and if redeemed] during the 12-month period beginning ..... of the years indicated,

Year	Redemption Price	Year	Redemption Price

and thereafter at a Redemption Price equal to .....% of the principal amount, together in the case of any such redemption [if applicable, insert: (whether through operation of the sinking fund or otherwise)] with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[If applicable, insert: The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, (1) on ..... in any year commencing with the year .... and ending with the year .... through operation of the sinking fund for this series at the Redemption Prices for *redemption through operation* of the sinking fund (expressed as percentages of the principal amount) set forth in the table below, and (2) at any time [if applicable, insert: on or after .....], as a whole or in part, at the election of the Company, at the Redemption Prices for redemption otherwise than through operation of the sinking fund (expressed as percentages of the principal amount) set forth in the table below: If redeemed during the 12-month period beginning ..... of the years indicated,

Year	Redemption Price For Redemption Through Operation of the Sinking Fund	Redemption Price For Redemption Otherwise Than Through Operation of the Sinking Fund

and thereafter at a Redemption Price equal to .....% of the principal amount, together in the case of any such redemption (whether through operation of the sinking fund or otherwise) with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[If applicable, insert: Notwithstanding the foregoing, the Company may not, prior to ....., redeem any Securities of this series as contemplated by [if applicable, insert: Clause (2) of] the preceding paragraph as a part of, or in anticipation of, any refunding operation by the application, directly or indirectly, of moneys borrowed having an interest cost to the Company (calculated in accordance with generally accepted financial practice) of less than .....% per annum.]

[If applicable, insert: The sinking fund for this series provides for the redemption on ..... in each year beginning with the year ..... and ending with the year ..... of [if applicable, insert: not less than $..... ("mandatory sinking fund") and not more than] $..... aggregate principal amount of Securities of this series. Securities of this series acquired or redeemed by the Company otherwise than through [if applicable, insert: mandatory] sinking fund payments may be credited against subsequent [if applicable, insert: mandatory] sinking fund payments otherwise required to be made [if applicable, insert: , in the inverse order in which they become due].]

[If the Security is subject to redemption of any kind, insert: In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.]

[If subordinated, insert: The indebtedness evidenced by the Securities of this series is, to the extent and in the manner provided in the Indenture, expressly subordinate and subject in right of payment to the prior payment in full of all Senior Debt of the Company (as defined in the Indenture) whether outstanding at the date of the Indenture or thereafter incurred, and this Security is issued subject to the provisions of the Indenture with respect to such subordination. Each holder and owner of this Security, by accepting the same, agrees to and shall be bound by such provisions and authorizes the Trustee in his or her behalf to take such action as may be necessary or appropriate to effectuate the subordination so provided and appoints the Trustee his or her attorney-in-fact for such purpose.]

[If applicable, insert: The Indenture contains provisions for defeasance at any time of [the entire indebtedness of this Security] [or] [certain restrictive covenants and Events of Default with respect to this Security] [, in each case] upon compliance with certain conditions set forth in the Indenture.]

[If the Security is not an Original Issue Discount Security, insert: If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.]

[If the Security is an Original Issue Discount Security, insert: If an Event of Default with respect to Securities of this series shall occur and be continuing, an amount of principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture. Such amount shall be equal to insert: formula for determining the amount. Upon payment (i) of the amount of principal so declared due and payable and (ii) of interest on any overdue principal, premium and interest (in each case to the extent that the payment of such interest shall be legally enforceable), all of the Company's obligations in respect of the payment of the principal of and premium and interest, if any, on the Securities of this series shall terminate.]

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the

time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of a majority in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 35% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee indemnity reasonably satisfactory to the Trustee, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his or her attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of $..... and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Section 204. Form of Legend for Global Securities.

Unless otherwise specified as contemplated by Section 301 for the Securities evidenced thereby, every Global Security authenticated and delivered hereunder shall bear a legend in substantially the following form (or such other form as a securities exchange or Depositary may request or require):

This Security is a Global Security within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depositary or a nominee thereof. This Security may not be exchanged in whole or in part for a Security registered, and no transfer of this Security in whole or in part may be registered, in the name of any Person other than such Depositary or a nominee thereof, except in the limited circumstances described in the Indenture.

Section 205. Form of Trustee's Certificate of Authentication.

The Trustee's certificates of authentication shall be in substantially the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

DEUTSCHE BANK TRUST COMPANY
AMERICAS,
As Trustee

By_____
Authorized Signatory

ARTICLE THREE

The Securities

Section 301. Amount Unlimited; Issuable in Series.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established in or pursuant to a Board Resolution and, subject to Section 303, set forth, or determined in the manner provided, in an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series:

(1) the title of the Securities of the series (which shall distinguish the Securities of the series from Securities of any other series);

(2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 304, 305, 306, 906 or 1107 and except for any Securities which, pursuant to Section 303, are deemed never to have been authenticated and delivered hereunder);

(3) the Person to whom any interest on a Security of the series shall be payable, if other than the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest;

(4) the date or dates on which the principal of any Securities of the series is payable;

(5) the rate or rates at which any Securities of the series shall bear interest, if any, the date or dates from which any such interest shall accrue, the Interest Payment Dates on which any such interest shall be payable, the manner of determination of such Interest Payment Dates and the Regular Record Date for any such interest payable on any Interest Payment Date;

(6) the right, if any, to extend the interest payment periods and the duration of such extension;

(7) the place or places where the principal of and any premium and interest on any Securities of the series shall be payable;

(8) the period or periods within which, the price or prices at which and the terms and conditions upon which any Securities of the series may be redeemed, in whole or in part, at

the option of the Company and, if other than by a Board Resolution, the manner in which any election by the Company to redeem the Securities shall be evidenced;

(9) the obligation, if any, of the Company to redeem or purchase any Securities of the series pursuant to any sinking fund or analogous provisions or at the option of the Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which any Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(10) the denominations in which any Securities of the series shall be issuable;

(11) if the amount of principal of or any premium or interest on any Securities of the series may be determined with reference to an index or pursuant to a formula, the manner in which such amounts shall be determined;

(12) if other than the currency of the United States of America, the currency, currencies or currency units in which the principal of or any premium or interest on any Securities of the series shall be payable and the manner of determining the equivalent thereof in the currency of the United States of America for any purpose, including for purposes of the definition of "Outstanding" in Section 101;

(13) if the principal of or any premium or interest on any Securities of the series is to be payable, at the election of the Company or the Holder thereof, in one or more currencies or currency units other than that or those in which such Securities are stated to be payable, the currency, currencies or currency units in which the principal of or any premium or interest on such Securities as to which such election is made shall be payable, the periods within which and the terms and conditions upon which such election is to be made and the amount so payable (or the manner in which such amount shall be determined);

(14) if other than the entire principal amount thereof, the portion of the principal amount of any Securities of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502;

(15) if the principal amount payable at the Stated Maturity of any Securities of the series will not be determinable as of any one or more dates prior to the Stated Maturity, the amount which shall be deemed to be the principal amount of such Securities as of any such date for any purpose thereunder or hereunder, including the principal amount thereof which shall be due and payable upon any Maturity other than the Stated Maturity or which shall be deemed to be Outstanding as of any date prior to the Stated Maturity (or, in any such case, the manner in which such amount deemed to be the principal amount shall be determined);

(16) if applicable, that the Securities of the series, in whole or any specified part, shall be defeasible pursuant to Section 1302 or Section 1303 or both such Sections;

(17) if applicable, that any Securities of the series shall be issuable in whole or in part in the form of one or more Global Securities and, in such case, the respective Depositaries for

such Global Securities, the form of any legend or legends which shall be borne by any such Global Security in addition to or in lieu of that set forth in Section 204 and any circumstances in addition to or in lieu of those set forth in Clause (2) of the last paragraph of Section 305 in which any such Global Security may be exchanged in whole or in part for Securities registered, and any transfer of such Global Security in whole or in part may be registered, in the name or names of Persons other than the Depositary for such Global Security or a nominee thereof;

(18) any addition to or change in the Events of Default which applies to any Securities of the series and any change in the right of the Trustee or the requisite Holders of such Securities to declare the principal amount thereof due and payable pursuant to Section 502;

(19) any addition to or change in the covenants set forth in Article Ten which applies to Securities of the series;

(20) the applicability of, or any addition to or change in, Article Fourteen with respect to the Securities of a series;

(21) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture.

All Securities of any one series shall be substantially identical except as to date and principal amount and except as may otherwise be provided in or pursuant to the Board Resolution referred to above and (subject to Section 303) set forth, or determined in the manner provided, in the Officers' Certificate referred to above or in any such indenture supplemental hereto.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

Section 302. Denominations.

The Securities of each series shall be issuable only in registered form without coupons and only in such denominations as shall be specified as contemplated by Section 301. In the absence of any such specified denomination with respect to the Securities of any series, the Securities of such series shall be issuable in denominations of $1,000 and any integral multiple thereof.

Section 303. Execution, Authentication, Delivery and Dating.

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its Vice Chairman, its President, one of its Vice Presidents, or its Treasurer. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order shall authenticate and deliver such Securities. If the form or terms of the Securities of the series have been established by or pursuant to a Board Resolution as permitted by Sections 201 and 301, in authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating,

(1) if the form of such Securities has been established by or pursuant to Board Resolution as permitted by Section 201, that such form has been established in conformity with the provisions of this Indenture;

(2) if the terms of such Securities have been established by or pursuant to Board Resolution as permitted by Section 301, that such terms have been established in conformity with the provisions of this Indenture; and

(3) that such Securities, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights to general equity principles and to such other matters as such counsel shall set forth therein.

If such form or terms have been so established, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Notwithstanding the provisions of Section 301 and of the preceding paragraph, if all Securities of a series are not to be originally issued at one time, it shall not be necessary to deliver the Officers' Certificate otherwise required pursuant to Section 301 or the Company Order and Opinion of Counsel otherwise required pursuant to such preceding paragraph at or prior to the authentication of each Security of such series if such documents (with appropriate variations to reflect such future issuance) are delivered at or prior to the authentication upon original issuance of the first Security of such series to be issued.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 309, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

Section 304. Temporary Securities.

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor one or more definitive Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount. Until so exchanged, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series and tenor.

Section 305. Registration, Registration of Transfer and Exchange.

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency of the Company in a Place of Payment being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security of a series at the office or agency of the Company in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more

new Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount.

At the option of the Holder, Securities of any series may be exchanged for other Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his or her attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906 or 1107 not involving any transfer.

If the Securities of any series (or of any series and specified tenor) are to be redeemed in part, the Company shall not be required (A) to issue, register the transfer of or exchange any Securities of that series (or of that series and specified tenor, as the case may be) during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of any such Securities selected for redemption under Section 1103 and ending at the close of business on the day of such mailing, or (B) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

The provisions of Clauses (1), (2), (3) and (4) below shall apply only to Global Securities:

(1) Each Global Security authenticated under this Indenture shall be registered in the name of the Depositary designated for such Global Security or a nominee thereof and delivered to such Depositary or nominee thereof or custodian therefor, and each such Global Security shall constitute a single Security for all purposes of this Indenture.

(2) Notwithstanding any other provision in this Indenture, no Global Security may be exchanged in whole or in part for Securities registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any Person other than the Depositary for such Global Security or a nominee thereof unless (A) such Depositary (i) has notified the Company that it is unwilling or unable to continue as Depositary for such Global Security or (ii) has ceased to be a clearing agency registered under the Exchange Act, (B) there shall have occurred and be continuing an Event of Default with respect to such Global

Security or (C) there shall exist such circumstances, if any, in addition to or in lieu of the foregoing as have been specified for this purpose as contemplated by Section 301.

(3) Subject to Clause (2) above, any exchange of a Global Security for other Securities may be made in whole or in part, and all Securities issued in exchange for a Global Security or any portion thereof shall be registered in such names as the Depositary for such Global Security shall direct.

(4) Every Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Security or any portion thereof, whether pursuant to this Section, Section 304, 306, 906 or 1107 or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Security, unless such Security is registered in the name of a Person other than the Depositary for such Global Security or a nominee thereof.

Section 306. Mutilated, Destroyed, Lost and Stolen Securities.

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 307. Payment of Interest; Interest Rights Preserved.

Except as otherwise provided as contemplated by Section 301 with respect to any series of Securities, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given to each Holder of Securities of such series in the manner set forth in Section 106, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required

by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Section 308. Persons Deemed Owners.

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of and any premium and (subject to Section 307) any interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

None of the Company, the Trustee, any Paying Agent (if not the Company) or the Security Registrar shall have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Section 309. Cancellation.

All Securities surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly cancelled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities held by the Trustee shall be disposed of as directed by a Company Order; provided, however, that the Trustee shall not be required to destroy such cancelled Securities.

Section 310. Computation of Interest.

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months.

Section 311. CUSIP Numbers.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee may use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers.

ARTICLE FOUR

Satisfaction and Discharge

Section 401. Satisfaction and Discharge of Indenture.

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose, money in an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal and any premium and interest to the

date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607, the obligations of the Company to any Authenticating Agent under Section 614 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

Section 402. Application of Trust Money.

Subject to the provisions of the last paragraph of Section 1003 and to Article Fourteen, if applicable, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal and any premium and interest for whose payment such money has been deposited with the Trustee.

ARTICLE FIVE

Remedies

Section 501. Events of Default.

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of any interest upon any Security of that series when it becomes due and payable, and continuance of such default for a period of 30 days; or

(2) default in the payment of the principal of or any premium on any Security of that series at its Maturity; or

(3) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series; or

(4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of a series of Securities other than that series), and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 35% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(5) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(6) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or state law, or the consent by it to the filing of such petition or to the appointment of, or taking possession of the Company or of any substantial part of its property by, a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official or the making by the Company of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action; or

(7) any other Event of Default established pursuant to Section 301 with respect to Securities of that series.

Section 502. Acceleration of Maturity; Rescission and Annulment.

If an Event of Default (other than an Event of Default specified in Section 501(5) or 501(6)) with respect to Securities of any series at the time Outstanding occurs and is continuing, then in

every such case the Trustee or the Holders of not less than 35% in principal amount of the Outstanding Securities of that series may declare the principal amount of all the Securities of that series (or, if any Securities of that series are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified by the terms thereof) to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable. If an Event of Default specified in Section 501(5) or 501(6) with respect to Securities of any series at the time Outstanding occurs, the principal amount of all the Securities of that series (or, if any Securities of that series are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified by the terms thereof) shall automatically, and without any declaration or other action on the part of the Trustee or any Holder, become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if,

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay (A) all overdue interest on all Securities of that series, (B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities, (C) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(2) all Events of Default with respect to Securities of that series, other than the non-payment of the principal of Securities of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Section 503. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal and any premium and interest and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 504. Trustee May File Proofs of Claim.

In case of any judicial proceeding relative to the Company (or any other obligor upon the Securities), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 607.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding; provided, however, that the Trustee may, on behalf of the Holders, vote for the election of a trustee in bankruptcy or similar official and be a member of a creditors' or other similar committee.

Section 505. Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

Section 506. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article, subject to Article Fourteen, if applicable, shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or any premium or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: to the payment of all amounts due the Trustee under Section 607;

Second: to the payment of the amounts then due and unpaid for principal of and any premium and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and any premium and interest, respectively; and

Third: the balance, if any, to the Company.

Section 507. Limitation on Suits.

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;

(2) the Holders of not less than 35% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series; it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such

Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

Section 508. Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium and (subject to Section 307) interest on such Security on the respective Stated Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 509. Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 510. Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 511. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 512. Control by Holders.

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series, provided that

(1) such direction shall not be in conflict with any rule of law or with this Indenture, and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Section 513. Waiver of Past Defaults.

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default

(1) in the payment of the principal of or any premium or interest on any Security of such series, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 514. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, in the manner and to the extent provided in the Trust Indenture Act; provided that this Section shall not apply to any suit instituted by the Trustee or to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of Outstanding Securities (of any series), or to any suit instituted by a Holder for the enforcement of the payment of the principal of or any premium or interest on any Security on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date).

Section 515. Waiver of Usury, Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any

usury, stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

The Trustee

Section 601. Certain Duties and Responsibilities.

The duties and responsibilities of the Trustee shall be as provided by the Trust Indenture Act. Notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

Section 602. Notice of Defaults.

If a default occurs hereunder with respect to Securities of any series, the Trustee shall give the Holders of Securities of such series notice of such default as and to the extent provided by the Trust Indenture Act, unless such default shall have been cured or waived; provided, however, that in the case of any default of the character specified in Section 501(4) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series.

Section 603. Certain Rights of Trustee.

Subject to the provisions of Section 601:

(1) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order, and any resolution of the Board of Directors shall be sufficiently evidenced by a Board Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(4) the Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

(7) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Section 604. Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes any responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Securities or the proceeds thereof.

Section 605. May Hold Securities.

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or

pledgee of Securities and, subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

Section 606. Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company.

Section 607. Compensation and Reimbursement.

The Company agrees

(1) to pay to the Trustee from time to time such compensation as shall be agreed to in writing between the Company and the Trustee for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable, out-of-pocket expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel)(with reasonable documentation of any fees and expenses for which reimbursement is sought, including copies of invoices from third parties, and in the case of charges for counsel, a breakdown of the hourly time and short summary of services rendered by date and service provider, a summary of the charges, hourly rate and total hours provided by each service provider), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the reasonable costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

The Trustee shall have a lien prior to the Securities as to all property and funds held by it hereunder for any amount owing it or any predecessor Trustee pursuant to this Section 607, except with respect to funds held in trust for the benefit of the Holders of particular Securities.

When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 501(5) or Section 501(6), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or State bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Indenture.

Section 608. Conflicting Interests.

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture. To the extent permitted by such Act, the Trustee shall not be deemed to have a conflicting interest by virtue of being a trustee under this Indenture with respect to Securities of more than one series.

Section 609. Corporate Trustee Required; Eligibility.

There shall at all times be one (and only one) Trustee hereunder with respect to the Securities of each series, which may be Trustee hereunder for Securities of one or more other series. Each Trustee shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least $50,000,000. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section and to the extent permitted by the Trust Indenture Act, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee with respect to the Securities of any series shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 610. Resignation and Removal; Appointment of Successor.

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 611.

The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

If at any time:

(1) the Trustee shall fail to comply with Section 608 after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (A) the Company by a Board Resolution may remove the Trustee with respect to all Securities, or (B) subject to Section 514, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 611. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 611, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series to all Holders of Securities of such series in the manner provided in Section 106. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

Section 611. Acceptance of Appointment by Successor.

In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in the first or second preceding paragraph, as the case may be.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 612. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

Section 613. Preferential Collection of Claims Against Company.

If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor). For purposes of Section 311(b) (4) and (6) of the Trust Indenture Act, the following terms shall mean:

(a) "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand; and

(b) "self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

Section 614. Appointment of Authenticating Agent.

From time to time the Trustee may appoint one or more Authenticating Agents with respect to one or more series of Securities, which may include the Company or any of its Affiliates, with power to act on behalf of the Trustee to authenticate Securities of such series issued upon original issue and upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication

and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than $50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Company agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

DEUTSCHE BANK TRUST COMPANY
AMERICAS
As Trustee

By_____
As Authenticating Agent

By_____
Authorized Officer

Section 615. Indemnification.

The Company agrees to indemnify the Trustee for, and hold it harmless against, any loss, liability or expense incurred by it, arising out of or in connection with the acceptance or administration of this Indenture or the trusts hereunder or the performance of its duties hereunder or under any related document, including the reasonable costs and expenses of defending itself against or investigating any claim or liability with respect to the Securities, except to the extent that any such loss, liability or expense was due to its own negligence or bad faith. The Company need not pay for any settlement made without its consent. The obligations of the Company to the Trustee under this Section shall survive the satisfaction and discharge of this Indenture and payment in full and/or retirement of the Securities.

ARTICLE SEVEN

Holders' Lists and Reports by Trustee and Company

Section 701. Company to Furnish Trustee Names and Addresses of Holders.

The Company will furnish or cause to be furnished to the Trustee:

(1) on each Regular Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of Securities of each series as of such Regular Record Date, and

(2) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

provided, however, that if and so long as the Trustee shall be the Security Registrar, no such list need be furnished.

Section 702. Preservation of Information; Communications to Holders.

The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list as provided in Section 701 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.

The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and privileges of the Trustee, shall be as provided by the Trust Indenture Act.

Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

Section 703. Reports by Trustee.

The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. If required by Section 313(a) of the Trust Indenture Act, the Trustee shall, within sixty days after each May 15 following the date of this Indenture deliver to Holders a brief report, dated as of such May 15, which complies with the provisions of such Section 313(a).

A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company.

Section 704. Reports by Company.

The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to such Act; provided that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Exchange Act shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission and provided further that all information, documents or reports filed with the Commission on behalf of the Company shall be deemed to have been delivered to the Trustee on the date on which such items are posted on the Commission's website on the Internet at www.sec.gov.

ARTICLE EIGHT

Consolidation, Merger and Sale

Section 801. Consolidations and Mergers Permitted.

Nothing contained in this Indenture or in any of the Securities shall prevent any consolidation or merger of the Company with or into any other corporation or corporations (whether or not affiliated with the Company), or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any sale, conveyance, transfer or other disposition of the property of the Company or its successor or successors as an entirety, or substantially as an entirety, to any other corporation (whether or not affiliated with the Company or its successor or successors) authorized to acquire and operate the same; provided, however, the Company hereby covenants and agrees that, upon any such consolidation, merger, sale, conveyance, transfer or other disposition, the due and punctual payment of the principal of (premium, if any) and interest on all of the Securities of all series in accordance with the terms of each series, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of this Indenture with respect to each series or established with respect to such series to be kept or performed by the Company, shall be expressly assumed, by supplemental indenture (which shall conform to the provisions of the Trust Indenture Act as then in effect) satisfactory in form to the Trustee executed and delivered to the Trustee by the entity formed by such consolidation, or into which the Company shall have been merged, or by the entity which shall have acquired such property.

Section 802. Rights and Duties of Successor Company.

In case of any such consolidation, merger, sale, conveyance, transfer or other disposition and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of, premium, if any, and interest on all of the Securities of all series outstanding and the due and punctual performance of all of the covenants and conditions of this Indenture or established with respect to each series of the Securities to be performed by the Company with respect to each series, such successor corporation shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party of the first part, and thereupon the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Securities. Such successor corporation thereupon may cause to be signed, and may issue either in its own name or in the name of the Company or any other predecessor obligor on the Securities, any or all of the Securities issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such successor company, instead of the Company, and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver any Securities which previously shall have been signed and delivered by the officers of the predecessor Company to the Trustee for authentication, and any Securities which such successor corporation thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Securities so issued shall in all respects have the same legal rank and benefit under this Indenture as the Securities theretofore or

thereafter issued in accordance with the terms of this Indenture as though all of such Securities had been issued at the date of the execution hereof.

Nothing contained in this Indenture or in any of the Securities shall prevent the Company from merging into itself or acquiring by purchase or otherwise all or any part of the property of any other corporation (whether or not affiliated with the Company).

Section 803. Opinion of Counsel.

The Trustee may receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or other disposition, and any such assumption, comply with the provisions of this Article.

ARTICLE NINE

Supplemental Indentures

Section 901. Supplemental Indentures Without Consent of Holders.

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities pursuant to Article Eight or Section 117; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; provided, however, that in respect of any such additional covenant, such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default or may limit the right of the Holders of a majority in aggregate principal amount of the Securities of such series to waive such default; or

(3) to add any additional Events of Default for the benefit of the Holders of all or any series of Securities (and if such additional Events of Default are to be for the benefit of less than all series of Securities, stating that such additional Events of Default are expressly being included solely for the benefit of such series); or

(4) to add to or change any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the issuance of Securities in bearer form, registrable or not

registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of Securities in uncertificated form; or

(5) to add to, change or eliminate any of the provisions of this Indenture in respect of one or more series of Securities, provided that any such addition, change or elimination (A) shall neither (i) apply to any Security of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (ii) modify the rights of the Holder of any such Security with respect to such provision or (B) shall become effective only when there is no such Security Outstanding; or

(6) to secure the Securities; or

(7) to establish the form or terms of Securities of any series as permitted by Sections 201 and 301; or

(8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by one or more successor Trustees, pursuant to the requirements of Section 611; or

(9) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture, provided that such action pursuant to this Clause (9) shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, and to make any further appropriate agreements and stipulations which may be therein contained.

Any supplemental indenture authorized by the provisions of this Section may be executed by the Company and the Trustee without the consent of the holders of any of the Securities at the time outstanding, notwithstanding any of the provisions of Section 902.

Section 902. Supplemental Indentures With Consent of Holders.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities of each series affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities of such series under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security or any other Security which would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502, or change any Place of Payment where, or the coin or currency in which, any Security or any premium or interest thereon is payable, affect the applicability of Article Fourteen to any Security, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(2) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section, Section 513 or Section 1007, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; provided, however, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section and Section 1007, or the deletion of this proviso, in accordance with the requirements of Sections 611 and 901(8).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series; provided that no such supplemental indenture shall modify any provision of this Indenture so as to adversely affect the rights of any holder of outstanding Senior Debt to the benefits of Article Fourteen.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Section 903. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into

any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 904. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 905. Conformity with Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

Section 906. Reference in Securities to Supplemental Indentures.

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

ARTICLE TEN

Covenants

Section 1001. Payment of Principal, Premium and Interest.

The Company covenants and agrees for the benefit of each series of Securities that it will duly and punctually pay the principal of and any premium and interest on the Securities of that series in accordance with the terms of the Securities and this Indenture.

Section 1002. Maintenance of Office or Agency.

The Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange and where

notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in each Place of Payment for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 1003. Money for Securities Payments to Be Held in Trust.

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of or any premium or interest on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and any premium and interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, on or before each due date of the principal of or any premium or interest on any Securities of that series, deposit with a Paying Agent a sum sufficient to pay such amount, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for any series of Securities other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will (1) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent and (2) during the continuance of any default by the Company (or any other obligor upon the Securities of that series) in the making of any payment in respect of the Securities of that series, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent for payment in respect of the Securities of that series.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company

or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or any premium or interest on any Security of any series and remaining unclaimed for 18 months after such principal, premium or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, The City of New York, New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

Section 1004. Statement by Officers as to Default.

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate, stating whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

Section 1005. Maintenance of Properties.

The Company will cause all properties used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any Subsidiary.

Section 1006. Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the

Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 1007. Waiver of Certain Covenants.

Except as otherwise specified as contemplated by Section 301 for Securities of such series, the Company may, with respect to the Securities of any series, omit in any particular instance to comply with any term, provision or condition set forth in any covenant provided pursuant to Section 301(18), 901(2) or 901(7) for the benefit of the Holders of such series if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Securities of such series shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

Section 1008. Calculation of Original Issue Discount.

The Company shall file with the Trustee promptly at the end of each calendar year a written notice specifying the amount of original issue discount (including daily rates and accrual periods) accrued on Outstanding Securities as of the end of such year.

ARTICLE ELEVEN

Redemption of Securities

Section 1101. Applicability of Article.

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for such Securities) in accordance with this Article.

Section 1102. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution or in another manner specified as contemplated by Section 301 for such Securities. In case of any redemption at the election of the Company the Company shall, at least 45 days prior to

the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities of such series to be redeemed. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction.

Section 1103. Selection by Trustee of Securities to Be Redeemed.

If less than all the Securities of any series are to be redeemed (unless all the Securities of such series and of a specified tenor are to be redeemed or unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of a portion of the principal amount of any Security of such series, provided that the unredeemed portion of the principal amount of any Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security. If less than all the Securities of such series are to be redeemed (unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption in accordance with the preceding sentence.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption as aforesaid and, in case of any Securities selected for partial redemption as aforesaid, the principal amount thereof to be redeemed.

The provisions of the two preceding paragraphs shall not apply with respect to any redemption affecting only a single Security, whether such Security is to be redeemed in whole or in part. In the case of any such redemption in part, the unredeemed portion of the principal amount of the Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

Section 1104. Notice of the Redemption.

Notice of redemption shall be given by mail not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at his or her address appearing in the Security Register.

All notices of redemption shall identify the Securities to be redeemed and shall state:

(1) the Redemption Date;

(2) the Redemption Price;

(3) if less than all the Outstanding Securities of any series consisting of more than a single Security are to be redeemed, the identification (and, in the case of partial redemption of any such Securities, the principal amounts) of the particular Securities to be redeemed and, if less than all the Outstanding Securities of any series consisting of a single Security are to be redeemed, the principal amount of the particular Security to be redeemed;

(4) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date;

(5) the place or places where each such Security is to be surrendered for payment of the Redemption Price; and

(6) that the redemption is for a sinking fund, if such is the case.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company and shall be irrevocable.

The notice if mailed in the manner herein provided shall be conclusively presumed to have been given, whether or not the Holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the Holder of any Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security.

Section 1105. Deposit of Redemption Price.

On or before any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date.

Section 1106. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price

and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; provided, however, that, unless otherwise specified as contemplated by Section 301, installments of interest whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

Section 1107. Securities Redeemed in Part.

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his or her attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered; provided, however, that a Depositary need not surrender a Global Security for a partial redemption and may be authorized to make a notation on such Global Security of such partial redemption. In the case of a partial redemption of a Global Security, the Depositary, and in turn, the participants in the Depositary shall have the responsibility to select any Securities to be redeemed by random lot.

ARTICLE TWELVE

Sinking Funds

Section 1201. Applicability of Article.

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of any series except as otherwise specified as contemplated by Section 301 for such Securities.

The minimum amount of any sinking fund payment provided for by the terms of any Securities is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of such Securities is herein referred to as an "optional sinking fund payment". If provided for by the terms of any Securities, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities as provided for by the terms of such Securities.

Section 1202. Satisfaction of Sinking Fund Payments with Securities.

The Company (1) may deliver Outstanding Securities of a series (other than any previously called for redemption) and (2) may apply as a credit Securities of a series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to any Securities of such series required to be made pursuant to the terms of such Securities as and to the extent provided for by the terms of such Securities; provided that the Securities to be so credited have not been previously so credited. The Securities to be so credited shall be received and credited for such purpose by the Trustee at the Redemption Price, as specified in the Securities so to be redeemed, for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

Section 1203. Redemption of Securities for Sinking Fund.

Not less than 45 days prior to each sinking fund payment date for any Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for such Securities pursuant to the terms of such Securities, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting Securities pursuant to Section 1202 and will also deliver to the Trustee any Securities to be so delivered. Not less than 30 days prior to each such sinking fund payment date, the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

ARTICLE THIRTEEN

Defeasance and Covenant Defeasance

Section 1301. Company's Option to Effect Defeasance or Covenant Defeasance.

The Company may elect, at its option at any time, to have Section 1302 or Section 1303 applied to any Securities or any series of Securities, as the case may be, designated pursuant to Section 301 as being defeasible pursuant to such Section 1302 or 1303, in accordance with any applicable requirements provided pursuant to Section 301 and upon compliance with the conditions set forth below in this Article. Any such election shall be evidenced by a Board Resolution or in another manner specified as contemplated by Section 301 for such Securities.

Section 1302. Defeasance and Discharge.

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, the Company shall be deemed to have been discharged from its obligations with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 1304 are satisfied (hereinafter called "Defeasance"). For this purpose, such Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by such Securities and to have satisfied all its other obligations under such Securities and this Indenture insofar as such Securities are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), subject to the following which shall survive until otherwise terminated or discharged hereunder: (1) the rights of Holders of such Securities to receive, solely from the trust fund described in Section 1304 and as more fully set forth in such Section, payments in respect of the principal of and any premium and interest on such Securities when payments are due, (2) the Company's obligations with respect to such Securities under Sections 304, 305, 306, 1002 and 1003, (3) the rights, powers, trusts, duties and immunities of the Trustee hereunder and (4) this Article. Subject to compliance with this Article, the Company may exercise its option (if any) to have this Section applied to any Securities notwithstanding the prior exercise of its option (if any) to have Section 1303 applied to such Securities.

Section 1303. Covenant Defeasance.

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, (1) the Company shall be released from its obligations under Section 801(3), Sections 1005 through 1006, inclusive, and any covenants provided pursuant to Section 301(19), 901(2) or 901(7) for the benefit of the Holders of such Securities and (2) the occurrence of any event specified in Sections 501(4) (with respect to any of Section 801(3), Sections 1005 through 1006, inclusive, and any such covenants provided pursuant to Section 301(19), 901(2) or 901(7)), and 501(7) shall be deemed not to be or result in an Event of Default in each case with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 1304 are satisfied (hereinafter called "Covenant Defeasance"). For this purpose, such Covenant Defeasance means that, with respect to such Securities, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified Section (to the extent so specified in the case of Section 501(4)) or Article Fourteen, whether directly or indirectly by reason of any reference elsewhere herein to any such Section or Article or by reason of any reference in any such Section or Article to any other provision herein or in any other document, but the remainder of this Indenture and such Securities shall be unaffected thereby.

Section 1304. Conditions to Defeasance or Covenant Defeasance.

The following shall be the conditions to the application of Section 1302 or Section 1303 to any Securities or any series of Securities, as the case may be:

(1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee which satisfies the requirements contemplated by Section 609

and agrees to comply with the provisions of this Article applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, (A) money in an amount, or (B) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination thereof, in each case sufficient, in the opinion of a firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or any such other qualifying trustee) to pay and discharge, the principal of and any premium and interest on such Securities on the respective Stated Maturities, in accordance with the terms of this Indenture and such Securities. As used herein, "U.S. Government Obligation" means (x) any security which is (i) a direct obligation of the United States of America for the payment of which the full faith and credit of the United States of America is pledged or (ii) an obligation of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case (i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) any depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any U.S. Government Obligation which is specified in Clause (x) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any U.S. Government Obligation which is so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

(2) In the event of an election to have Section 1302 apply to any Securities or any series of Securities, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of this instrument, there has been a change in the applicable Federal income tax law, in either case (A) or (B) to the effect that, and based thereon such opinion shall confirm that, the Holders of such Securities will not recognize gain or loss for Federal income tax purposes as a result of the deposit, Defeasance and discharge to be effected with respect to such Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit, Defeasance and discharge were not to occur.

(3) In the event of an election to have Section 1303 apply to any Securities or any series of Securities, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of such Securities will not recognize gain or loss for Federal income tax purposes as a result of the deposit and Covenant Defeasance to be effected with respect to such Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit and Covenant Defeasance were not to occur.

(4) The Company shall have delivered to the Trustee an Officers' Certificate to the effect that neither such Securities nor any other Securities of the same series, if then listed on any securities exchange, will be delisted as a result of such deposit.

(5) No event which is, or after notice or lapse of time or both would become, an Event of Default with respect to such Securities or any other Securities shall have occurred and be continuing at the time of such deposit or, with regard to any such event specified in Sections 501(5) and (6), at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(6) Such Defeasance or Covenant Defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all Securities are in default within the meaning of such Act).

(7) Such Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which it is bound.

(8) Such Defeasance or Covenant Defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act unless such trust shall be registered under such Act or exempt from registration thereunder.

(9) At the time of such deposit, (A) no default in the payment of any principal of or premium or interest on any Senior Debt shall have occurred and be continuing, (B) no event of default with respect to any Senior Debt shall have resulted in such Senior Debt becoming, and continuing to be, due and payable prior to the date on which it would otherwise have become due and payable (unless payment of such Senior Debt has been made or duly provided for), and (C) no other event of default with respect to any Senior Debt shall have occurred and be continuing permitting (after notice or lapse of time or both) the holders of such Senior Debt (or a trustee on behalf of such holders) to declare such Senior Debt due and payable prior to the date on which it would otherwise have become due and payable.

(10) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with.

Section 1305. Deposited Money and U.S. Government Obligations to Be Held in Trust; Miscellaneous Provisions.

Subject to the provisions of the last paragraph of Section 1003, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee or other qualifying trustee (solely for purposes of this Section and Section 1306, the Trustee and any such

other trustee are referred to collectively as the "Trustee") pursuant to Section 1304 in respect of any Securities shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any such Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities, of all sums due and to become due thereon in respect of principal and any premium and interest, but money so held in trust need not be segregated from other funds except to the extent required by law.

Money and U.S. Government Obligations so held in trust shall not be subject to the provisions of Article Fourteen.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 1304 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Securities.

Anything in this Article to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or U.S. Government Obligations held by it as provided in Section 1304 with respect to any Securities which, in the opinion of a firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect the Defeasance or Covenant Defeasance, as the case may be, with respect to such Securities.

Section 1306. Reinstatement.

If the Trustee or the Paying Agent is unable to apply any money in accordance with this Article with respect to any Securities by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the obligations under this Indenture and such Securities from which the Company has been discharged or released pursuant to Section 1302 or 1303 shall be revived and reinstated as though no deposit had occurred pursuant to this Article with respect to such Securities, until such time as the Trustee or Paying Agent is permitted to apply all money held in trust pursuant to Section 1305 with respect to such Securities in accordance with this Article; provided, however, that if the Company makes any payment of principal of or any premium or interest on any such Security following such reinstatement of its obligations, the Company shall be subrogated to the rights (if any) of the Holders of such Securities to receive such payment from the money so held in trust.

ARTICLE FOURTEEN

Junior Subordinated Securities

Section 1401. Certain Securities Subordinate to Senior Debt.

As provided pursuant to Section 301 or in a supplemental indenture, the Company may issue one or more series of Securities subject to the provisions of this Article Fourteen, and each Holder of a Security of a series so issued ("Junior Subordinated Securities"), whether upon original issue or upon transfer or assignment thereof, accepts and agrees to be bound by such provisions.

The payment of the principal of, premium, if any, and interest on all Junior Subordinated Securities issued with respect to which this Article Fourteen applies shall, to the extent and in the manner hereinafter set forth, be subordinate and subject in right of payment to the prior payment in full of all Senior Debt, whether outstanding at the date of this Indenture or thereafter incurred.

No provision of this Article Fourteen shall prevent the occurrence of any default or Event of Default hereunder.

Section 1402. Payment Over of Proceeds Upon Default.

In the event and during the continuation of any default in the payment of principal, premium, interest or any other payment due on any Senior Debt continuing beyond the period of grace, if any, specified in the instrument evidencing such Senior Debt, unless and until such default shall have been cured or waived or shall have ceased to exist, or in the event that the maturity of any Senior Debt has been accelerated because of a default, then no payment shall be made by the Company with respect to the principal (including redemption and sinking fund payments) of, or premium, if any, or interest on the Junior Subordinated Securities.

In the event that, notwithstanding the foregoing, any payment shall be received by the Trustee or any holder when such payment is prohibited by the preceding paragraph of this Section 1402, such payment shall be held in trust for the benefit of, and shall be paid over or delivered to, the holders of Senior Debt or their respective representatives, or to the trustee or trustees under any indenture pursuant to which any of such Senior Debt may have been issued, as their respective interests may appear, but only to the extent that the holders of the Senior Debt (or their representative or representatives or a trustee) notify the Trustee within 90 days of such payment of the amounts then due and owing on the Senior Debt and only the amounts specified in such notice to the Trustee shall be paid to the holders of Senior Debt.

Section 1403. Payment Over of Proceeds Upon Dissolution, Etc.

Upon any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to creditors upon any dissolution or winding-up or liquidation or reorganization of the Company, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all amounts due or to become due upon all Senior Debt shall first be paid in full, or payment thereof provided for in money in accordance with its terms, before any payment is made on account of the principal (and premium, if any) or interest on the Junior Subordinated Securities; and upon any such dissolution or winding-up or liquidation or reorganization any payment by the Company, or distribution of assets of the Company of any kind

or character, whether in cash, property or securities, to which the Holders of the Junior Subordinated Securities or the Trustee would be entitled, except for the provisions of this Article Fourteen, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution, or by the Holders of the Junior Subordinated Securities or by the Trustee under this Indenture if received by them or it, directly to the holders of Senior Debt (pro rata to such holders on the basis of the respective amounts of Senior Debt held by such holders, as calculated by the Company) or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Senior Debt may have been issued, as their respective interests may appear, to the extent necessary to pay all Senior Debt in full, in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt, before any payment or distribution is made to the holders of Junior Subordinated Securities or to the Trustee.

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, prohibited by the foregoing, shall be received by the Trustee or the holders of the Junior Subordinated Securities before all Senior Debt is paid in full, or provision is made for such payment in money in accordance with its terms, such payment or distribution shall be held in trust for the benefit of and shall be paid over or delivered to the holders of Senior Debt or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Senior Debt may have been issued, as their respective interests may appear, as calculated by the Company, for application to the payment of all Senior Debt remaining unpaid to the extent necessary to pay all Senior Debt in full in money in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Debt.

For purposes of this Article Fourteen, the words, "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinated at least to the extent provided in this Article Fourteen with respect to the Junior Subordinated Securities to the payment of all Senior Debt which may at the time be outstanding; provided that (i) the Senior Debt is assumed by the new corporation, if any, resulting from any such reorganization or readjustment, and (ii) the rights of the holders of the Senior Debt are not, without the consent of such holders, altered by such reorganization or readjustment. The consolidation of the Company with, or the merger of the Company into, another corporation or the liquidation or dissolution of the Company following the conveyance or transfer of its property as an entirety, or substantially as an entirety, to another corporation upon the terms and conditions provided for in Article Eight hereof shall not be deemed a dissolution, winding-up, liquidation or reorganization for the proposes of this Section 1403 if such other corporation shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions stated in Article Eight hereof. Nothing in Section 1402 or in this Section 1403 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 607.

Section 1404. Subrogation to Rights of Holders of Senior Debt.

Subject to the payment in full of all Senior Debt, the rights of the holders of the Junior Subordinated Securities shall be subrogated to the rights of the holders of Senior Debt to receive

payments or distributions of cash, property or securities of the Company applicable to the Senior Debt; and, for the purposes of such subrogation, no payment or distributions to the holders of the Senior Debt of any cash, property or securities to which the holders of the Junior Subordinated Securities or the Trustee would be entitled except for the provisions of this Article Fourteen, and no payment over pursuant to the provisions of this Article Fourteen, to or for the benefit of the holders of Senior Debt by holders of the Junior Subordinated Securities or the Trustee, shall, as between the Company, its creditors other than holders of Senior Debt, and the Holders of the Junior Subordinated Securities, be deemed to be a payment by the Company to or on account of the Senior Debt. It is understood that the provisions of this Article Fourteen are and are intended solely for the purposes of defining the relative rights of the holders of the Junior Subordinated Securities, on the one hand, and the holders of the Senior Debt on the other hand.

Nothing contained in this Article Fourteen or elsewhere in this Indenture or in the Junior Subordinated Securities is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Debt, and the holders of the Junior Subordinated Securities, the obligation of the Company, which is absolute and unconditional, to pay to the holders of the Junior Subordinated Securities the principal of (and premium, if any) and interest on the Junior Subordinated Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the holders of the Junior Subordinated Securities and creditors of the Company other than the holders of the Senior Debt, nor shall anything herein or therein prevent the Trustee or the holder of any Junior Subordinated Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article Fourteen of the holders of Senior Debt in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

Upon any payment or distribution of assets of the Company referred to in this Article Fourteen, the Trustee, subject to the provision of Article Six, and the Holders of the Junior Subordinated Securities shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding-up, liquidation or reorganization, liquidation or reorganization proceedings are pending, or a certificate of the receiver, trustee in bankruptcy, liquidation trustee, agent or other person making such payment or distribution, delivered to the Trustee or to the Holders of the Junior Subordinated Securities, for the purposes of ascertaining the persons entitled to participate in such distribution, the holders of the Senior Debt and other indebtedness of the Company, the amount hereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article Fourteen.

Section 1405. Trustee to Effectuate Subordination.

Each Holder of a Junior Subordinated Security by his or her acceptance thereof authorizes and directs the Trustee in his or her behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article Fourteen and appoints the Trustee his or her attorney-in-fact for any and all such purposes.

Section 1406. Notice to Trustee.

The Company shall give prompt written notice to a Responsible Officer of the Trustee of any fact known to the Company which would prohibit the making of any payment of monies to or by the Trustee in respect of the Junior Subordinated Securities pursuant to the provisions of this Article Fourteen. Notwithstanding the provisions of this Article Fourteen or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment of monies to or by the Trustee in respect of the Junior Subordinated Securities pursuant to the provisions of this Article Fourteen, unless and until a Responsible Officer of the Trustee shall have received written notice thereof at the Principal Office of the Trustee from the Company or a holder or holders of Senior Debt or from any trustee therefor; and before the receipt of any such written notice, the Trustee, subject to the provisions of Article Six, shall be entitled in all respects to assume that no such facts exist; provided, however, that if the Trustee shall not have received the notice provided for in this Section 1406 at least two Business Days prior to the date upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment of the principal of (or premium, if any) or interest on any Junior Subordinated Security), then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purposes for which they were received, and shall not be affected by any notice to the contrary which may be received by it within two Business Days prior to such date.

The Trustee, subject to the provisions of Article Six, shall be entitled to rely on the delivery to it of a written notice by a person representing himself to be a holder of Senior Debt (or a trustee on behalf of such holder) to establish that such notice has been given by a holder of Senior Debt or a trustee on behalf of any such holder or holders. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any person as a holder of Senior Debt to participate in any payment or distribution pursuant to this Article Fourteen, the Trustee may request such person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Debt held by such Person, the extent to which such person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such person under this Article Fourteen, and if such evidence is not furnished the Trustee may defer any payment to such person pending judicial determination as to the right of such person to receive such payment.

Section 1407. Rights of Trustee as Holder of Senior Debt; Preservation of Trustee's Rights.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article Fourteen in respect of any Senior Debt at any time held by it, to the same extent as any other holder of Senior Debt, and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder.

Nothing in this Article Fourteen shall apply to claims of, or payments to, the Trustee under or pursuant to Section 607.

Section 1408. No Waiver of Subordination Provisions.

No right of any present or future holder of any Senior Debt to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof which any such holder may have or otherwise be charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Debt may, at any time and from time to time, without the consent of or notice to the Trustee or the holders of the Junior Subordinated Securities, without incurring responsibility to the holders of the Junior Subordinated Securities and without impairing or releasing the subordination provided in this Article or the obligations hereunder of the holders of the Junior Subordinated Securities to the holders of Senior Debt, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, Senior Debt, or otherwise amend or supplement in any manner Senior Debt or any instrument evidencing the same or any agreement under which Senior Debt is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing Senior Debt; (iii) release any person liable in any manner for the collection of Senior Debt; and (iv) exercise or refrain from exercising any rights against the Company and any other person.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

In Witness Whereof, the parties hereto have caused this Indenture to be duly executed as of the day and year first above written.

THE UNION LIGHT, HEAT AND POWER COMPANY

By Wendy L. Aumiller
Wendy L. Aumiller
Treasurer

DEUTSCHE BANK TRUST COMPANY AMERICAS
as Trustee

By
George F. Kubin
Vice President

Execution Copy

THE UNION LIGHT, HEAT AND POWER COMPANY

AND

DEUTSCHE BANK TRUST COMPANY AMERICAS
Trustee

First Supplemental Indenture

Dated as of March 7, 2006

To

Indenture

Dated as of December 1, 2004

5.75% Debentures due 2016
6.2% Debentures due 2036

181247

THIS FIRST SUPPLEMENTAL INDENTURE, dated as of March 7, 2006, is between The Union Light, Heat and Power Company, a corporation duly organized and existing under the laws of the State of Kentucky (the "Company"), having its principal office at 139 East Fourth Street, Cincinnati, Ohio 45202, and Deutsche Bank Trust Company Americas, as Trustee (the "Trustee") under the Indenture, dated as of December 1, 2004, between the Company and the Trustee, as supplemented (the "Indenture").

Recitals of the Company

The Company has executed and delivered the Indenture to the Trustee to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (the "Securities"), to be issued in one or more series as provided in the Indenture.

Pursuant to the terms of the Indenture, the Company desires to provide for the establishment of two new series of its Securities to be known as its 5.75% Debentures due 2016 ("Series A") and its 6.2% Debentures due 2036 ("Series B") and collectively, the "Debentures"), in this First Supplemental Indenture.

All things necessary to make this First Supplemental Indenture a valid agreement of the Company have been done.

Now, therefore, this First Supplemental Indenture Witnesseth:

For and in consideration of the premises and the purchase of the Debentures by the Initial Purchasers and the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Debentures, as follows:

ARTICLE ONE

Terms of the Debentures

Section 101. There is hereby authorized a series of Securities designated the "5.75% Debentures due 2016" and a series of Securities designated the "6.2% Debentures due 2036") (Series A and Series B, respectively). Series A and Series B shall mature and the principal shall be due and payable together with all accrued and unpaid interest thereon on March 10, 2016 and March 10, 2036, respectively, and both series shall be issued in the form of a registered Global Security without coupons, registered in the name of Cede & Co., as nominee of The Depository Trust Company, as the Depositary (the "Depositary").

Series A and Series B shall be limited in aggregate principal amount to $50,000,000 and $65,000,000, respectively, except as provided in Section 301(2) of the Indenture.

Section 102. The provisions of Section 305 of the Indenture applicable to Global Securities shall apply to the Debentures. The Company hereby designates The Depository Trust

Company to act as the Depositary for the Global Securities representing the Debentures. In lieu of clause (2) under Section 305, the following provision shall apply to the Debentures:

Notwithstanding any provision in this Indenture, no Global Security may be exchanged in whole or in part for Debentures registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any Person other than the Depositary for such Global Security or a nominee thereof unless (A) the Depositary has notified the Company that it is unwilling or unable to continue as Depositary for such Global Security or has ceased to be a clearing agency registered under the Exchange Act, and a successor Depositary is not appointed within 90 days; (B) an Event of Default has occurred and is continuing with respect to the Debentures; or (C) the Company in its sole discretion determines not to have any of the Debentures represented by a Global Security.

A Global Security representing a Debenture may not be exchanged for another Debenture other than as provided in Section 305 of the Indenture; however, beneficial interests in a Global Security representing a Debenture may be transferred and exchanged as provided in Section 103 of this First Supplemental Indenture.

Section 103. (a) Certain Definitions. For purposes of this Section 103, except as otherwise expressly provided or unless the context otherwise requires:

"Applicable Procedures" means, with respect to any transfer or exchange of or for beneficial interests in any Global Debenture, the rules and procedures of the Depositary that apply to such transfer or exchange.

"Global Debenture" means a Global Security representing Debentures.

"Indirect Participant" means a Person who holds a beneficial interest in a Global Debenture through a Participant.

"Initial Purchasers" means KeyBanc Capital Markets, a division of McDonald Investments Inc. and LaSalle Financial Services, Inc.

"Participant" means a Person who has an account with the Depositary.

"Private Placement Legend" means the legend set forth in Section 103(d)(i) of this First Supplemental Indenture to be placed on all Debentures except where otherwise permitted by the provisions of this First Supplemental Indenture.

"QIB" means a "qualified institutional buyer" as defined in Rule 144A.

"Restricted Global Debenture" means a Global Debenture bearing the Private Placement Legend.

"Rule 144" means Rule 144 promulgated under the Securities Act.

"Rule 144A" means Rule 144A promulgated under the Securities Act.

"Successor Security" of any particular Debenture means every Debenture issued after, and evidencing all or a portion of the same debt as that evidenced by, such particular Debenture; and for purposes of this definition, any Debenture authenticated and delivered under Section 306 of the Indenture in exchange for or in lieu of a mutilated, destroyed, lost or stolen Debenture shall be deemed to evidence the same indebtedness as the mutilated, destroyed, lost or stolen Debenture.

"Unrestricted Global Debenture" means a permanent Global Debenture in the form specified in Article Two of this First Supplemental Indenture that represents Debentures that do not bear the Private Placement Legend.

(b) Transfer and Exchange of Beneficial Interests in the Global Debentures. The transfer of beneficial interests in the Global Debentures shall be effected through the Depositary, in accordance with the provisions of this Section 103 and the Applicable Procedures. Beneficial interests in the Restricted Global Debentures shall be subject to restrictions on transfer comparable to those set forth herein to the extent required by the Securities Act. Transfers of beneficial interests in the Global Debentures also shall require compliance with either subparagraph (i) or (ii) below, as applicable, as well as one or more of the other following subparagraphs, as applicable:

(i) Transfer of Beneficial Interests in the Same Global Debenture. Beneficial interests in any Restricted Global Debenture may be transferred to Persons who take delivery thereof in the form of a beneficial interest in the same Restricted Global Debenture in accordance with the transfer restrictions set forth in the Private Placement Legend. Beneficial interests in any Unrestricted Global Debenture may be transferred to Persons who take deliver thereof in the form of a beneficial interest in an Unrestricted Global Debenture. No written orders or instructions shall be required to be delivered to the Security Registrar to effect the transfers described in this Section 103(b)(i).

(ii) All Other Transfers of Beneficial Interests in Global Debentures. In connection with all transfers of beneficial interests that are not subject to Section 103(b)(i) above, the transferor of such beneficial interest must deliver to the Security Registrar either (A)(1) a written order from a Participant or an Indirect Participant given to the Depositary in accordance with the Applicable Procedures directing the Depositary to credit or cause to be credited a beneficial interest in another Global Debenture in an amount equal to the beneficial interest to be transferred or exchanged and (2) instructions given in accordance with the Applicable Procedures containing information regarding the Participant account to be credited with such increase. Upon satisfaction of all of the requirements for transfer or exchange of beneficial interests in Global Debentures contained in this Section 103 and the Debentures or otherwise applicable under the Securities Act, the Trustee shall adjust the principal amount of the relevant Global Debenture(s) pursuant to Section 103(c) of this First Supplemental Indenture.

(iii) Transfer of Beneficial Interests to Another Restricted Global Debenture. A beneficial interest in any Restricted Global Debenture may be transferred to a Person who

takes delivery thereof in the form of a beneficial interest in another Restricted Global Debenture if the transfer complies with the requirements of Section 103(b)(ii) above and the Security Registrar receives a certificate in the form of Exhibit A to this First Supplemental Indenture, including the certifications in item (1) thereof.

(iv) Transfer and Exchange of Beneficial Interests in a Restricted Global Debenture for Beneficial Interests in the Unrestricted Global Debenture. A beneficial interest in any Restricted Global Debenture may be exchanged by any holder thereof for a beneficial interest in an Unrestricted Global Debenture or transferred to a Person who takes delivery thereof in the form of a beneficial interest in an Unrestricted Global Debenture if the exchange or transfer complies with the requirements of Section 103(b)(ii) above and the Security Registrar receives the following:

(A) if the holder of such beneficial interest in a Restricted Global Debenture proposes to exchange such beneficial interest for a beneficial interest in an Unrestricted Global Debenture, a certificate from such holder in the form of Exhibit B to this First Supplemental Indenture, including the certifications in the third paragraph thereof; or

(B) if the holder of such beneficial interest in a Restricted Global Debenture proposes to transfer such beneficial interest to a Person who shall take delivery thereof in the form of a beneficial interest in an Unrestricted Global Debenture, a certificate from such holder in the form of Exhibit A to this First Supplemental Indenture;

and, in each such case if the Company or the Security Registrar so requests or if the Applicable Procedures so require, an Opinion of Counsel in form reasonably acceptable to the Company and the Security Registrar to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained herein and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

If any such transfer is effected at a time when an Unrestricted Global Debenture has not yet been issued, the Company shall issue and the Trustee shall authenticate, pursuant to a Company order, one or more Unrestricted Global Debentures in an aggregate principal amount equal to the aggregate principal amount of beneficial interests transferred pursuant to subparagraph (A) or (B) above.

Beneficial interests in an Unrestricted Global Debenture cannot be exchanged for, or transferred to Persons who take delivery thereof in the form of, a beneficial interest in a Restricted Global Debenture.

(c) Cancellation and/or Adjustment of Global Debentures. At such time as all beneficial interests in a particular Global Debenture have been exchanged for Definitive Debentures or a particular Global Debenture has been redeemed, repurchased or canceled in whole and not in part, each such Global Debenture shall be returned to or retained and canceled by the Trustee in accordance with Section 309 of the Indenture. At any time prior to such cancellation, if any

beneficial interest in a Global Debenture is exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Debenture, the principal amount of Debentures represented by such Global Debenture shall be reduced accordingly and an endorsement shall be made on such Global Debenture by the Trustee or by the Depositary at the direction of the Trustee to reflect such reduction; and if the beneficial interest is being exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Debenture, such other Global Debenture shall be increased accordingly and an endorsement shall be made on such Global Debenture by the Trustee or by the Depositary at the direction of the Trustee to reflect such increase.

(d) Form of Additional Legends. In addition to any legends required by Article Two of this First Supplemental Indenture, the following legends shall appear on the face of all Debentures (including Global Debentures) issued under this First Supplemental Indenture unless otherwise provided in this First Supplemental Indenture.

(i) Private Placement Legend. Except as otherwise provided in Section 103(c), each Debenture and Successor Security shall bear a legend in substantially the following form:

"THIS DEBENTURE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT AS SET FORTH IN THE NEXT SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER: (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB"), AND (2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS DEBENTURE EXCEPT (A) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (C) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS DEBENTURE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THE FIRST SUPPLEMENTAL INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS DEBENTURE IN VIOLATION OF THE FOREGOING."

Section 104. Interest on each of the Debentures shall be payable semiannually on March 10 and September 10 of each year (each an "Interest Payment Date"), commencing on September 10, 2006, at the rate per annum specified in Series A and Series B from March 10, 2006, or from

the most recent Interest Payment Date to which interest has been paid or duly provided for. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will be paid to the Person in whose name such Debenture is registered at the close of business on the Regular Record Date for such interest, which shall be the Business Day immediately preceding such Interest Payment Date. The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. As used herein, "Business Day" means any day other than a Saturday or Sunday or a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to be closed.

Section 105. Subject to agreements with or the rules of the Depositary or any successor book-entry security system or similar system with respect to Global Securities, payments of interest will be made by check mailed to the Holder of each Debenture at the address shown in the Security Register, and payments of the principal amount of each Debenture will be made at maturity by check against presentation of the Debenture at the office or agency of the Trustee.

Section 106. The Debentures shall be issued in denominations of $1,000 or any integral multiple of $1,000.

Section 107. Principal, premium, if any, and interest on the Debentures shall be payable in the coin or currency of the United States of America, which, at the time of payment, is legal tender for public and private debts.

Section 108. The Debentures shall be subject to defeasance and covenant defeasance, at the Company's option, as provided for in Sections 1302 and 1303 of the Indenture.

Section 109. Subject to the terms of Article Eleven of the Indenture, the Company shall have the right to redeem the Debentures, at any time in whole or from time to time in part, as provided in the form of the Debentures herein below set forth. If the Company redeems the Debentures, the Company shall provide prompt notice of the Make-Whole Amount to the Trustee upon its calculation as provided in the Debentures, providing the basis of its computation in such notice in reasonable detail, and upon receipt of such notice the Trustee shall notify the Depositary.

ARTICLE TWO

Form of the Debentures

Section 201. Debentures offered and sold by the Initial Purchasers in reliance on Rule 114A shall be issued in the form of one or more Restricted Global Debentures, substantially in the form set forth in this Article Two, deposited upon issuance with the Trustee, as custodian for the Depositary, registered in the name of the Depositary or its nominee, in each case for credit to an account of a direct or indirect Participant, duly executed by the Company and authenticated by the Trustee as provided in the Indenture and this First Supplemental Indenture. The aggregate principal amount of the Restricted Global Debentures may from time to time be increased or

decreased by adjustments made on the records of the Trustee, as custodian for the Depositary or its nominee, as provided in the Indenture and this First Supplemental Indenture.

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(FORM OF FACE OF DEBENTURE – SERIES A)

No. R- $50,000,000

CUSIP No.: 906888 AR 3
ISIN No.: US906888AR38

THE UNION LIGHT, HEAT AND POWER COMPANY

5.75% DEBENTURES DUE 2016 (SERIES A)

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT AND SUCH CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

[THIS DEBENTURE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT AS SET FORTH IN THE NEXT SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER: (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB"), AND (2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS DEBENTURE EXCEPT (A) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (C) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS DEBENTURE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THE FIRST SUPPLEMENTAL INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS DEBENTURE IN VIOLATION OF THE FOREGOING.]

THE UNION LIGHT, HEAT AND POWER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company", which term includes any successor Person under the Indenture hereafter referred to), for value received, hereby promises to pay to CEDE & CO., or registered assigns, the principal sum of Fifty Million and No/100 Dollars ($50,000,000) on March 10, 2016, and to pay interest thereon from March 10, 2006, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semiannually, on March 10 and September 10 in each year, commencing September 10, 2006, at the rate of 5.75% per annum, until the principal hereof is paid or made available for payment. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Record Date for such interest, which shall be the Business Day immediately preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture.

Payment of the principal of (and premium, if any) and interest on this Security will be made at the corporate trust office of the Trustee maintained for that purpose in the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

Any payment on this Security due on any day which is not a Business Day in the City of New York need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on the due date and no interest shall accrue for the period from and after such date, unless such payment is a payment at maturity or upon redemption, in which case interest shall accrue thereon at the stated rate for such additional days.

As used herein, "Business Day" means any day other than a Saturday or Sunday or a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to be closed.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

In Witness Whereof, the Company has caused this instrument to be duly executed.

THE UNION LIGHT, HEAT AND POWER COMPANY

By: _____

CERTIFICATE OF AUTHENTICATION

Dated:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

DEUTSCHE BANK TRUST COMPANY AMERICAS, Trustee

By.....
Authorized Signatory

(FORM OF REVERSE OF DEBENTURE)

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of December 1, 2004, as supplemented by the First Supplemental Indenture dated as of March 7, 2006 (the "Indenture"), between the Company and Deutsche Bank Trust Company Americas, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof, which series is issuable without limitation as to the aggregate principal amount thereof.

The Company has the right to redeem the Securities, in whole or from time to time in part, until maturity (such redemption, a "Make-Whole Redemption," and the date thereof, the "Redemption Date") at a redemption price equal to the sum of (i) the principal amount of the Securities being redeemed plus accrued and unpaid interest thereon to the Redemption Date, and (ii) the Make-Whole Amount (as defined below), if any, with respect to the Securities being redeemed.

"Make-Whole Amount" means the excess, if any, of (i) the sum, as determined by a Quotation Agent, of the present value of the principal amount of the Securities to be redeemed, together with scheduled payments of interest thereon from the Redemption Date to March 10, 2016 (in each case not including any portion of such payments of interest accrued as of the Redemption Date), in each case discounted to the Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate over (ii) 100% of the principal amount on the Redemption Date of the Securities to be redeemed.

"Adjusted Treasury Rate" means, with respect to any Redemption Date for a Make-Whole Redemption, the rate per annum equal to the semi-annual equivalent yield to maturity of

the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date, calculated on the third Business Day preceding the Redemption Date, plus in each case 0.20% (20 basis points).

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term from the Redemption Date to the Stated Maturity of the Securities that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Securities.

"Quotation Agent" means the Reference Treasury Dealer selected by the Company after consultation with the Trustee. "Reference Treasury Dealer" means a primary U.S. Government securities dealer.

"Comparable Treasury Price" means, with respect to any Redemption Date for a Make-Whole Redemption, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such Redemption Date, as set forth in the daily statistical release designated "H.15" (or any successor release) published by the Board of Governors of the Federal Reserve System or (ii) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (A) the average of the Reference Treasury Dealer Quotations for such Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (B) if the Trustee is provided fewer than three such Reference Treasury Dealer Quotations, the average of such Quotations.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any Redemption Date for a Make-Whole Redemption, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company and the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such Redemption Date.

Notice of any redemption by the Company will be mailed at least 30 days but not more than 60 days before any Redemption Date to each Holder of Securities to be redeemed. If less than all the Securities are to be redeemed at the option of the Company, the Depositary shall select the Securities to be redeemed in accordance with its standard procedures.

Unless the Company defaults in payment of the Redemption Price, on and after any Redemption Date, interest will cease to accrue on the Securities or portions thereof called for redemption.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of a majority in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 35% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonably satisfactory indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of (and premium, if any) and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of (and premium, if any) and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same. No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

(FORM OF FACE OF DEBENTURE – SERIES B)

No. R- $65,000,000

CUSIP No.: 906888 AS 1
ISIN No.: US906888AS11

THE UNION LIGHT, HEAT AND POWER COMPANY

6.2% DEBENTURES DUE 2036 (SERIES B)

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT AND SUCH CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

[THIS DEBENTURE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT AS SET FORTH IN THE NEXT SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER: (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB"), AND (2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS DEBENTURE EXCEPT (A) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (C) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS DEBENTURE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THE FIRST SUPPLEMENTAL INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS DEBENTURE IN VIOLATION OF THE FOREGOING.]

THE UNION LIGHT, HEAT AND POWER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company", which term includes any successor Person under the Indenture hereafter referred to), for value received, hereby promises to pay to CEDE & CO., or registered assigns, the principal sum of Sixty-Five Million and No/100 Dollars ($65,000,000) on March 10, 2036, and to pay interest thereon from March 10, 2006, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semiannually, on March 10 and September 10 in each year, commencing September 10, 2006, at the rate of 6.2% per annum, until the principal hereof is paid or made available for payment. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Record Date for such interest, which shall be the Business Day immediately preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture.

Payment of the principal of (and premium, if any) and interest on this Security will be made at the corporate trust office of the Trustee maintained for that purpose in the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

Any payment on this Security due on any day which is not a Business Day in the City of New York need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on the due date and no interest shall accrue for the period from and after such date, unless such payment is a payment at maturity or upon redemption, in which case interest shall accrue thereon at the stated rate for such additional days.

As used herein, "Business Day" means any day other than a Saturday or Sunday or a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to be closed.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

In Witness Whereof, the Company has caused this instrument to be duly executed.

THE UNION LIGHT, HEAT AND POWER COMPANY

By: _____

CERTIFICATE OF AUTHENTICATION

Dated:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

DEUTSCHE BANK TRUST COMPANY AMERICAS, Trustee

By.....
Authorized Signatory

(FORM OF REVERSE OF DEBENTURE)

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of December 1, 2004, as supplemented by the First Supplemental Indenture dated as of March 7, 2006 (the "Indenture"), between the Company and Deutsche Bank Trust Company Americas, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof, which series is issuable without limitation as to the aggregate principal amount thereof.

The Company has the right to redeem the Securities, in whole or from time to time in part, until maturity (such redemption, a "Make-Whole Redemption," and the date thereof, the "Redemption Date") at a redemption price equal to the sum of (i) the principal amount of the Securities being redeemed plus accrued and unpaid interest thereon to the Redemption Date, and (ii) the Make-Whole Amount (as defined below), if any, with respect to the Securities being redeemed.

"Make-Whole Amount" means the excess, if any, of (i) the sum, as determined by a Quotation Agent, of the present value of the principal amount of the Securities to be redeemed, together with scheduled payments of interest thereon from the Redemption Date to March 10, 2036 (in each case not including any portion of such payments of interest accrued as of the Redemption Date), in each case discounted to the Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate over (ii) 100% of the principal amount on the Redemption Date of the Securities to be redeemed.

"Adjusted Treasury Rate" means, with respect to any Redemption Date for a Make-Whole Redemption, the rate per annum equal to the semi-annual equivalent yield to maturity of

the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date, calculated on the third Business Day preceding the Redemption Date, plus in each case 0.30% (30 basis points).

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term from the Redemption Date to the Stated Maturity of the Securities that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Securities.

"Quotation Agent" means the Reference Treasury Dealer selected by the Company after consultation with the Trustee. "Reference Treasury Dealer" means a primary U.S. Government securities dealer.

"Comparable Treasury Price" means, with respect to any Redemption Date for a Make-Whole Redemption, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such Redemption Date, as set forth in the daily statistical release designated "H.15" (or any successor release) published by the Board of Governors of the Federal Reserve System or (ii) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (A) the average of the Reference Treasury Dealer Quotations for such Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (B) if the Trustee is provided fewer than three such Reference Treasury Dealer Quotations, the average of such Quotations.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any Redemption Date for a Make-Whole Redemption, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company and the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such Redemption Date.

Notice of any redemption by the Company will be mailed at least 30 days but not more than 60 days before any Redemption Date to each Holder of Securities to be redeemed. If less than all the Securities are to be redeemed at the option of the Company, the Depositary shall select the Securities to be redeemed in accordance with its standard procedures.

Unless the Company defaults in payment of the Redemption Price, on and after any Redemption Date, interest will cease to accrue on the Securities or portions thereof called for redemption.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of a majority in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 35% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonably satisfactory indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of (and premium, if any) and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of (and premium, if any) and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same. No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

ARTICLE THREE

Original Issue of Debentures

Section 301. An initial issue of the Debentures in the aggregate principal amount of $50,000,000 for Series A and $65,000,000 for Series B, may, upon execution of this First Supplemental Indenture, or from time to time hereafter, be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Debentures upon a Company Order and Opinion of Counsel pursuant to Section 303 of the Indenture without any further action by the Company.

ARTICLE FOUR

Paying Agent and Security Registrar

Section 401. Deutsche Bank Trust Company Americas will be the Paying Agent and Security Registrar for the Debentures.

ARTICLE FIVE

Covenants

Section 501. The Company covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) under the Exchange Act, make available to any Holder or beneficial holder of the Debentures which continue to be restricted securities, in connection with any sale thereof and any prospective purchaser of the Debentures from such Holder or beneficial holder, the information required pursuant to Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial holder of the Debentures and it will take such further action as any Holder or beneficial holder of such Debentures may reasonably request, all to the extent required from time to time to enable such Holder or beneficial holder to sell its Debentures without registration under the Securities Act within the limitation of the exemption provided by Rule 144A, as such rule may be amended from time to time. Upon the request of any Holder or any beneficial holder of the Debentures, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

ARTICLE SIX

Sundry Provisions

Section 601. Except as otherwise expressly provided in this First Supplemental Indenture or in the form of Debenture or otherwise clearly required by the context hereof or thereof, all terms used herein or in said form of Debenture that are defined in the Indenture shall have the several meanings respectively assigned to them thereby.

Section 602. The Indenture, as supplemented by this First Supplemental Indenture, is in all respects ratified and confirmed, and this First Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this First Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Company. The Trustee accepts the trusts created by the Indenture, as amended and supplemented by this First Supplemental Indenture, and agrees to perform the same upon the terms and conditions of the Indenture, as amended and supplemented by this First Supplemental Indenture. All of the provisions contained in the Indenture in respect of the rights, privileges, immunities, powers, and duties of the Trustee shall be applicable in respect of the First Supplemental Indenture as fully and with like force and effect as though fully set forth in full herein.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the day and year first above written.

THE UNION LIGHT, HEAT AND POWER COMPANY

By: Wendy L. Aumiller
Wendy L. Aumiller
Vice President and Treasurer

DEUTSCHE BANK TRUST COMPANY AMERICAS, as Trustee

By: _____
Title:

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the day and year first above written.

THE UNION LIGHT, HEAT AND POWER COMPANY

By: _____
Wendy L. Aumiller
Vice President and Treasurer

DEUTSCHE BANK TRUST COMPANY AMERICAS, as Trustee

By: _____
Title: Vice President

EXHIBIT A
FORM OF CERTIFICATE OF TRANSFER

The Union Light, Heat and Power Company
139 East Fourth Street
Cincinnati, Ohio 45202

Deutsche Bank Trust Company
Americas, Trustee
222 S. Riverside Plaza, 24th Floor
Chicago, IL 60606-5808

Re: ____% Debentures due ____ [insert date and Series A or Series B, as appropriate](the "Securities") of The Union Light, Heat and Power Company (the "Company")

Reference is made to the Indenture dated as of December 1, 2004 between the Company and Deutsche Bank Trust Company Americas, Trustee (the "Trustee") and the First Supplemental Indenture dated as of March 7, 2006 (collectively, the "Indenture"). Terms used herein and defined in the Indenture or Rule 144 under the United States Securities Act of 1933 (the "Securities Act") are used herein as so defined.

_____, *(the "Transferor")* owns and proposes to transfer the interest in the Debenture[s] specified in Annex A hereto, in the principal amount of $_____ in such Debenture[s] or interests (the *"Transfer"),* to (the *"Transferee"),* as further specified in Annex A hereto. In connection with the Transfer, the Transferor hereby certifies that:

[CHECK ALL THAT APPLY]

1. ☐ Check if Transferee will take delivery of a beneficial interest in the Restricted Global Debenture. The Transfer is being effected pursuant to and in accordance with Rule 144A under the United States Securities Act of 1933, as amended (the *"Securities Act"),* and, accordingly, the Transferor hereby further certifies that the beneficial interest is being transferred to a Person that the Transferor reasonably believed and believes is purchasing the beneficial interest for its own account, or for one or more accounts with respect to which such Person exercises sole investment discretion, and such Person and each such account is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and such Transfer is in compliance with any applicable Blue Sky securities laws of any state of the United States. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest will be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Global Debenture and in the Indenture and the Securities Act.

2. ☐ Check and complete if Transferee will take delivery of a beneficial interest in a Debenture pursuant to any provision of the Securities Act other than Rule 144A. The Transfer is being effected in compliance with the transfer restrictions applicable to beneficial interests in

Restricted Global Debentures and pursuant to and in accordance with the Securities Act and any applicable Blue Sky securities laws of any slate of the United States, and accordingly the Transferor hereby further certifies that (check one):

(a) ❑ such Transfer is being effected pursuant to and in accordance with Rule 144 under the Securities Act;

or

(b) ❑ such transfer is being effected to the Company or a subsidiary thereof;

or

(c) ❑ such Transfer is being effected pursuant to an effective registration on statement under the Securities Act and in compliance with the prospectus delivery requirements of the Securities Act.

3. ❑ Check if Transferee will take delivery of a beneficial interest in an Unrestricted Global Debenture pursuant to Rule 144. (i) The Transfer is being effected pursuant to and in accordance with Rule 144 under the Securities Act and in compliance with the transfer restrictions contained in the Indenture and any applicable Blue Sky securities laws of any state of the United States and (ii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest will no longer be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Global Debentures and in the Indenture.

This certificate and the statements contained herein are made for your benefit and the benefit of the Company.

_____
[Insert Name of Transferor]

By:_____
Name:
Title:

Dated: _____

ANNEX A TO CERTIFICATE OF TRANSFER

1. The Transferor owns and proposes to transfer a beneficial interest in the:

❑ Restricted Global Debenture (CUSP _____).

2. After the Transfer, the Transferee will hold a beneficial interest in the:

[CHECK ONE]

(i) ❑ Restricted Global Debenture (CUSP _____), or

(ii) ❑ Unrestricted Global Debenture without Transfer restrictions (CUSP _____).

EXHIBIT B
FORM OF CERTIFICATE OF EXCHANGE

The Union Light, Heat and Power Company
139 East Fourth Street
Cincinnati, Ohio 45202

Deutsche Bank Trust Company
Americas, Trustee
222 S. Riverside Plaza, 24th Floor
Chicago, IL 60606-5808

Re: ____% Debentures due ____ [insert date and Series A or Series B, as appropriate] (the "Securities") of The Union Light, Heat and Power Company (the "Company")

Reference is made to the Indenture dated as of December 1, 2004 between the Company and Deutsche Bank Trust Company Americas, Trustee (the "Trustee") and the First Supplemental Indenture dated as of March 7, 2006 (collectively, the "Indenture"). Terms used herein and defined in the Indenture or in Rule 144 under the United States Securities Act of 1933 (the "Securities Act") are used herein as so defined.

_____, (the *"Owner"*) owns and proposes to exchange the interest in the Debenture[s] specified herein, in the principal amount of $_____ (the "Exchange").

In connection with the Exchange, the Owner hereby certifies that, in connection with the Exchange of the Owner's beneficial interest in a Restricted Global Debenture for a beneficial interest in an Unrestricted Global Debenture in an equal principal amount, the Owner hereby certifies (i) the beneficial interest is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to the Global Debentures and pursuant to and in accordance with the United States Securities Act of 1933, as amended (the *"Securities Act"),* (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the beneficial interest in an Unrestricted Global Debenture is being acquired in compliance with any applicable Blue Sky securities laws of any state of the United States.

This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer.

_____
[Insert Name of Owner]

By: _____
Name:
Title:

THE UNION LIGHT, HEAT AND POWER COMPANY

AND

THE FIFTH THIRD BANK, Trustee

Indenture

Dated as of July 1, 1995

Trust Indenture Act Section	Indenture Section
Section 310(a)(1)	609
(a)(2)	609
(a)(3)	Not Applicable
(a)(4)	Not Applicable
(b)	608
	610
Section 311(a)	613
(b)	613
Section 312(a)	701
	702
(b)	702
(c)	702
Section 313(a)	703
(b)	703
(c)	703
(d)	703
Section 314(a)	704
(a)(4)	101
	1004
(b)	Not Applicable
(c)(1)	102
(c)(2)	102
(c)(3)	Not Applicable
(d)	Not Applicable
(e)	102
Section 315(a)	601
(b)	602
(c)	601
(d)	601
(e)	514
Section 316(a)	101
(a)(1)(A)	502
	512
(a)(1)(B)	513
(a)(2)	Not Applicable
(b)	508
(c)	104
Section 317(a)(1)	503
(a)(2)	504
(b)	1003
Section 318(a)	107

Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

THE UNION LIGHT, HEAT AND POWER COMPANY

Indenture

Dated as of July 1, 1995

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Junior Subordinated Securities

INDENTURE, dated as of July 1, 1995, between The Union Light, Heat and Power Company, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company"), having its principal office at 139 East Fourth Street, Cincinnati, Ohio 45202, and The Fifth Third Bank, an Ohio banking corporation, as Trustee (herein called the "Trustee").

Recitals of the Company

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the "Securities"), to be issued in one or more series as in this Indenture provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

Now, Therefore, This Indenture Witnesseth:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually agreed, subject to Article Fourteen, if applicable, for the equal and proportionate benefit of the Holders of the Securities of each series thereof, as follows:

ARTICLE ONE

Definitions and Other Provisions of General Application

Section 101. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles;

(4) unless the context otherwise requires, any reference to an "Article" or a "Section" refers to an Article or a Section, as the case may be, of this Indenture; and

(5) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Act", when used with respect to any Holder, has the meaning specified in Section 104.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 614 to act on behalf of the Trustee to authenticate Securities of one or more series.

"Board of Directors" means the board of directors of the Company, or any duly authorized committee of that board, or any Person duly authorized to act on behalf of that board.

"Board Resolution" means a copy of a resolution or resolutions certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day", when used with respect to any Place of Payment, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by law or executive order to close.

"Commission" means the Securities and Exchange Commission, from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company either by (i) its Chairman of the Board, its Vice Chairman, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee, or (ii) any two Persons designated in a Board Resolution, or in a Company Order previously delivered to the Trustee signed by any two of the foregoing, and delivered to the Trustee.

"Corporate Trust Office" means the office of the Trustee for Securities of any series at which at any particular time its corporate trust business shall be principally administered, which office at the date of execution of this Indenture is located at 38 Fountain Square Plaza, Cincinnati, Ohio.

"corporation" means a corporation, association, company, joint-stock company or business trust.

"Cõvenant Defeasance" has the meaning specified in Section 1303.

"Defaulted Interest" has the meaning specified in Section 307.

"Defeasance" has the meaning specified in Section 1302.

"Depositary" means, with respect to Securities of any series issuable in whole or in part in the form of one or more Global Securities, a clearing agency registered under the Exchange Act that is designated to act as Depositary for such Securities as contemplated by Section 301.

"Event of Default" has the meaning specified in Section 501.

"Exchange Act" means the Securities Exchange Act of 1934 and any statute successor thereto, in each case as amended from time to time.

"Expiration Date" has the meaning specified in Section 104.

"Global Security" means a Security that evidences all or part of the Securities of any series and bears the legend set forth in Section 204 (or such legend as may be specified as contemplated by Section 301 for such Securities).

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively. The term "Indenture" shall also include the terms of particular series of Securities established as contemplated by Section 301.

"interest", when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an instalment of interest on such Security.

"Investment Company Act" means the Investment Company Act of 1940 and any statute successor thereto, in each case as amended from time to time.

"Junior Subordinated Securities" shall have the meaning specified in Section 1401.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an instalment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Notice of Default" means a written notice of the kind specified in Section 501(4).

"Officers' Certificate" means a certificate signed in the same manner and by Persons as provided for in a Company Request or a Company Order, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be an employee of or counsel for the Company.

"Original Issue Discount Security" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(1) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(2) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(3) Securities as to which Defeasance has been effected pursuant to Section 1302; and

(4) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given, made or taken any request, demand, authorization, direction, notice, consent, waiver or other action hereunder as of any date, (A) the principal amount of an Original Issue Discount Security which shall be deemed to be Outstanding shall be the amount of the principal thereof which would be due and payable as of such date upon acceleration of the Maturity thereof to such date pursuant to Section 502, (B) if, as of such date, the principal amount payable at the Stated Maturity of a Security is not determinable, the principal amount of such Security which shall be deemed to be Outstanding shall be the amount as specified or determined as contemplated by Section 301, (C) the principal amount of a Security denominated in one or more foreign currencies or currency units which shall be deemed to be Outstanding shall be the U.S. dollar equivalent, determined as of such date in the manner provided as contemplated by Section 301, of the principal amount of such Security (or, in the case of a Security described in Clause (A) or (B) above, of the amount determined as provided in such Clause), and (D) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, waiver or other action, only Securities which the Trustee actually knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the

Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means, if not the Company, then any Person authorized by the Company to pay the principal of or any premium or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment", when used with respect to the Securities of any series, means the place or places where the principal of and any premium and interest on the Securities of that series are payable as specified as contemplated by Section 301.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 301.

"Responsible Officer", when used with respect to the Trustee, means any vice president, any assistant vice-president, any trust officer or assistant trust officer of the Trustee assigned to the Trustee's corporate trust department and customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Securities Act" means the Securities Act of 1933 and any statute successor thereto, in each case as amended from time to time.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Senior Debt" of the Company means the principal of, premium, if any, interest on and any other payment due pursuant to any of the following, whether outstanding at the date of execution of this Indenture or thereafter incurred, created or assumed: (a) all indebtedness of the Company evidenced by notes, debentures, bonds or other securities sold by the Company for money, excluding Junior Subordinated Securities, but including all first mortgage bonds of the Company outstanding from time to time; (b) all indebtedness of others of the kinds described in the preceding clause (a) assumed by or guaranteed in any manner by the Company, including through an agreement to purchase, contingent or otherwise; and (c) all renewals, extensions or refundings of indebtedness of the kinds described in any of the preceding clauses (a) and (b); unless, in the case of any particular indebtedness, renewal, extension or refunding, the instrument creating or evidencing the same or the assumption or guarantee of the same expressly provides that such indebtedness, renewal, extension or refunding is not superior in right of payment to or is pari passu with the Junior Subordinated Securities.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity", when used with respect to any Security or any instalment of principal thereof or interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such instalment of principal or interest is due and payable.

"Subsidiary" means a corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. For the purposes of this definition, "voting stock" means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed, except as provided in Section 905.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"U.S. Government Obligation" has the meaning specified in Section 1304.

"Vice President", when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

Section 102. Compliance Certificates and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act. Each such certificate or opinion shall be given in the form of an Officers' Certificate, if to be given by an officer of the Company, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirements set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include,

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(3) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

Section 103. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or

that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 104. Acts of Holders; Record Dates.

Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is

by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

The ownership of Securities shall be proved by the Security Register.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

The Company may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to give, make or take any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders of Securities of such series, provided that the Company may not set a record date for, and the provisions of this paragraph shall not apply with respect to, the giving or making of any notice, declaration, request or direction referred to in the next paragraph. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of the relevant series on such record date, and no other Holders, shall be entitled to take the relevant action, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Company from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Company, at its own expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Trustee in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 106.

The Trustee may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to join in the giving or making of (i) any Notice of Default, (ii) any declaration of acceleration referred to in Section 502, (iii) any request to institute proceedings referred to in Section 507(2) or (iv) any direction referred to in Section 512, in

each case with respect to Securities of such series. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of such series on such record date, and no other Holders, shall be entitled to join in such notice, declaration, request or direction, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Trustee from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Trustee, at the Company's expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Company in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 106.

With respect to any record date set pursuant to this Section, the party hereto which sets such record date may designate any day as the "Expiration Date" and from time to time may change the Expiration Date to any earlier or later day; provided that no such change shall be effective unless notice of the proposed new Expiration Date is given to the other party hereto in writing, and to each Holder of Securities of the relevant series in the manner set forth in Section 106, on or prior to the existing Expiration Date. If an Expiration Date is not designated with respect to any record date set pursuant to this Section, the party hereto which set such record date shall be deemed to have initially designated the 180th day after such record date as the Expiration Date with respect thereto, subject to its right to change the Expiration Date as provided in this paragraph. Notwithstanding the foregoing, no Expiration Date shall be later than the 180th day after the applicable record date.

Without limiting the foregoing, a Holder entitled hereunder to take any action hereunder with regard to any particular Security may do so with regard to all or any part of the principal amount of such Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any part of such principal amount.

Section 105. Notices, Etc., to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trust Administration, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company.

Section 106. Notice to Holders; Waiver.

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, to each Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Any notice when mailed to a Holder in the aforesaid manner shall be conclusively deemed to have been received by such Holder whether or not actually received by such Holder. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 107. Conflict with Trust Indenture Act.

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act which is required under such Act to be a part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act which may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

Section 108. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 109. Successors and Assigns.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 110. Separability Clause.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 111. Benefits of Indenture.

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder, the Holders, and the holders of any Senior Debt, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 112. Governing Law.

This Indenture and the Securities shall be governed by and construed in accordance with the law of the State of New York. Without regard to conflicts of laws principles thereof.

Section 113. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Securities (other than a provision of any Security which specifically states that such provision shall apply in lieu of this Section)) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, and no interest shall accrue with respect to such payment for the period from and after such Interest Payment

Date, Redemption Date or Stated Maturity, as the case may be, to such next succeeding Business Day.

Section 114. Certain Matters Relating to Currencies.

Whenever any action or Act is to be taken hereunder by the Holders of Securities denominated in different currencies or currency units, then for purposes of determining the principal amount of Securities held by such Holders, the aggregate principal amount of the Securities denominated in a foreign currency or currency unit shall be deemed to be that amount of Dollars that could be obtained for such principal amount on the basis of a spot exchange rate specified to the Trustee for such series in an Officers' Certificate for exchanging such foreign currency or currency unit into Dollars as of the date of the taking of such action or Act by the Holders of the requisite percentage in principal amount of the Securities.

The Trustee shall segregate moneys, funds and accounts held by the Trustee in one currency or currency unit from any moneys, funds or accounts held in any other currencies or currency units, notwithstanding any provision herein that would otherwise permit the Trustee to commingle such amounts.

Section 115. Immunity of Incorporators, Stockholders, Officers and Directors.

No recourse shall be had for the payment of the principal of (and premium, if any), or the interest, if any, on any Securities of any series, or for any claim based thereon, or upon any obligation, covenant or agreement of this Indenture, against any incorporator, stockholder, officer or director, as such, past, present or future, of the Company or of any successor corporation, either directly or indirectly through the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law or by the enforcement of any assessment of penalty or otherwise; it being expressly agreed and understood that this Indenture and all the Securities of each series are solely corporate obligations, and that no personal liability whatever shall attach to, or is incurred by, any incorporator, stockholder, officer or director, past, present or future, of the Company or of any successor corporation, either directly or indirectly through the Company or any successor corporation, because of the incurring of the indebtedness hereby authorized or under or by reason of any of the obligations, covenants or agreements contained in this Indenture or in any of the Securities of any series, or to be implied herefrom or therefrom; and that all such personal liability is hereby expressly released and waived as a condition of, and as part of the consideration for, the execution of this Indenture and the issuance of the Securities of each series.

Section 116. Counterparts.

This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 117. Assignment to Affiliate.

The Company will have the right at all times to assign by indenture supplemental hereto any of its rights or obligations under the Indenture to a direct, indirect, or wholly owned Affiliate of the Company; provided that, in the event of any such assignment, the Company will remain liable for all such obligations.

ARTICLE TWO

Security Forms

Section 201. Forms Generally.

The Securities of each series shall be in substantially the form set forth in this Article, or in such other form as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or Depositary therefor or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution thereof. If the form of Securities of any series is established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for the authentication and delivery of such Securities.

The definitive Securities shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

Section 202. Form of Face of Security.

[Insert any legend required by the Internal Revenue Code and the regulations thereunder.]

THE UNION LIGHT, HEAT AND POWER COMPANY

.....

No. ..... $ .....

CUSIP NO. _____

The Union Light, Heat and Power Company, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to ....., or registered assigns, the principal sum of ..... Dollars on ..... [if the Security is to bear interest prior to Maturity, insert: , and to pay interest thereon from ..... or from the most recent Interest Payment Date to which interest has been paid or duly provided for, ... on ..... and ..... in each year, commencing ....., at the rate of ....% per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the ..... or ..... (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture].

[If the Security is not to bear interest prior to Maturity, insert: The principal of this Security shall not bear interest except in the case of a default in payment

of principal upon acceleration, upon redemption or at Stated Maturity and in such case the overdue principal and any overdue premium shall bear interest at the rate of ....% per annum (to the extent that the payment of such interest shall be legally enforceable), from the dates such amounts are due until they are paid or made available for payment. Interest on any overdue principal or premium shall be payable on demand. Any such interest on overdue principal or premium which is not paid on demand shall bear interest at the rate of .....% per annum (to the extent that the payment of such interest on interest shall be legally enforceable), from the date of such demand until the amount so demanded is paid or made available for payment. Interest on any overdue interest shall be payable on demand.]

Payment of the principal of (and premium, if any) and [if applicable, insert: any such] interest on this Security will be made at the office or agency of the Company maintained for that purpose in ....., in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts [if applicable, insert: ;provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register].

Any payment on this Security due on any day which is not a Business Day in the City of New York need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on the due date and no interest shall accrue for the period from and after such date.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, [if subordinated, insert: including, without limitation, provisions subordinating the payment of the principal hereof and any premium and interest hereon to the payment in full of all Senior Debt as defined in the Indenture] which such further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

In Witness Whereof, the Company has caused this instrument to be duly executed.

THE UNION LIGHT, HEAT AND POWER COMPANY

By.....

Section 203. Form of Reverse of Security.

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of July 1, 1995 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and The Fifth Third Bank, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof [if applicable, insert: , limited in aggregate principal amount to $.....].

[If applicable, insert: The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, [if applicable, insert: (1) on ..... in any year commencing with the year ..... and ending with the year ..... through operation of the sinking fund for this series at a Redemption Price equal to 100% of the principal amount, and (2)] at any time [if applicable, insert: on or after ....., ..], as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal amount): If redeemed [if applicable, insert: on or before ....., ...%, and if redeemed] during the 12-month period beginning ..... of the years indicated,

Year	Redemption Price	Year	Redemption Price

and thereafter at a Redemption Price equal to .....% of the principal amount, together in the case of any such redemption [if applicable, insert: (whether through operation of the sinking fund or otherwise)] with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[If applicable, insert: The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, (1) on ..... in any year commencing with the year .... and ending with the year .... through operation of the sinking fund for this series at the Redemption Prices for redemption through operation of the sinking fund (expressed as percentages of the principal amount) set forth in the table below, and (2) at any time [if applicable, insert: on or after .....], as a whole or in part, at the election of the Company, at the Redemption Prices for redemption otherwise than through operation of the sinking fund (expressed as percentages of the principal amount) set forth in the table below: If redeemed during the 12-month period beginning ..... of the years indicated,

Year	Redemption Price For Redemption Through Operation of the Sinking Fund	Redemption Price For Redemption Otherwise Than Through Operation of the Sinking Fund

and thereafter at a Redemption Price equal to .....% of the principal amount, together in the case of any such redemption (whether through operation of the sinking fund or otherwise) with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[If applicable, insert: Notwithstanding the foregoing, the Company may not, prior to ....., redeem any Securities of this series as contemplated by [if applicable, insert: Clause (2) of] the preceding paragraph as a part of, or in anticipation of, any refunding operation by the application, directly or indirectly, of moneys borrowed having an interest cost to the Company (calculated in accordance with generally accepted financial practice) of less than .....% per annum.]

[If applicable, insert: The sinking fund for this series provides for the redemption on ..... in each year beginning with the year ..... and ending with the year ..... of [if applicable, insert: not less than $..... ("mandatory sinking fund") and not more than] $..... aggregate principal amount of Securities of this series. Securities of this series acquired or redeemed by the Company otherwise than through [if applicable, insert: mandatory] sinking fund payments may be credited against subsequent [if applicable, insert: mandatory] sinking fund payments otherwise required to be made [if applicable, insert: , in the inverse order in which they become due].]

[If the Security is subject to redemption of any kind, insert: In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.]

[If subordinated, insert: The indebtedness evidenced by the Securities of this series is, to the extent and in the manner provided in the Indenture, expressly subordinate and subject in right of payment to the prior payment in full of all Senior Debt of the Company (as defined in the Indenture) whether outstanding at the date of the Indenture or thereafter incurred, and this Security is issued subject to the provisions of the Indenture with respect to such subordination. Each holder and owner of this Security, by accepting the same, agrees to and shall be bound by such provisions and authorizes the Trustee in his behalf to take such action as may be necessary or appropriate to effectuate the subordination so provided and appoints the Trustee his attorney-in-fact for such purpose.]

[If applicable, insert: The Indenture contains provisions for defeasance at any time of [the entire indebtedness of this Security] [or] [certain restrictive covenants and Events of Default with respect to this Security] [, in each case] upon compliance with certain conditions set forth in the Indenture.]

[If the Security is not an Original Issue Discount Security, insert: If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.]

[If the Security is an Original Issue Discount Security, insert: If an Event of Default with respect to Securities of this series shall occur and be continuing, an amount of principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture. Such amount shall be equal to insert: formula for determining the amount. Upon payment (i) of the amount of principal so declared due and payable and (ii) of interest on any overdue principal, premium and interest (in each case to the extent that the payment of such interest shall be legally enforceable), all of the Company's obligations in respect of the payment of the principal of and premium and interest, if any, on the Securities of this series shall terminate.]

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of a majority in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 35% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee indemnity reasonably satisfactory to the Trustee, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is

absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of $..... and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Section 204. Form of Legend for Global Securities.

Unless otherwise specified as contemplated by Section 301 for the Securities evidenced thereby, every Global Security authenticated and delivered hereunder shall bear a legend in substantially the following form (or such other form as a securities exchange or Depositary may request or require):

This Security is a Global Security within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depositary or a nominee thereof. This Security may not be exchanged in whole or in part for a

Security registered, and no transfer of this Security in whole or in part may be registered, in the name of any Person other than such Depositary or a nominee thereof, except in the limited circumstances described in the Indenture.

Section 205. Form of Trustee's Certificate of Authentication.

The Trustee's certificates of authentication shall be in substantially the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

THE FIFTH THIRD BANK,

As Trustee

By.....
Authorized Signatory

ARTICLE THREE

The Securities

Section 301. Amount Unlimited; Issuable in Series.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established in or pursuant to a Board Resolution and, subject to Section 303, set forth, or determined in the manner provided, in an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series,

(1) the title of the Securities of the series (which shall distinguish the Securities of the series from Securities of any other series);

(2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture

(except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 304, 305, 306, 906 or 1107 and except for any Securities which, pursuant to Section 303, are deemed never to have been authenticated and delivered hereunder);

(3) the Person to whom any interest on a Security of the series shall be payable, if other than the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest;

(4) the date or dates on which the principal of any Securities of the series is payable;

(5) the rate or rates at which any Securities of the series shall bear interest, if any, the date or dates from which any such interest shall accrue, the Interest Payment Dates on which any such interest shall be payable, the manner of determination of such Interest Payment Dates and the Regular Record Date for any such interest payable on any Interest Payment Date;

(6) the right, if any, to extend the interest payment periods and the duration of such extension;

(7) the place or places where the principal of and any premium and interest on any Securities of the series shall be payable;

(8) the period or periods within which, the price or prices at which and the terms and conditions upon which any Securities of the series may be redeemed, in whole or in part, at the option of the Company and, if other than by a Board Resolution, the manner in which any election by the Company to redeem the Securities shall be evidenced;

(9) the obligation, if any, of the Company to redeem or purchase any Securities of the series pursuant to any sinking fund or analogous provisions or at the option of the Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which any Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(10) the denominations in which any Securities of the series shall be issuable;

(11) if the amount of principal of or any premium or interest on any Securities of the series may be determined with reference to an index or

pursuant to a formula, the manner in which such amounts shall be determined;

(12) if other than the currency of the United States of America, the currency, currencies or currency units in which the principal of or any premium or interest on any Securities of the series shall be payable and the manner of determining the equivalent thereof in the currency of the United States of America for any purpose, including for purposes of the definition of "Outstanding" in Section 101;

(13) if the principal of or any premium or interest on any Securities of the series is to be payable, at the election of the Company or the Holder thereof, in one or more currencies or currency units other than that or those in which such Securities are stated to be payable, the currency, currencies or currency units in which the principal of or any premium or interest on such Securities as to which such election is made shall be payable, the periods within which and the terms and conditions upon which such election is to be made and the amount so payable (or the manner in which such amount shall be determined);

(14) if other than the entire principal amount thereof, the portion of the principal amount of any Securities of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502;

(15) if the principal amount payable at the Stated Maturity of any Securities of the series will not be determinable as of any one or more dates prior to the Stated Maturity, the amount which shall be deemed to be the principal amount of such Securities as of any such date for any purpose thereunder or hereunder, including the principal amount thereof which shall be due and payable upon any Maturity other than the Stated Maturity or which shall be deemed to be Outstanding as of any date prior to the Stated Maturity (or, in any such case, the manner in which such amount deemed to be the principal amount shall be determined);

(16) if applicable, that the Securities of the series, in whole or any specified part, shall be defeasible pursuant to Section 1302 or Section 1303 or both such Sections;

(17) if applicable, that any Securities of the series shall be issuable in whole or in part in the form of one or more Global Securities and, in such case, the respective Depositaries for such Global Securities, the form of any legend or legends which shall be borne by any such Global Security in addition to or in lieu of that set forth in Section 204 and any circumstances in addition to or in lieu of those set forth in Clause (2) of the last paragraph of Section 305 in which any such Global Security may

be exchanged in whole or in part for Securities registered, and any transfer of such Global Security in whole or in part may be registered, in the name or names of Persons other than the Depositary for such Global Security or a nominee thereof;

(18) any addition to or change in the Events of Default which applies to any Securities of the series and any change in the right of the Trustee or the requisite Holders of such Securities to declare the principal amount thereof due and payable pursuant to Section 502;

(19) any addition to or change in the covenants set forth in Article Ten which applies to Securities of the series;

(20) the applicability of, or any addition to or change in, Article Fourteen with respect to the Securities of a series;

(21) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture.

All Securities of any one series shall be substantially identical except as to date and principal amount and except as may otherwise be provided in or pursuant to the Board Resolution referred to above and (subject to Section 303) set forth, or determined in the manner provided, in the Officers' Certificate referred to above or in any such indenture supplemental hereto.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

Section 302. Denominations.

The Securities of each series shall be issuable only in registered form without coupons and only in such denominations as shall be specified as contemplated by Section 301. In the absence of any such specified denomination with respect to the Securities of any series, the Securities of such series shall be issuable in denominations of $1,000 and any integral multiple thereof.

Section 303. Execution, Authentication, Delivery and Dating.

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its Vice Chairman, its President, one of its Vice

Presidents, or its Treasurer. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order shall authenticate and deliver such Securities. If the form or terms of the Securities of the series have been established by or pursuant to a Board Resolution as permitted by Sections 201 and 301, in authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating,

(1) if the form of such Securities has been established by or pursuant to Board Resolution as permitted by Section 201, that such form has been established in conformity with the provisions of this Indenture;

(2) if the terms of such Securities have been established by or pursuant to Board Resolution as permitted by Section 301, that such terms have been established in conformity with the provisions of this Indenture; and

(3) that such Securities, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights to general equity principles and to such other matters as such counsel shall set forth therein.

If such form or terms have been so established, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Notwithstanding the provisions of Section 301 and of the preceding paragraph, if all Securities of a series are not to be originally issued at one time, it shall not be necessary to deliver the Officers' Certificate otherwise required pursuant to Section 301 or the Company Order and Opinion of Counsel otherwise required pursuant to such preceding paragraph at or prior to the authentication of each Security of such series if such documents (with appropriate variations to reflect such future issuance) are delivered at or prior to the authentication upon original issuance of the first Security of such series to be issued.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 309, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

Section 304. Temporary Securities.

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor one or more definitive Securities

of the same series, of any authorized denominations and of like tenor and aggregate principal amount. Until so exchanged, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series and tenor.

Section 305. Registration, Registration of Transfer and Exchange.

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency of the Company in a Place of Payment being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security of a series at the office or agency of the Company in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount.

At the option of the Holder, Securities of any series may be exchanged for other Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed

in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906 or 1107 not involving any transfer.

If the Securities of any series (or of any series and specified tenor) are to be redeemed in part, the Company shall not be required (A) to issue, register the transfer of or exchange any Securities of that series (or of that series and specified tenor, as the case may be) during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of any such Securities selected for redemption under Section 1103 and ending at the close of business on the day of such mailing, or (B) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

The provisions of Clauses (1), (2), (3) and (4) below shall apply only to Global Securities:

(1) Each Global Security authenticated under this Indenture shall be registered in the name of the Depositary designated for such Global Security or a nominee thereof and delivered to such Depositary or nominee thereof or custodian therefor, and each such Global Security shall constitute a single Security for all purposes of this Indenture.

(2) Notwithstanding any other provision in this Indenture, no Global Security may be exchanged in whole or in part for Securities registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any Person other than the Depositary for such Global Security or a nominee thereof unless (A) such Depositary (i) has notified the Company that it is unwilling or unable to continue as Depositary for such Global Security or (ii) has ceased to be a clearing agency registered under the Exchange Act, (B) there shall have occurred and be continuing an Event of Default with respect to such Global Security or (C) there shall exist such circumstances, if any, in addition to or in lieu of the foregoing as have been specified for this purpose as contemplated by Section 301.

(3) Subject to Clause (2) above, any exchange of a Global Security for other Securities may be made in whole or in part, and all Securities issued in exchange for a Global Security or any portion thereof shall be registered in such names as the Depositary for such Global Security shall direct.

(4) Every Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Security or any portion thereof, whether pursuant to this Section, Section 304, 306, 906 or 1107 or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Security, unless such Security is registered in the

name of a Person other than the Depositary for such Global Security or a nominee thereof.

Section 306. Mutilated, Destroyed, Lost and Stolen Securities.

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 307. Payment of Interest; Interest Rights Preserved.

Except as otherwise provided as contemplated by Section 301 with respect to any series of Securities, interest on any Security which is payable, and

is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given to each Holder of Securities of such series in the manner set forth in Section 106, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such

exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Section 308. Persons Deemed Owners.

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of and any premium and (subject to Section 307) any interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

None of the Company, the Trustee, any Paying Agent (if not the Company) or the Security Registrar shall have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Section 309. Cancellation.

All Securities surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly cancelled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities held by the Trustee shall be disposed of as directed by a Company Order; provided, however, that the Trustee shall not be required to destroy such cancelled Securities.

Section 310. CUSIP Numbers.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee may use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers.

ARTICLE FOUR

Satisfaction and Discharge

Section 401. Satisfaction and Discharge of Indenture.

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when (1) either (A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or (B) all such Securities not theretofore delivered to the Trustee for cancellation (i) have become due and payable, or (ii) will become due and payable at their Stated Maturity within one year, or (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company, and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose, money in an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal and any premium and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607, the obligations of the Company to any Authenticating Agent under Section 614 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

Section 402. Application of Trust Money.

Subject to the provisions of the last paragraph of Section 1003 and to Article Fourteen, if applicable, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal and any premium and interest for whose payment such money has been deposited with the Trustee.

ARTICLE FIVE

Remedies

Section 501. Events of Default.

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of any interest upon any Security of that series when it becomes due and payable, and continuance of such default for a period of 30 days; or

(2) default in the payment of the principal of or any premium on any Security of that series at its Maturity; or

(3) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series; or

(4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of a series of Securities other than that series), and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 35% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(5) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(6) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or state law, or the consent by it to the filing of such petition or to the appointment of, or taking possession of the Company or of any substantial part of its property by, a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official or the making by the Company of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or

the taking of corporate action by the Company in furtherance of any such action; or

(7) any other Event of Default established pursuant to Section 301 with respect to Securities of that series.

Section 502. Acceleration of Maturity; Rescission and Annulment.

If an Event of Default (other than an Event of Default specified in Section 501(5) or 501(6)) with respect to Securities of any series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 35% in principal amount of the Outstanding Securities of that series may declare the principal amount of all the Securities of that series (or, if any Securities of that series are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified by the terms thereof) to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable. If an Event of Default specified in Section 501(5) or 501(6) with respect to Securities of any series at the time Outstanding occurs, the principal amount of all the Securities of that series (or, if any Securities of that series are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified by the terms thereof) shall automatically, and without any declaration or other action on the part of the Trustee or any Holder, become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if,

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay (A) all overdue interest on all Securities of that series, (B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities, (C) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(2) all Events of Default with respect to Securities of that series, other than the non-payment of the principal of Securities of that series which

have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Section 503. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal and any premium and interest and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 504. Trustee May File Proofs of Claim.

In case of any judicial proceeding relative to the Company (or any other obligor upon the Securities), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the

Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 607.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding; provided, however, that the Trustee may, on behalf of the Holders, vote for the election of a trustee in bankruptcy or similar official and be a member of a creditors' or other similar committee.

Section 505. Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

Section 506. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article, subject to Article Fourteen, if applicable, shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or any premium or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: To the payment of all amounts due the Trustee under Section 607; and

Second: To the payment of the amounts then due and unpaid for principal of and any premium and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and any premium and interest, respectively

Third: The balance, if any, to the Company.

Section 507. Limitation on Suits.

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;

(2) the Holders of not less than 35% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series; it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

Section 508. Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium and (subject to Section 307) interest on such Security on the respective Stated Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 509. Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 510. Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 511. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 512. Control by Holders.

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series, provided that

(1) such direction shall not be in conflict with any rule of law or with this Indenture, and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Section 513. Waiver of Past Defaults.

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default

(1) in the payment of the principal of or any premium or interest on any Security of such series, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 514. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, in the manner and to the extent provided in the Trust Indenture Act; provided that this Section shall not apply to any suit instituted by the Trustee or to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of Outstanding Securities (of any series), or to any suit instituted by a Holder for the enforcement of the payment of the principal of or any premium or interest on any Security on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date).

Section 515. Waiver of Usury, Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any usury, stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants

or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

The Trustee

Section 601. Certain Duties and Responsibilities.

The duties and responsibilities of the Trustee shall be as provided by the Trust Indenture Act. Notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

Section 602. Notice of Defaults.

If a default occurs hereunder with respect to Securities of any series, the Trustee shall give the Holders of Securities of such series notice of such default as and to the extent provided by the Trust Indenture Act, unless such default shall have been cured or waived; provided, however, that in the case of any default of the character specified in Section 501(4) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series.

Section 603. Certain Rights of Trustee.

Subject to the provisions of Section 601:

(1) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond,

debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order, and any resolution of the Board of Directors shall be sufficiently evidenced by a Board Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(4) the Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

(7) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Section 604. Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company,

and neither the Trustee nor any Authenticating Agent assumes any responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Securities or the proceeds thereof.

Section 605. May Hold Securities.

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

Section 606. Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company.

Section 607. Compensation and Reimbursement.

The Company agrees

(1) to pay to the Trustee from time to time such compensation as shall be agreed to in writing between the Company and the Trustee for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration

of the trust or trusts hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

The Trustee shall have a lien prior to the Securities as to all property and funds held by it hereunder for any amount owing it or any predecessor Trustee pursuant to this Section 607, except with respect to funds held in trust for the benefit of the Holders of particular Securities.

When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 501(5) or Section 501(6), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or State bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Indenture.

Section 608. Conflicting Interests.

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture. To the extent permitted by such Act, the Trustee shall not be deemed to have a conflicting interest by virtue of being a trustee under this Indenture with respect to Securities of more than one series.

Section 609. Corporate Trustee Required; Eligibility.

There shall at all times be one (and only one) Trustee hereunder with respect to the Securities of each series, which may be Trustee hereunder for Securities of one or more other series. Each Trustee shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least $50,000,000. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section and to the extent permitted by the Trust Indenture Act, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee with respect to the Securities of any series shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 610. Resignation and Removal; Appointment of Successor.

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 611.

The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

If at any time:

(1) the Trustee shall fail to comply with Section 608 after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (A) the Company by a Board Resolution may remove the Trustee with respect to all Securities, or (B) subject to Section 514, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall

promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 611. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 611, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series to all Holders of Securities of such series in the manner provided in Section 106. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

Section 611. Acceptance of Appointment by Successor.

In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring

Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in the first or second preceding paragraph, as the case may be.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 612. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such

corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

Section 613. Preferential Collection of Claims Against Company.

If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor). For purposes of Section 311(b) (4) and (6) of the Trust Indenture Act, the following terms shall mean:

(a) "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand; and

(b) "self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

Section 614. Appointment of Authenticating Agent.

From time to time the Trustee may appoint one or more Authenticating Agents with respect to one or more series of Securities, which may include the Company or any of its Affiliates, with power to act on behalf of the Trustee to authenticate Securities of such series issued upon original issue and upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include

authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than $50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Company agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

THE FIFTH THIRD BANK

As Trustee

By.....,
As Authenticating Agent

By.....
Authorized Officer

Section 615. Indemnification.

The Company agrees to indemnify the Trustee for, and hold it harmless against, any loss, liability or expense incurred by it, arising out of or in connection with the acceptance or administration of this Indenture or the trusts hereunder or the performance of its duties hereunder or under any related document, including the reasonable costs and expenses of defending itself against or investigating any claim or liability with respect to the Securities, except to the extent that any such loss, liability or expense was due to its own negligence or bad faith. The Company need not pay for any settlement made without its consent. The obligations of the Company to the Trustee under this Section shall survive the satisfaction and discharge of this Indenture and payment in full and/or retirement of the Securities.

ARTICLE SEVEN

Holders' Lists and Reports by Trustee and Company

Section 701. Company to Furnish Trustee Names and Addresses of Holders.

The Company will furnish or cause to be furnished to the Trustee:

(1) on each Regular Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of Securities of each series as of such Regular Record Date, and

(2) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

provided, however, that if and so long as the Trustee shall be the Security Registrar, no such list need be furnished.

Section 702. Preservation of Information; Communications to Holders.

The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list as provided in Section 701 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.

The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and privileges of the Trustee, shall be as provided by the Trust Indenture Act.

Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

Section 703. Reports by Trustee.

The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. If required by Section 313(a) of the Trust Indenture Act, the Trustee shall, within sixty days after each May 15 following the date of this Indenture deliver to Holders a brief report, dated as of such May 15, which complies with the provisions of such Section 313(a).

A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company.

Section 704. Reports by Company.

The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to such Act; provided that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Exchange Act shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission.

ARTICLE EIGHT

Consolidation, Merger and Sale

Section 801. Consolidations and Mergers Permitted.

Nothing contained in this Indenture or in any of the Securities shall prevent any consolidation or merger of the Company with or into any other corporation or corporations (whether or not affiliated with the Company), or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any sale, conveyance, transfer or other disposition of the property of the Company or its successor or successors as an entirety, or substantially as an entirety, to any other corporation (whether or not affiliated with the Company or its successor or successors) authorized to acquire and operate the same; provided, however, the Company hereby covenants and agrees that, upon any such consolidation, merger, sale, conveyance, transfer or other disposition, the due and punctual payment of the principal of (premium, if any) and interest on all of the Securities of all series in accordance with the terms of each series, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of this Indenture with respect to each series or established with respect to such series to be kept or performed by the Company, shall be expressly assumed, by supplemental indenture (which shall conform to the provisions of the Trust Indenture Act as then in effect) satisfactory in form to the Trustee executed and delivered to the Trustee by the entity formed by such consolidation, or into which the Company shall have been merged, or by the entity which shall have acquired such property.

Section 802. Rights and Duties of Successor Company.

In case of any such consolidation, merger, sale, conveyance, transfer or other disposition and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of, premium, if any, and interest on all of the Securities of all series outstanding and the due and punctual performance of all of the covenants and conditions of this Indenture or established with respect to each series of the Securities to be performed by the Company with respect to each series, such successor corporation shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party of the first part, and thereupon the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Securities. Such successor corporation thereupon may cause to be signed, and may issue either in its own name or in the name of the Company or any other predecessor obligor on the Securities, any or all of the Securities issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such successor company, instead of the Company, and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver any Securities which previously shall have been signed and delivered by the officers of the predecessor Company to the Trustee for authentication, and any Securities which such successor corporation thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Securities so issued shall in all respects have the same legal rank and benefit under this Indenture as the Securities theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Securities had been issued at the date of the execution hereof.

Nothing contained in this Indenture or in any of the Securities shall prevent the Company from merging into itself or acquiring by purchase or otherwise all or any part of the property of any other corporation (whether or not affiliated with the Company).

Section 803. Opinion of Counsel.

The Trustee may receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or other disposition, and any such assumption, comply with the provisions of this Article.

ARTICLE NINE

Supplemental Indentures

Section 901. Supplemental Indentures Without Consent of Holders.

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities pursuant to Article Eight or Section 117; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; provided, however, that in respect of any such additional covenant, such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default or may limit the right of the Holders of a majority in aggregate principal amount of the Securities of such series to waive such default;

(3) to add any additional Events of Default for the benefit of the Holders of all or any series of Securities (and if such additional Events of Default are to be for the benefit of less than all series of Securities, stating that such additional Events of Default are expressly being included solely for the benefit of such series); or

(4) to add to or change any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the issuance of Securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of Securities in uncertificated form; or

(5) to add to, change or eliminate any of the provisions of this Indenture in respect of one or more series of Securities, provided that any such addition, change or elimination (A) shall neither (i) apply to any Security of any series created prior to the execution of such

supplemental indenture and entitled to the benefit of such provision nor (ii) modify the rights of the Holder of any such Security with respect to such provision or (B) shall become effective only when there is no such Security Outstanding; or

(6) to secure the Securities; or

(7) to establish the form or terms of Securities of any series as permitted by Sections 201 and 301; or

(8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by one or more successor Trustees, pursuant to the requirements of Section 611; or

(9) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture, provided that such action pursuant to this Clause (9) shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, and to make any further appropriate agreements and stipulations which may be therein contained.

Any supplemental indenture authorized by the provisions of this Section may be executed by the Company and the Trustee without the consent of the holders of any of the Securities at the time outstanding, notwithstanding any of the provisions of Section 902.

Section 902. Supplemental Indentures With Consent of Holders.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities of each series affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities of such series under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security or any other Security which would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502, or change any Place of Payment where, or the coin or currency in which, any Security or any premium or interest thereon is payable, affect the applicability of Article Fourteen to any Security, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(2) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section, Section 513 or Section 1007, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; provided, however, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section and Section 1007, or the deletion of this proviso, in accordance with the requirements of Sections 611 and 901(8).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series; provided that no such supplemental indenture shall modify any provision of this Indenture so as to adversely affect the rights of any holder of outstanding Senior Debt to the benefits of Article Fourteen.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Section 903. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 904. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 905. Conformity with Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

Section 906. Reference in Securities to Supplemental Indentures.

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

ARTICLE TEN

Covenants

Section 1001. Payment of Principal, Premium and Interest.

The Company covenants and agrees for the benefit of each series of Securities that it will duly and punctually pay the principal of and any premium and interest on the Securities of that series in accordance with the terms of the Securities and this Indenture.

Section 1002. Maintenance of Office or Agency.

The Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in each Place of Payment for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 1003. Money for Securities Payments to Be Held in Trust.

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of or any premium or interest on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and any premium and interest so becoming due

until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, on or before each due date of the principal of or any premium or interest on any Securities of that series, deposit with a Paying Agent a sum sufficient to pay such amount, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for any series of Securities other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will (1) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent and (2) during the continuance of any default by the Company (or any other obligor upon the Securities of that series) in the making of any payment in respect of the Securities of that series, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent for payment in respect of the Securities of that series.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or any premium or interest on any Security of any series and remaining unclaimed for 18 months after such principal, premium or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, The City of New York, New York, notice that such money remains unclaimed and that, after a date specified therein, which

shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

Section 1004. Statement by Officers as to Default.

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate, stating whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

Section 1005. Maintenance of Properties.

The Company will cause all properties used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any Subsidiary.

Section 1006. Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 1007. Waiver of Certain Covenants.

Except as otherwise specified as contemplated by Section 301 for Securities of such series, the Company may, with respect to the Securities of any series, omit in any particular instance to comply with any term, provision or condition set forth in any covenant provided pursuant to Section 301(18), 901(2) or 901(7) for the benefit of the Holders of such series if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Securities of such series shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

Section 1008. Calculation of Original Issue Discount.

The Company shall file with the Trustee promptly at the end of each calendar year a written notice specifying the amount of original issue discount (including daily rates and accrual periods) accrued on Outstanding Securities as of the end of such year.

ARTICLE ELEVEN

Redemption of Securities

Section 1101. Applicability of Article.

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for such Securities) in accordance with this Article.

Section 1102. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution or in another manner specified as contemplated by Section 301 for such Securities. In case of any redemption at the election of the Company the Company shall, at least 45 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal

amount of Securities of such series to be redeemed. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction.

Section 1103. Selection by Trustee of Securities to Be Redeemed.

If less than all the Securities of any series are to be redeemed (unless all the Securities of such series and of a specified tenor are to be redeemed or unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of a portion of the principal amount of any Security of such series, provided that the unredeemed portion of the principal amount of any Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security. If less than all the Securities of such series are to be redeemed (unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption in accordance with the preceding sentence.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption as aforesaid and, in case of any Securities selected for partial redemption as aforesaid, the principal amount thereof to be redeemed.

The provisions of the two preceding paragraphs shall not apply with respect to any redemption affecting only a single Security, whether such Security is to be redeemed in whole or in part. In the case of any such redemption in part, the unredeemed portion of the principal amount of the Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

Section 1104. Notice of the Redemption.

Notice of redemption shall be given by mail not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at his address appearing in the Security Register.

All notices of redemption shall identify the Securities to be redeemed and shall state:

(1) the Redemption Date,

(2) the Redemption Price,

(3) if less than all the Outstanding Securities of any series consisting of more than a single Security are to be redeemed, the identification (and, in the case of partial redemption of any such Securities, the principal amounts) of the particular Securities to be redeemed and, if less than all the Outstanding Securities of any series consisting of a single Security are to be redeemed, the principal amount of the particular Security to be redeemed,

(4) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,

(5) the place or places where each such Security is to be surrendered for payment of the Redemption Price, and

(6) that the redemption is for a sinking fund, if such is the case.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company and shall be irrevocable.

The notice if mailed in the manner herein provided shall be conclusively presumed to have been given, whether or not the Holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the Holder of any Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security.

Section 1105. Deposit of Redemption Price.

On or before any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying

Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date.

Section 1106. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; provided, however, that, unless otherwise specified as contemplated by Section 301, installments of interest whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

Section 1107. Securities Redeemed in Part.

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered; provided, however, that a Depositary need not surrender a Global Security for a partial redemption and may be authorized to make a notation on such Global Security of such partial redemption. In the case of a partial redemption of a Global Security, the Depositary, and in turn, the participants in the Depositary, shall have the responsibility to select any Securities to be redeemed by random lot.

ARTICLE TWELVE

Sinking Funds

Section 1201. Applicability of Article.

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of any series except as otherwise specified as contemplated by Section 301 for such Securities.

The minimum amount of any sinking fund payment provided for by the terms of any Securities is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of such Securities is herein referred to as an "optional sinking fund payment". If provided for by the terms of any Securities, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities as provided for by the terms of such Securities.

Section 1202. Satisfaction of Sinking Fund Payments with Securities.

The Company (1) may deliver Outstanding Securities of a series (other than any previously called for redemption) and (2) may apply as a credit Securities of a series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to any Securities of such series required to be made pursuant to the terms of such Securities as and to the extent provided for by the terms of such Securities; provided that the Securities to be so credited have not been previously so credited. The Securities to be so credited shall be received and credited for such purpose by the Trustee at the Redemption Price, as specified in the Securities so to be redeemed, for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

Section 1203. Redemption of Securities for Sinking Fund.

Not less than 45 days prior to each sinking fund payment date for any Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for such Securities pursuant to the terms of such Securities, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any,

which is to be satisfied by delivering and crediting Securities pursuant to Section 1202 and will also deliver to the Trustee any Securities to be so delivered. Not less than 30 days prior to each such sinking fund payment date, the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

ARTICLE THIRTEEN

Defeasance and Covenant Defeasance

Section 1301. Company's Option to Effect Defeasance or Covenant Defeasance.

The Company may elect, at its option at any time, to have Section 1302 or Section 1303 applied to any Securities or any series of Securities, as the case may be, designated pursuant to Section 301 as being defeasible pursuant to such Section 1302 or 1303, in accordance with any applicable requirements provided pursuant to Section 301 and upon compliance with the conditions set forth below in this Article. Any such election shall be evidenced by a Board Resolution or in another manner specified as contemplated by Section 301 for such Securities.

Section 1302. Defeasance and Discharge.

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, the Company shall be deemed to have been discharged from its obligations with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 1304 are satisfied (hereinafter called "Defeasance"). For this purpose, such Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by such Securities and to have satisfied all its other obligations under such Securities and this Indenture insofar as such Securities are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), subject to the following which shall survive until otherwise terminated or discharged hereunder: (1) the rights of Holders of such Securities to receive, solely from the trust fund described in Section 1304 and as more fully set forth in such Section, payments in respect of the principal of and any premium and interest on such Securities when payments are due, (2) the Company's obligations with respect to such Securities under Sections 304, 305,

306, 1002 and 1003, (3) the rights, powers, trusts, duties and immunities of the Trustee hereunder and (4) this Article. Subject to compliance with this Article, the Company may exercise its option (if any) to have this Section applied to any Securities notwithstanding the prior exercise of its option (if any) to have Section 1303 applied to such Securities.

Section 1303. Covenant Defeasance.

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, (1) the Company shall be released from its obligations under Section 801(3), Sections 1005 through 1006, inclusive, and any covenants provided pursuant to Section 301(19), 901(2) or 901(7) for the benefit of the Holders of such Securities and (2) the occurrence of any event specified in Sections 501(4) (with respect to any of Section 801(3), Sections 1005 through 1006, inclusive, and any such covenants provided pursuant to Section 301(19), 901(2) or 901(7)), and 501(7) shall be deemed not to be or result in an Event of Default in each case with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 1304 are satisfied (hereinafter called "Covenant Defeasance"). For this purpose, such Covenant Defeasance means that, with respect to such Securities, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified Section (to the extent so specified in the case of Section 501(4)) or Article Fourteen, whether directly or indirectly by reason of any reference elsewhere herein to any such Section or Article or by reason of any reference in any such Section or Article to any other provision herein or in any other document, but the remainder of this Indenture and such Securities shall be unaffected thereby.

Section 1304. Conditions to Defeasance or Covenant Defeasance.

The following shall be the conditions to the application of Section 1302 or Section 1303 to any Securities or any series of Securities, as the case may be:

(1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee which satisfies the requirements contemplated by Section 609 and agrees to comply with the provisions of this Article applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, (A) money in an amount, or (B) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a

combination thereof, in each case sufficient, in the opinion of a firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or any such other qualifying trustee) to pay and discharge, the principal of and any premium and interest on such Securities on the respective Stated Maturities, in accordance with the terms of this Indenture and such Securities. As used herein, "U.S. Government Obligation" means (x) any security which is (i) a direct obligation of the United States of America for the payment of which the full faith and credit of the United States of America is pledged or (ii) an obligation of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case (i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) any depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any U.S. Government Obligation which is specified in Clause (x) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any U.S. Government Obligation which is so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

(2) In the event of an election to have Section 1302 apply to any Securities or any series of Securities, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of this instrument, there has been a change in the applicable Federal income tax law, in either case (A) or (B) to the effect that, and based thereon such opinion shall confirm that, the Holders of such Securities will not recognize gain or loss for Federal income tax purposes as a result of the deposit, Defeasance and discharge to be effected with respect to such Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit, Defeasance and discharge were not to occur.

(3) In the event of an election to have Section 1303 apply to any Securities or any series of Securities, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of such Securities will not recognize gain or loss for Federal income tax purposes as a result of the deposit and Covenant

Defeasance to be effected with respect to such Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit and Covenant Defeasance were not to occur.

(4) The Company shall have delivered to the Trustee an Officers' Certificate to the effect that neither such Securities nor any other Securities of the same series, if then listed on any securities exchange, will be delisted as a result of such deposit.

(5) No event which is, or after notice or lapse of time or both would become, an Event of Default with respect to such Securities or any other Securities shall have occurred and be continuing at the time of such deposit or, with regard to any such event specified in Sections 501(5) and (6), at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(6) Such Defeasance or Covenant Defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all Securities are in default within the meaning of such Act).

(7) Such Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which it is bound.

(8) Such Defeasance or Covenant Defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act unless such trust shall be registered under such Act or exempt from registration thereunder.

(9) At the time of such deposit, (A) no default in the payment of any principal of or premium or interest on any Senior Debt shall have occurred and be continuing, (B) no event of default with respect to any Senior Debt shall have resulted in such Senior Debt becoming, and continuing to be, due and payable prior to the date on which it would otherwise have become due and payable (unless payment of such Senior Debt has been made or duly provided for), and (C) no other event of default with respect to any Senior Debt shall have occurred and be continuing permitting (after notice or lapse of time or both) the holders of such Senior Debt (or a trustee on behalf of such holders) to declare such Senior Debt due and payable prior to the date on which it would otherwise have become due and payable.

(10) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with.

Section 1305. Deposited Money and U.S. Government Obligations to Be Held in Trust; Miscellaneous Provisions.

Subject to the provisions of the last paragraph of Section 1003, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee or other qualifying trustee (solely for purposes of this Section and Section 1306, the Trustee and any such other trustee are referred to collectively as the "Trustee") pursuant to Section 1304 in respect of any Securities shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any such Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities, of all sums due and to become due thereon in respect of principal and any premium and interest, but money so held in trust need not be segregated from other funds except to the extent required by law.

Money and U.S. Government Obligations so held in trust shall not be subject to the provisions of Article Fourteen.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 1304 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Securities.

Anything in this Article to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or U.S. Government Obligations held by it as provided in Section 1304 with respect to any Securities which, in the opinion of a firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect the Defeasance or Covenant Defeasance, as the case may be, with respect to such Securities.

Section 1306. Reinstatement.

If the Trustee or the Paying Agent is unable to apply any money in accordance with this Article with respect to any Securities by reason of any order or judgment of any court or governmental authority enjoining, restraining

or otherwise prohibiting such application, then the obligations under this Indenture and such Securities from which the Company has been discharged or released pursuant to Section 1302 or 1303 shall be revived and reinstated as though no deposit had occurred pursuant to this Article with respect to such Securities, until such time as the Trustee or Paying Agent is permitted to apply all money held in trust pursuant to Section 1305 with respect to such Securities in accordance with this Article; provided, however, that if the Company makes any payment of principal of or any premium or interest on any such Security following such reinstatement of its obligations, the Company shall be subrogated to the rights (if any) of the Holders of such Securities to receive such payment from the money so held in trust.

ARTICLE FOURTEEN

Junior Subordinated Securities

Section 1401. Certain Securities Subordinate to Senior Debt.

As provided pursuant to Section 301 or in a supplemental indenture, the Company may issue one or more series of Securities subject to the provisions of this Article Fourteen, and each Holder of a Security of a series so issued ("Junior Subordinated Securities"), whether upon original issue or upon transfer or assignment thereof, accepts and agrees to be bound by such provisions.

The payment of the principal of, premium, if any, and interest on all Junior Subordinated Securities issued with respect to which this Article Fourteen applies shall, to the extent and in the manner hereinafter set forth, be subordinate and subject in right of payment to the prior payment in full of all Senior Debt, whether outstanding at the date of this Indenture or thereafter incurred.

No provision of this Article Fourteen shall prevent the occurrence of any default or Event of Default hereunder.

Section 1402. Payment Over of Proceeds Upon Default.

In the event and during the continuation of any default in the payment of principal, premium, interest or any other payment due on any Senior Debt continuing beyond the period of grace, if any, specified in the instrument evidencing such Senior Debt, unless and until such default shall have been cured or waived or shall have ceased to exist, or in the event that the maturity of any Senior Debt has been accelerated because of a default, then no payment shall be made by the Company with respect to the principal (including redemption and

sinking fund payments) of, or premium, if any, or interest on the Junior Subordinated Securities.

In the event that, notwithstanding the foregoing, any payment shall be received by the Trustee or any holder when such payment is prohibited by the preceding paragraph of this Section 1402, such payment shall be held in trust for the benefit of, and shall be paid over or delivered to, the holders of Senior Debt or their respective representatives, or to the trustee or trustees under any indenture pursuant to which any of such Senior Debt may have been issued, as their respective interests may appear, but only to the extent that the holders of the Senior Debt (or their representative or representatives or a trustee) notify the Trustee within 90 days of such payment of the amounts then due and owing on the Senior Debt and only the amounts specified in such notice to the Trustee shall be paid to the holders of Senior Debt.

Section 1403. Payment Over of Proceeds Upon Dissolution, Etc.

Upon any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to creditors upon any dissolution or winding-up or liquidation or reorganization of the Company, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all amounts due or to become due upon all Senior Debt shall first be paid in full, or payment thereof provided for in money in accordance with its terms, before any payment is made on account of the principal (and premium, if any) or interest on the Junior Subordinated Securities; and upon any such dissolution or winding-up or liquidation or reorganization any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holders of the Junior Subordinated Securities or the Trustee would be entitled, except for the provisions of this Article Fourteen, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution, or by the Holders of the Junior Subordinated Securities or by the Trustee under this Indenture if received by them or it, directly to the holders of Senior Debt (pro rata to such holders on the basis of the respective amounts of Senior Debt held by such holders, as calculated by the Company) or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Senior Debt may have been issued, as their respective interests may appear, to the extent necessary to pay all Senior Debt in full, in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt, before any payment or distribution is made to the holders of Junior Subordinated Securities or to the Trustee.

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash,

property or securities, prohibited by the foregoing, shall be received by the Trustee or the holders of the Junior Subordinated Securities before all Senior Debt is paid in full, or provision is made for such payment in money in accordance with its terms, such payment or distribution shall be held in trust for the benefit of and shall be paid over or delivered to the holders of Senior Debt or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Senior Debt may have been issued, as their respective interests may appear, as calculated by the Company, for application to the payment of all Senior Debt remaining unpaid to the extent necessary to pay all Senior Debt in full in money in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Debt.

For purposes of this Article Fourteen, the words, "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinated at least to the extent provided in this Article Fourteen with respect to the Junior Subordinated Securities to the payment of all Senior Debt which may at the time be outstanding; provided that (i) the Senior Debt is assumed by the new corporation, if any, resulting from any such reorganization or readjusfment, and (ii) the rights of the holders of the Senior Debt are not, without the consent of such holders, altered by such reorganization or readjustment. The consolidation of the Company with, or the merger of the Company into, another corporation or the liquidation or dissolution of the Company following the conveyance or transfer of its property as an entirety, or substantially as an entirety, to another corporation upon the terms and conditions provided for in Article Eight hereof shall not be deemed a dissolution, winding-up, liquidation or reorganization for the proposes of this Section 1403 if such other corporation shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions stated in Article Eight hereof. Nothing in Section 1402 or in this Section 1403 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 607.

Section 1404. Subrogation to Rights of Holders of Senior Debt.

Subject to the payment in full of all Senior Debt, the rights of the holders of the Junior Subordinated Securities shall be subrogated to the rights of the holders of Senior Debt to receive payments or distributions of cash, property or securities of the Company applicable to the Senior Debt; and, for the purposes of such subrogation, no payment or distributions to the holders of the Senior Debt of any cash, property or securities to which the holders of the Junior Subordinated Securities or the Trustee would be entitled except for the provisions of this Article Fourteen, and no payment over pursuant to the provisions of this Article Fourteen, to or for the benefit of the holders of Senior

Debt by holders of the Junior Subordinated Securities or the Trustee, shall, as between the Company, its creditors other than holders of Senior Debt, and the Holders of the Junior Subordinated Securities, be deemed to be a payment by the Company to or on account of the Senior Debt. It is understood that the provisions of this Article Fourteen are and are intended solely for the purposes of defining the relative rights of the holders of the Junior Subordinated Securities, on the one hand, and the holders of the Senior Debt on the other hand.

Nothing contained in this Article Fourteen or elsewhere in this Indenture or in the Junior Subordinated Securities is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Debt, and the holders of the Junior Subordinated Securities, the obligation of the Company, which is absolute and unconditional, to pay to the holders of the Junior Subordinated Securities the principal of (and premium, if any) and interest on the Junior Subordinated Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the holders of the Junior Subordinated Securities and creditors of the Company other than the holders of the Senior Debt, nor shall anything herein or therein prevent the Trustee or the holder of any Junior Subordinated Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article Fourteen of the holders of Senior Debt in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

Upon any payment or distribution of assets of the Company referred to in this Article Fourteen, the Trustee, subject to the provision of Article Six, and the Holders of the Junior Subordinated Securities shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding-up, liquidation or reorganization, liquidation or reorganization proceedings are pending, or a certificate of the receiver, trustee in bankruptcy, liquidation trustee, agent or other person making such payment or distribution, delivered to the Trustee or to the Holders of the Junior Subordinated Securities, for the purposes of ascertaining the persons entitled to participate in such distribution, the holders of the Senior Debt and other indebtedness of the Company, the amount hereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article Fourteen.

Section 1405. Trustee to Effectuate Subordination.

Each Holder of a Junior Subordinated Security by his acceptance thereof authorizes and directs the Trustee in his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article

Fourteen and appoints the Trustee his attorney-in-fact for any and all such purposes.

Section 1406. Notice to Trustee.

The Company shall give prompt written notice to a Responsible Officer of the Trustee of any fact known to the Company which would prohibit the making of any payment of monies to or by the Trustee in respect of the Junior Subordinated Securities pursuant to the provisions of this Article Fourteen. Notwithstanding the provisions of this Article Fourteen or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment of monies to or by the Trustee in respect of the Junior Subordinated Securities pursuant to the provisions of this Article Fourteen, unless and until a Responsible Officer of the Trustee shall have received written notice thereof at the Principal Office of the Trustee from the Company or a holder or holders of Senior Debt or from any trustee therefor; and before the receipt of any such written notice, the Trustee, subject to the provisions of Article Six, shall be entitled in all respects to assume that no such facts exist; provided, however, that if the Trustee shall not have received the notice provided for in this Section 1406 at least two Business Days prior to the date upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment of the principal of (or premium, if any) or interest on any Junior Subordinated Security), then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purposes for which they were received, and shall not be affected by any notice to the contrary which may be received by it within two Business Days prior to such date.

The Trustee, subject to the provisions of Article Six, shall be entitled to rely on the delivery to it of a written notice by a person representing himself to be a holder of Senior Debt (or a trustee on behalf of such holder) to establish that such notice has been given by a holder of Senior Debt or a trustee on behalf of any such holder or holders. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any person as a holder of Senior Debt to participate in any payment or distribution pursuant to this Article Fourteen, the Trustee may request such person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Debt held by such Person, the extent to which such person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such person under this Article Fourteen, and if such evidence is not furnished the Trustee may defer any payment to such person pending judicial determination as to the right of such person to receive such payment.

Section 1407. Rights of Trustee as Holder of Senior Debt; Preservation of Trustee's Rights.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article Fourteen in respect of any Senior Debt at any time held by it, to the same extent as any other holder of Senior Debt, and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder.

Nothing in this Article Fourteen shall apply to claims of, or payments to, the Trustee under or pursuant to Section 607.

Section 1408. No Waiver of Subordination Provisions.

No right of any present or future holder of any Senior Debt to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof which any such holder may have or otherwise be charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Debt may, at any time and from time to time, without the consent of or notice to the Trustee or the holders of the Junior Subordinated Securities, without incurring responsibility to the holders of the Junior Subordinated Securities and without impairing or releasing the subordination provided in this Article or the obligations hereunder of the holders of the Junior Subordinated Securities to the holders of Senior Debt, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, Senior Debt, or otherwise amend or supplement in any manner Senior Debt or any instrument evidencing the same or any agreement under which Senior Debt is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing Senior Debt; (iii) release any person liable in any manner for the collection of Senior Debt; and (iv) exercise or refrain from exercising any rights against the Company and any other person.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

In Witness Whereof, the parties hereto have caused this Indenture to be duly executed as of the day and year first above written.

THE UNION LIGHT, HEAT AND POWER COMPANY

By _____
William L. Sheafer
Treasurer

THE FIFTH THIRD BANK

as Trustee

By _____
Kerry Byrne
Vice President

DOCUMENT 10
COUNTERPART 2 OF 10

THE UNION LIGHT, HEAT AND POWER COMPANY

AND

THE FIFTH THIRD BANK,
Trustee

Second Supplemental Indenture

Dated as of April 30, 1998

To

Indenture

Dated as of July 1, 1995

6.50% Debentures Due 2008

SECOND SUPPLEMENTAL INDENTURE, dated as of April 30, 1998, between The Union Light, Heat and Power Company, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company"), having its principal office at 139 East Fourth Street, Cincinnati, Ohio 45202, and The Fifth Third Bank, an Ohio banking corporation, as Trustee (herein called the "Trustee") under the Indenture dated as of July 1, 1995 between the Company and the Trustee (the "Indenture").

Recitals of the Company

The Company has executed and delivered the Indenture to the Trustee to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (the "Securities"), to be issued in one or more series as in the Indenture provided.

Pursuant to the terms of the Indenture, the Company desires to provide for the establishment of a new series of its Securities to be known as its 6.50% Debentures Due 2008 (herein called the "Debentures"), in this Second Supplemental Indenture.

All things necessary to make this Second Supplemental Indenture a valid agreement of the Company have been done.

Now, Therefore, This Second Supplemental Indenture Witnesseth:

For and in consideration of the premises and the purchase of the Debentures by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Debentures, as follows:

ARTICLE ONE

Terms of the Debentures

Section 101. There is hereby authorized a series of Securities designated the "6.50% Debentures Due 2008", limited in aggregate principal amount to $20,000,000 (except as provided in Section 301(2) of the Indenture). The Debentures shall mature and the principal shall be due and payable together with all accrued and unpaid interest thereon on April 30, 2008 and shall be issued in the form of a registered Global Security without coupons, registered in the name of Cede & Co., as nominee of The Depository Trust Company (the "Depositary").

Section 102. The provisions of Section 305 of the Indenture applicable to Global Securities shall apply to the Debentures.

Section 103. Interest on each of the Debentures shall be payable semiannually

on April 30 and October 30 in each year (each an "Interest Payment Date"), commencing on October 30, 1998, at the rate per annum specified in the designation of the Debentures from April 30, 1998, or from the most recent Interest Payment Date to which interest has been paid or duly provided for. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will be paid to the Person in whose name such Debenture (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the Business Day immediately preceding such Interest Payment Date. The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. As used herein, "Business Day" means any day, other than a Saturday or Sunday, or a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to be closed.

Section 104. Subject to agreements with or the rules of the Depositary or any successor book-entry security system or similar system with respect to Global Securities, payments of interest will be made by check mailed to the Holder of each Debenture at the address shown in the Security Register, and payments of the principal amount of each Debenture will be made at maturity by check against presentation of the Debenture at the office or agency of the Trustee.

Section 105. The Debentures shall be issued in denominations of $1,000 or any integral multiple of $1,000.

Section 106. Principal and interest on the Debentures shall be payable in the coin or currency of the United States of America, which, at the time of payment, is legal tender for public and private debts.

Section 107. The Debentures shall be subject to defeasance and covenant defeasance, at the Company's option, as provided for in Sections 1302 and 1303 of the Indenture.

Section 108. Subject to the terms of Article Eleven of the Indenture, the Company shall have the right to redeem the Debentures, in whole but not in part, from time to time and at any time (such redemption, an "Optional Redemption", and the date thereof, the "Optional Redemption Date") upon not less than 30 days' notice to the holders, at a redemption price equal to the sum of (A) the greater of (i) 100% of the principal amount of the Debentures to be redeemed or (ii) the sum of the present values of the Remaining Scheduled Payments thereon discounted to the Optional Redemption Date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 15 basis points, less the Applicable Accrued Interest Amount plus (B) the Applicable Accrued Interest Amount.

"Applicable Accrued Interest Amount" means, at the Optional Redemption Date, the amount of interest accrued and unpaid from the prior interest payment date to the Optional Redemption Date on the Debentures subject to the Optional Redemption determined at the rate per annum shown in the title thereof, computed

on the basis of a 360-day year of twelve 30-day months.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Debentures to be redeemed pursuant to the Optional Redemption. "Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the Company.

"Comparable Treasury Price" means, with respect to the Optional Redemption Date, the average of the Reference Treasury Dealer Quotations for such Optional Redemption Date.

"Reference Treasury Dealer" means a primary U.S. Government securities dealer in New York City (a "Primary Treasury Dealer"). "Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

"Remaining Scheduled Payments" means, with respect to any Debenture, the remaining scheduled payments of the principal thereof to be redeemed and interest thereon that would be due after the Optional Redemption Date but for the Optional Redemption.

"Treasury Rate" means, with respect to the Optional Redemption Date (if any), the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Optional Redemption Date.

ARTICLE TWO

Form of the Debentures

Section 201. The Debentures are to be substantially in the following form and shall include substantially the legend shown so long as the Debentures are Global Securities:

FOURTH SUPPLEMENTAL INDENTURE, dated as of September 17, 1999, between The Union Light, Heat and Power Company, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company"), having its principal office at 139 East Fourth Street, Cincinnati, Ohio 45202, and Fifth Third Bank, an Ohio banking corporation, as Trustee (herein called the "Trustee") under the Indenture dated as of July 1, 1995 between the Company and the Trustee (the "Indenture").

Recitals of the Company

The Company has executed and delivered the Indenture to the Trustee to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (the "Securities"), to be issued in one or more series as in the Indenture provided.

Pursuant to the terms of the Indenture, the Company desires to provide for the establishment of a new series of its Securities to be known as its 7.875% Debentures Due 2009 (herein called the "Debentures"), in this Fourth Supplemental Indenture.

All things necessary to make this Fourth Supplemental Indenture a valid agreement of the Company have been done.

Now, Therefore, This Fourth Supplemental Indenture Witnesseth:

For and in consideration of the premises and the purchase of the Debentures by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Debentures, as follows:

ARTICLE ONE

Terms of the Debentures

Section 101. There is hereby authorized a series of Securities designated the "7.875% Debentures Due 2009", limited in aggregate principal amount to $20,000,000 (except as provided in Section 301(2) of the Indenture). The Debentures shall mature and the principal shall be due and payable together with all accrued and unpaid interest thereon on September 15, 2009 and shall be issued in the form of a registered Global Security without coupons, registered in the name of Cede & Co., as nominee of The Depository Trust Company (the "Depositary").

Section 102. The provisions of Section 305 of the Indenture applicable to Global Securities shall apply to the Debentures.

Section 103. Interest on each of the Debentures shall be payable semiannually

on March 15 and September 15 in each year (each an "Interest Payment Date"), commencing on March 15, 2000, at the rate per annum specified in the designation of the Debentures from September 17, 1999, or from the most recent Interest Payment Date to which interest has been paid or duly provided for. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will be paid to the Person in whose name such Debenture (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the Business Day immediately preceding such Interest Payment Date. The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. As used herein, "Business Day" means any day, other than a Saturday or Sunday, or a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to be closed.

Section 104. Subject to agreements with or the rules of the Depositary or any successor book-entry security system or similar system with respect to Global Securities, payments of interest will be made by check mailed to the Holder of each Debenture at the address shown in the Security Register, and payments of the principal amount of each Debenture will be made at maturity by check against presentation of the Debenture at the office or agency of the Trustee.

Section 105. The Debentures shall be issued in denominations of $1,000 or any integral multiple of $1,000.

Section 106. Principal and interest on the Debentures shall be payable in the coin or currency of the United States of America, which, at the time of payment, is legal tender for public and private debts.

Section 107. The Debentures shall be subject to defeasance and covenant defeasance, at the Company's option, as provided for in Sections 1302 and 1303 of the Indenture.

Section 108. Subject to the terms of Article Eleven of the Indenture, the Company shall have the right to redeem the Debentures, in whole but not in part, from time to time and at any time (such redemption, an "Optional Redemption", and the date thereof, the "Optional Redemption Date") upon not less than 30 days' notice to the holders, at a redemption price equal to the sum of (A) the greater of (i) 100% of the principal amount of the Debentures to be redeemed or (ii) the sum of the present values of the Remaining Scheduled Payments thereon discounted to the Optional Redemption Date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 25 basis points, less the Applicable Accrued Interest Amount plus (B) the Applicable Accrued Interest Amount.

"Applicable Accrued Interest Amount" means, at the Optional Redemption Date, the amount of interest accrued and unpaid from the prior interest payment date to the Optional Redemption Date on the Debentures subject to the Optional Redemption determined at the rate per annum shown in the title thereof, computed

on the basis of a 360-day year of twelve 30-day months.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Debentures to be redeemed pursuant to the Optional Redemption. "Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the Company.

"Comparable Treasury Price" means, with respect to the Optional Redemption Date, the average of the Reference Treasury Dealer Quotations for such Optional Redemption Date.

"Reference Treasury Dealer" means a primary U.S. Government securities dealer in New York City. "Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

"Remaining Scheduled Payments" means, with respect to any Debenture, the remaining scheduled payments of the principal thereof to be redeemed and interest thereon that would be due after the Optional Redemption Date but for the Optional Redemption.

"Treasury Rate" means, with respect to the Optional Redemption Date (if any), the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Optional Redemption Date.

ARTICLE TWO

Form of the Debentures

Section 201. The Debentures are to be substantially in the following form and shall include substantially the legend shown so long as the Debentures are Global Securities:

(FORM OF FACE OF DEBENTURE)

No. R-_ $_____

CUSIP No. 906888 AP 7

THE UNION LIGHT, HEAT AND POWER COMPANY

7.875% DEBENTURE DUE 2009

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THE UNION LIGHT, HEAT AND POWER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company", which term includes any successor Person under the Indenture hereafter referred to), for value received, hereby promises to pay to CEDE & CO., or registered assigns, the principal sum of _____ and No/100 Dollars ($_____) on September 15, 2009, and to pay interest thereon from September 17, 1999 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semiannually on March 15 and September 15 in each year, commencing March 15, 2000, at the rate of 7.875% per annum, until the principal hereof is paid or made available for payment. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the Business Day immediately preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in

any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture.

Payment of the principal of (and premium, if any) and interest on this Security will be made at the corporate trust office of the Trustee maintained for that purpose in the City of Cincinnati, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

Any payment on this Security due on any day which is not a Business Day in the City of New York need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on the due date and no interest shall accrue for the period from and after such date, unless such payment is a payment at maturity or upon redemption, in which case interest shall accrue thereon at the stated rate for such additional days.

As used herein, "Business Day" means any day, other than a Saturday or Sunday, or a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to be closed.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

In Witness Whereof, the Company has caused this instrument to be duly executed.

THE UNION LIGHT, HEAT AND POWER COMPANY

By.....

CERTIFICATE OF AUTHENTICATION

Dated:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

FIFTH THIRD BANK,
as Trustee

By.....
Authorized Signatory

(FORM OF REVERSE OF DEBENTURE)

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of July 1, 1995 (as supplemented, herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and Fifth Third Bank, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof, limited in aggregate principal amount to $20,000,000.

The Securities of this series are subject to optional redemption, in whole but not in part, from time to time and at any time (such redemption, an "Optional Redemption", and the date thereof, the "Optional Redemption Date") upon not less than 30 days' notice to the holders, at a redemption price equal to the sum of (A) the greater of (i) 100% of the principal amount of the Securities of this series to be redeemed or (ii) the sum of the present values of the Remaining Scheduled Payments thereon discounted to the Optional Redemption Date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 25 basis points, less the Applicable Accrued Interest Amount plus (B) the Applicable Accrued Interest Amount.

"Applicable Accrued Interest Amount" means, at the Optional Redemption Date, the amount of interest accrued and unpaid from the prior interest payment date to the Optional Redemption Date on the Securities of this series subject to the Optional Redemption determined at the rate per annum shown in the title thereof, computed on the basis of a 360-day year of twelve 30-day months.

"Comparable Treasury Issue" means the United States Treasury security selected by

an Independent Investment Banker as having a maturity that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Securities of this series to be redeemed pursuant to the Optional Redemption. "Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the Company.

"Comparable Treasury Price" means, with respect to the Optional Redemption Date, the average of the Reference Treasury Dealer Quotations for such Optional Redemption Date.

"Reference Treasury Dealer" means a primary U.S. Government securities dealer in New York City. "Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

"Remaining Scheduled Payments" means, with respect to any Securities of this series, the remaining scheduled payments of the principal thereof to be redeemed and interest thereon that would be due after the Optional Redemption Date but for the Optional Redemption.

"Treasury Rate" means, with respect to the Optional Redemption Date (if any), the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Optional Redemption Date.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of a majority in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the

Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 35% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonably satisfactory indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

ARTICLE THREE

Original Issue of Debentures

Section 301. Debentures in the aggregate principal amount of $20,000,000, may, upon execution of this Fourth Supplemental Indenture, or from time to time thereafter, be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Debentures upon a Company Order without any further action by the Company.

ARTICLE FOUR

Paying Agent and Security Registrar

Section 401. Fifth Third Bank will be the Paying Agent and Security Registrar for the Debentures.

ARTICLE FIVE

Sundry Provisions

Section 501. Except as otherwise expressly provided in this Fourth Supplemental Indenture or in the form of Debenture or otherwise clearly required by the context hereof or thereof, all terms used herein or in said form of Debenture that are defined in the Indenture shall have the several meanings respectively assigned to them thereby except that terms defined in both this Fourth Supplemental Indenture and the Indenture shall have the meanings assigned to them herein.

Section 502. The Indenture, as supplemented by this Fourth Supplemental Indenture, is in all respects ratified and confirmed, and this Fourth Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

In Witness Whereof, the parties hereto have caused this Fourth Supplemental Indenture to be duly executed as of the date first above written.

THE UNION LIGHT, HEAT AND POWER COMPANY

By _____
William L. Sheafer
Vice President and
Treasurer

FIFTH THIRD BANK, as Trustee

By _____
Kerry R. Byrne
Vice President