PPL ELECTRIC UTILITIES CORP
Form DEF 14C
March 18, 2004
**Table of Contents**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14C**

Information Statement Pursuant to Section 14(c) of the Securities Exchange Act of 1934

Check the appropriate box:

¨ Preliminary Information Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))

x Definitive Information Statement

PPL Electric Utilities Corporation

(Name of Registrant As Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

x No Fee required

¨ Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

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(4) Date Filed:

Table of Contents

# PPL Electric Utilities Corporation

Notice of Annual Meeting

April 20, 2004

and

Information Statement

(including appended

2003 Financial Statements)

Table of Contents

# Notice of Annual Meeting of Shareowners

The Annual Meeting of Shareowners of PPL Electric Utilities Corporation ( PPL Electric Utilities or the Company ) will be held at the offices of the Company at Two North Ninth Street, Allentown, Pennsylvania, on Tuesday, April 20, 2004, at 8:00 a.m. The Annual Meeting will be held for the purposes stated below and more fully described in the accompanying Information Statement, and to transact such other business as may properly come before the Annual Meeting or any adjournments thereof:

1. The election of directors.

The Board of Directors is not aware of any other matters to be presented for action at the Annual Meeting.

Proxies are not being solicited from PPL Electric Utilities shareowners because a quorum exists for the Annual Meeting based on the PPL Electric Utilities stock held by its parent, PPL Corporation ( PPL ). PPL owns all of the outstanding common stock and as a result 99% of the voting shares of PPL Electric Utilities, and intends to vote all of these shares in favor of the election of the Company s nominees as directors.

Only shareowners of record at the close of business on Friday, February 27, 2004, will be entitled to vote at the Annual Meeting or any adjournments thereof. All shareowners are invited to attend the Annual Meeting in person. If the Annual Meeting is interrupted or delayed for any reason, the shareowners attending the adjourned Annual Meeting shall constitute a quorum and may act upon such business as may properly come before the Annual Meeting.

By Order of the Board of Directors.

Elizabeth Stevens Duane

*Secretary*

March 18, 2004

Table of Contents

# Information Statement

The Company s principal executive offices are located at Two North Ninth Street, Allentown, Pennsylvania 18101, telephone number 610-774-5151. This Information Statement was first released to shareowners on or about March 18, 2004.

PPL Electric Utilities parent, PPL Corporation ( PPL ), owns all of the shares of the Company s outstanding common stock, which represents 99% of PPL Electric Utilities outstanding voting shares. As a result, a quorum exists for the Annual Meeting based on PPL s stock ownership. **ACCORDINGLY, WE ARE NOT ASKING THE SHAREOWNERS FOR A PROXY, AND SHAREOWNERS ARE REQUESTED NOT TO SEND US A PROXY.**

**OUTSTANDING STOCK AND VOTING RIGHTS**

The Board of Directors has established Friday, February 27, 2004, as the record date for shareowners entitled to vote at the Annual Meeting (the Record Date ). The transfer books of the Company will not be closed. PPL Electric Utilities Amended and Restated Articles of Incorporation (the Articles ) divide its voting stock into four classes: 4½% Preferred Stock, Series Preferred Stock, Preference Stock and Common Stock. There were no shares of Preference Stock outstanding on the Record Date. Each currently outstanding share of each class of stock entitles the holder to one vote upon any business properly presented to the Annual Meeting. A total of 78,535,052 shares was outstanding on the Record Date, consisting of 78,029,863 shares of Common Stock all owned by PPL, 247,524 shares of 4½% Preferred Stock and 257,665 shares of Series Preferred Stock.

The following table sets forth the stock ownership of each person known by the Company to be the beneficial owner of five percent (5%) or more of any class of the Company s voting stock as of February 17, 2004. As discussed above, all of the holders of the preferred stock of the Company have less than one percent (1%) of the total voting power of the Company.

| Title | Name and Address of Beneficial Owner | Number of Shares Beneficially Owned | Percent of Class |
|---|---|---|---|
| 6.75% Series Preferred Stock | Bankmont Financial Corp.<br>111 W. Monroe Street<br>Chicago, IL 60690 | 5,000[(1)] | 5.495% |

(1) The source of this information is a Schedule 13G/A filed on February 17, 2004 by Bankmont Financial Corp. on behalf of itself, its parent, Bank of Montreal, and the following direct and indirect subsidiaries of it: BMO Nesbitt Burns, Inc., Jones Heward Investments, Inc., BMO Harris Investment Management Inc., Jones Heward Investment Counsel Inc., BMO Investorline Inc., Jones Heward Funds, The Pension Fund Society of the Bank of Montreal, Guardian Group of Funds, Ltd., Harris Investment Management, Inc., Harris Insight Funds, Inc., BMO Trust Company, BMO Investments, Inc., BMO Mutual Funds, BMO Nesbitt Burns Corp., BMO Nesbitt Burns Trading Corp., S.A., and Sullivan Bruyette Speros & Blaney. Bankmont Financial Corp. has reported on the Schedule 13G/A that it has the sole power to vote or direct the vote of the shares listed.

Although proxies are not being solicited, shareowners may attend the Annual Meeting and vote in person. If you plan to attend the Annual Meeting and vote in person, we will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or other nominee, you must bring an account statement or letter from the nominee indicating that you were the beneficial owner of the shares on February 27, 2004, the record date for voting. PPL intends to vote all of its shares of the Company s common stock, or 99% of the voting shares of the Company, in favor of election of each of the nominees for director (see Election of Directors ), thereby assuring the election of these directors.

To preserve voter confidentiality, the Company voluntarily limits access to shareowner voting records to certain designated employees of PPL Services Corporation. These employees sign a confidentiality agreement which prohibits them from disclosing the manner in which a shareowner has voted to any employee of Company affiliates or to any other person (except to the Judges of Election or the person in whose name the shares are registered), unless otherwise required by law.

With respect to the election of directors, shareowners have the unconditional right of cumulative voting. Shareowners may vote in this manner by multiplying the number of shares registered in their respective names on

1

Table of Contents

the Record Date by the total number of directors to be elected at the Annual Meeting and casting all of such votes for one nominee or distributing them among any two or more nominees. The nominees receiving the highest number of votes, up to the number of directors to be elected, will be elected. Authority to vote for any individual nominee can be withheld by striking a line through that person s name in the list of nominees on the ballot. Shares will be voted for the remaining nominees on a pro rata basis.

**PROPOSAL 1: ELECTION OF DIRECTORS**

The nominees this year are John R. Biggar, Paul T. Champagne, Dean A. Christiansen, Lawrence E. De Simone, Robert J. Grey, William F. Hecht, James H. Miller and John F. Sipics, who are currently serving as directors. The Board of Directors has no reason to believe that any of the nominees will become unavailable for election, but, if any nominee should become unavailable prior to the meeting, PPL intends to vote its shares of PPL Electric Utilities common stock for the election of such other person as the Board of Directors may recommend in place of that nominee.

**The Board of Directors**

**recommends that shareowners vote FOR Proposal 1**

**NOMINEES FOR DIRECTORS:**

**JOHN R. BIGGAR,** 59, serves as Executive Vice President and Chief Financial Officer of the Company s parent, PPL Corporation. He is also a director of PPL Corporation, and is a manager of PPL Energy Supply, LLC and PPL Transition Bond Company, LLC, each a subsidiary of PPL Corporation. Mr. Biggar earned a bachelor s degree in political science from Lycoming College and a Juris Doctor degree from the College of Law at Syracuse University. He joined the Company in 1969. Before being named as Executive Vice President and Chief Financial Officer of PPL Corporation in 2001, Mr. Biggar served two years as Senior Vice President and Chief Financial Officer and 14 years as Vice President-Finance. Mr. Biggar has been a Director since 2000.

**PAUL T. CHAMPAGNE,** 45, serves as President of PPL EnergyPlus, LLC, a subsidiary of PPL Corporation that markets energy in key U.S. markets. Mr. Champagne earned a bachelor s degree in chemical engineering and completed master s course work in mechanical engineering at the University of Illinois. Mr. Champagne served as President of PPL Global, LLC, a PPL Corporation subsidiary, for three years and prior to that as its Vice President and Senior Development Officer. Prior to joining PPL Global in 1995, he served in several business development positions at Edison Mission Energy, including Midwest regional manager. Mr. Champagne has been a Director since 2000.

**DEAN A. CHRISTIANSEN,** 44, is President of Acacia Capital, Inc., a New York City-based corporate finance advisory firm founded in 1990. From October 2000 to July 2003, he also served as President and a Director of Lord Securities Corporation of New York, a financial services and administration company with operations world-wide. Mr. Christiansen received a degree in government from the University of Notre Dame, and has completed additional studies in Aerospace engineering. Mr. Christiansen is also a member of the board of Aegis Asset Backed Securities Corporation, Atlantic City Electric Transition Funding LLC, Bond Securitization, L.L.C., Cedar Brakes II, L.L.C., Comcertz ABS Corporation, East Coast Power, LLC, Edison Mission Energy, Edison Receivables Company LLC, Education Loans Incorporated, EME Homer City Generation, L.P., Fleet Home Equity Loan, LLC, LS Power Funding Corporation, NCT Funding Company, L.L.C., Orion Power Holdings, Inc., PPL Transition Bond Company, LLC, PSE&G Transition Funding LLC, Saxon Asset Securities Company, and Structured Products Corp. He has been a Director since 2001.

**LAWRENCE E. DE SIMONE,** 56, serves as Executive Vice President of the Company s parent, PPL Corporation. He is also a member of the board of managers of PPL Energy Supply, LLC. Mr. De Simone earned a bachelor s degree in economics from Claremont McKenna College and a Ph.D. in business administration from the University of California at Berkeley. Before being named to his current position in 2004, Mr. De Simone served as Executive Vice President Supply from 2001 until 2004, and before that, as President of PPL EnergyPlus, LLC, a PPL Corporation subsidiary. Before joining PPL EnergyPlus in 1998, Mr. De Simone served as Senior Vice President-Energy Services for Virginia Power Company and President of Central & South West Corporation s energy services and telecommunications operations as well as its Vice President for Strategic Planning. He has been a Director since 2000.

Table of Contents

**ROBERT J. GREY,** 53, serves as Senior Vice President, General Counsel and Secretary of the Company s parent, PPL Corporation and is a manager of PPL Energy Supply, LLC. Mr. Grey earned his bachelor s degree from Columbia University, a law degree from Emory University, and a Master of Laws degree from George Washington University. Before being named as Senior Vice President, General Counsel and Secretary of PPL Corporation and the Company in 1996, Mr. Grey served as Vice President, General Counsel and Secretary. Before joining the Company in 1995, Mr. Grey served as General Counsel for Long Island Lighting Company and was a partner with the law firm of Preston Gates & Ellis. He has been a Director since 2000.

**WILLIAM F. HECHT,** 61, is Chairman, President and Chief Executive Officer of the Company s parent, PPL Corporation and is Chairman of the Company. Mr. Hecht received bachelor s and master s degrees in electrical engineering from Lehigh University, and joined the Company in 1964. He was elected President and Chief Operating Officer in 1991 and was named Chairman, President and Chief Executive Officer of the Company in 1993, and to his PPL Corporation position in February 1995. Mr. Hecht is a director of DENTSPLY International Inc., the Federal Reserve Bank of Philadelphia, RenaissanceRe Holdings Ltd. and PPL Corporation, is a manager of PPL Energy Supply, LLC and serves on the board of a number of civic and charitable organizations. Mr. Hecht has been a Director since 1990.

**JAMES H. MILLER,** 55, is Executive Vice President of the Company s parent, PPL Corporation, and is President of PPL Generation, LLC, a PPL Corporation subsidiary that operates power plants in Pennsylvania, Montana, Connecticut, Maine, Illinois, New York and Arizona. He also serves as a manager of PPL Montana, LLC. Mr. Miller earned a bachelor s degree in electrical engineering from the University of Delaware and served in the U.S. Navy nuclear program. Before joining PPL Generation, LLC in February 2001, Mr. Miller served as Executive Vice President and Vice President, Production of USEC, Inc. from 1995 and prior to that time as President of ABB Environmental Systems, President of UC Operating Services, President of ABB Resource Recovery Systems and Plant Manager of Delmarva Power and Light Co. Mr. Miller has been a Director since 2001.

**JOHN F. SIPICS,** 55, is President of the Company. He also serves as Chief Executive Officer of PPL Gas Utilities Corporation. Mr. Sipics earned bachelor s and master s degrees in electrical engineering from Lehigh University. He is also a registered professional engineer in Pennsylvania. Before being named to his current position in 2003, Mr. Sipics served as Vice President-Asset Management for two years and Vice President-Delivery Services and Economic Development, which later became Regulatory Support, for three years. Mr. Sipics joined the Company as an engineer in 1970 and served in a variety of positions prior to those described above. Mr. Sipics also serves on the boards and committees of a variety of industry associations, and is a director of the Greater Lehigh Valley Chapter of the United Way. Mr. Sipics has been a director since 2003.

## GENERAL INFORMATION REGARDING DIRECTORS AND EXECUTIVE OFFICERS

### Director Attendance at Board Meetings

The Board of Directors held one Board meeting and four Executive Committee meetings during 2003. Each current director attended at least 75% of the meetings held by the Board and its Executive Committee during the year. The average attendance of current directors at the Board and Committee meetings held during 2003 was 94%. Directors are expected to regularly attend all meetings of the Board, its Executive Committee and shareowners. All current directors attended the 2003 Annual Meeting of Shareowners.

### Compensation of Directors

The Company pays Lord Securities Corporation an annual fee of $7,000 for providing the services of its independent director, Dean A. Christiansen. Directors who are employees of the Company or its affiliates receive no separate compensation for service on the Board of Directors or its Executive Committee.

**Stock Ownership**

As noted above, all of the outstanding common stock of PPL Electric Utilities is owned by PPL Corporation. No directors or executive officers own any PPL Electric Utilities preferred stock.

**Table of Contents**

**Shareowner Communications with Board**

Shareowners interested in communicating with the directors as a group may write to the Board of Directors c/o Corporate Secretary s Office, PPL Electric Utilities Corporation, Two North Ninth Street, Allentown, Pennsylvania 18101. The Secretary of the Company forwards all correspondence to the respective Board members, with the exception of commercial solicitations, advertisements or obvious junk mail. Concerns relating to accounting, internal controls or auditing matters are to be immediately brought to the attention of PPL s Office of Business Ethics and Compliance and are handled in accordance with procedures established by PPL s Audit Committee with respect to such matters.

**Code of Ethics**

In June 2003, the Company s parent enhanced its Standards of Conduct and Integrity, which have been adopted by the Company and are applicable to all Board members and employees of the Company and its subsidiaries, including the principal executive officer, the principal financial officer and the principal accounting officer of the Company. The full text of the Standards can be found in the Corporate Governance section of PPL Corporation s Web site *(www.pplweb.com/corporategovernance.htm)*.

**Board Committees**

The Company does not have standing audit, nominating and compensation committees of the Board of Directors.

***Executive Committee.*** During the periods between Board meetings, the Executive Committee s function is to act on behalf of the Board on appropriate matters that do not require full Board approval under the Pennsylvania Business Corporation Law or the Company s articles of incorporation and bylaws. This Committee met four times during 2003. The members of the Executive Committee are Mr. Hecht (chair), and Messrs. Biggar and Sipics. Mr. Sipics has been a member of the Committee since his appointment as President on October 1, 2003.

***Nominations.*** The Board of Directors of the Company makes the nominations for election of directors for the Company and does not have a separate standing nominating committee. As PPL owns all of the shares of the Company s common stock, which represents 99% of the Company s outstanding voting shares, PPL has a quorum and voting power for the purpose of election of directors of the Company, and PPL recommends to the Board of Directors of the Company all of the nominees for directors of the Company. Therefore, the Board of Directors of the Company acts upon these recommendations and actions of PPL. Most of the directors nominated are officers of PPL and its subsidiaries, including the Company. In addition, because the Amended and Restated Articles of Incorporation require the Company to have at all times a director who is independent, the Board of Directors will nominate one independent director for election to the Board of Directors. The current independent director, Mr. Christiansen, was chosen by the Company s board, upon the recommendation of PPL. Because PPL controls the vote and the nomination of directors of the Company, the Company has not recently received any director recommendations from owners of voting preferred stock of the Company. Shareowners interested in recommending nominees for directors should submit their recommendations in writing to: Secretary, PPL Electric Utilities Corporation, Two North Ninth Street, Allentown, Pennsylvania 18101. In order to be considered, nominations by shareowners must be received by the Company 75 days prior to the 2005 Annual Meeting and must contain the information required by the Bylaws, such as the name and address of the shareowner making the nomination and of the proposed nominees and certain other information concerning the shareowner and the nominee.

In considering the candidates recommended by PPL, the Board of Directors seeks individuals who possess strong personal and professional ethics, high standards of integrity and values, independence of thought and judgment and who have senior corporate leadership experience, including within PPL. The Company believes that prior business experience provides a necessary basis for consideration of the many complicated issues associated with PPL Electric Utilities business and the impact of related decisions on PPL and other shareowners, customers, employees and the general public. In addition, the Board of Directors seeks individuals who have a broad range of demonstrated abilities and accomplishments beyond corporate leadership. These abilities include the skill and expertise sufficient to provide sound and prudent guidance with respect to all of the Company s operations and interests. After completing the evaluation process, the Board of Directors votes on whether to approve the nominees. Each nominee to be elected who is named in this Information Statement was recommended by PPL in accordance with the practices described above.

4

**Table of Contents**

**Retirement Plans for Executive Officers**

PPL Electric Utilities officers are eligible for benefits under the PPL Retirement Plan and the PPL Supplemental Executive Retirement Plan ( SERP ) upon retirement. For purposes of calculating benefits under the PPL Retirement Plan, the compensation used is base salary less amounts deferred under the PPL officers Deferred Compensation Plan. Base salary, including any amounts deferred, is listed in the Summary Compensation Table on page 6. For purposes of calculating benefits under the SERP, the compensation used is base salary, cash bonus, and, in some cases, the value of any restricted stock grant for the year in which earned (as described below), as well as dividends paid on restricted stock.

Benefits payable under the PPL Retirement Plan are subject to limits set forth in the Internal Revenue Code (the Code ) and are not subject to any deduction for Social Security benefits or any other offset. Benefits are computed on the basis of the life annuity form of pension at normal retirement age of 65. The SERP is an unfunded, non-contributory plan. Unlike the PPL Retirement Plan, the SERP provides for the inclusion of earnings in excess of the limits contained in the Code, including deferred incentive compensation in the calculation of final average earnings, and for any benefit in excess of the limits provided under the Code. Benefits payable under the SERP are computed on the same basis and are offset by PPL Retirement Plan benefits and the maximum Social Security benefit payable at age 65. Benefits under both plans are reduced for retirement prior to age 60. Generally, absent a specifically authorized exception, no benefit is payable under the SERP if years of credited service are less than 10 years.

The following table shows the estimated annual retirement benefits for the Named Executive Officers (listed on page 6) payable under the PPL Retirement Plan and the SERP formula.

**Estimated Annual Retirement Benefits at Normal Retirement Age of 65**

| Five-Year Average Annual Compensation | Years of Service | | | |
|---|---|---|---|---|
| | **15 Years** | **20 Years** | **25 Years** | **30 Years** |
| $300,000 | 90,000 | 120,000 | 142,500 | 165,000 |
| 350,000 | 105,000 | 140,000 | 166,250 | 192,500 |
| 400,000 | 120,000 | 160,000 | 190,000 | 220,000 |
| 450,000 | 135,000 | 180,000 | 213,750 | 247,500 |
| 500,000 | 150,000 | 200,000 | 237,500 | 275,000 |
| 550,000 | 165,000 | 220,000 | 261,250 | 302,500 |
| 600,000 | 180,000 | 240,000 | 285,000 | 330,000 |
| 650,000 | 195,000 | 260,000 | 308,750 | 357,500 |
| 700,000 | 210,000 | 280,000 | 332,500 | 385,000 |

As of January 1, 2004, the years of credited service under the PPL Retirement Plan for Messrs. Sipics, McCabe and Abel were 31, 9 and 28, respectively. The years of credited service under the SERP for each of these officers were as follows: Mr. Sipics 25, Mr. McCabe 23 and Mr. Abel 22. Total pension benefits will not increase beyond 30 years of service for any participant.

For officers hired on or after January 1, 1998, including Mr. Bray, benefits under the SERP were revised as follows: (i) restricted stock grants are not included in compensation for purposes of calculating benefits under the SERP; (ii) the percentage of pay provided as a retirement benefit is changed from 2.7% for the first 20 years of service plus 1.0% for the next 10 years, to 2.0% for the first 20 years and 1.5% for the next 10 years; and (iii) credit for years of service will commence as of the employee s date of hire instead of at age 30. As of January 31, 2004, Mr. Bray had 3 years of credited service under the SERP.

For officers hired prior to January 1, 1998, benefits under SERP are calculated under the greater of the old formula or the new formula, except that compensation for purposes of the old formula includes restricted stock grants only to the extent earned through December 31, 2001 and will be frozen as of December 31, 2001, and compensation for purposes of the new formula includes restricted stock grants only to the extent earned through December 31, 1997.

**Table of Contents**

**SUMMARY COMPENSATION TABLE**

The following table summarizes all compensation for the President and the most highly compensated executive officers ( Named Executive Officers ) for the last three fiscal years. Mr. Bray resigned as President on September 30, 2003, and Mr. Sipics was elected as President effective October 1, 2003. Although Mr. McCabe resigned as Vice President and Controller, effective February 20, 2004, he is included in the table since he was in that position as of December 31, 2003. For the years included in the table, Messrs. McCabe and Abel were not paid separately as officers of PPL Electric Utilities, but were employees of PPL Services Corporation. Restricted stock awards and stock options are for shares of PPL Corporation.

| | | Annual Compensation | | | Long-Term Compensation | | |
|---|---|---|---|---|---|---|---|
| **Name and Principal Position** | **Year** | **Salary[1] ($)** | **Bonus[1] [2] ($)** | **Other Annual Compensation[3] ($)** | **Restricted Stock Award[4] ($)** | **Options (#)** | **All Other Compensation[5] ($)** |
| John F. Sipics | 2003 | 210,954 | 0 | 4,808 | 236,691 | 11,990 | 8,226 |
| President | 2002 | 192,806 | 78,533 | 14,909 | 56,272 | 11,980 | 7,088 |
| | 2001 | 185,631 | 65,559 | 10,804 | 36,439 | 14,050 | 7,009 |
| Michael E. Bray Former President | 2003 | 304,730 | 0 | 0 | 0 | 30,420 | 5,420 |
| | 2002 | 295,000 | 147,943 | 0 | 103,740 | 31,460 | 5,666 |
| | 2001 | 294,808 | 103,139 | 0 | 66,900 | 37,780 | 5,100 |
| James E. Abel | 2003 | 233,446 | 53,962 | 1,000 | 132,348 | 13,860 | 6,909 |
| Treasurer | 2002 | 221,418 | 96,486 | 900 | 67,340 | 13,270 | 6,154 |
| | 2001 | 205,553 | 57,202 | 900 | 40,475 | 15,550 | 5,828 |
| Joseph J. McCabe Vice President and Controller | 2003 | 235,584 | 78,000 | 0 | 71,000 | 14,160 | 6,278 |
| | 2002 | 226,201 | 95,825 | 0 | 68,796 | 13,560 | 5,707 |
| | 2001 | 209,728 | 58,438 | 0 | 41,144 | 15,750 | 5,335 |

1 Salary and bonus data include deferred cash compensation. Mr. Bray deferred $96,200 of salary for 2003 and Mr. Abel deferred $15,600 of salary for 2001. Mr. Bray resigned as President on September 30, 2003 and was not eligible for cash bonus or restricted stock awards for 2003 performance. Mr. Sipics was elected as President effective October 1, 2003. Mr. McCabe resigned as Vice President and Controller, effective February 20, 2004.

2 Messrs. Sipics and Abel elected to implement an Exchange of $113,608 and $44,151, respectively, of their cash bonus for 2003 for restricted stock units under the Premium Exchange Program. See description of the Premium Exchange Program under Compensation Report of the Board of Directors. The value of these restricted stock units are reflected under the Restricted Stock Award column of this table.

3 Includes longevity pay for Mr. Sipics (which is compensation for vacation earned, but not taken) and fees earned by Mr. Abel for serving as a director of Safe Harbor Water Power Corporation, an affiliate of the Company.

4 The dollar value of restricted common stock awards was calculated by multiplying the number of shares awarded by the closing price per share on the date of the grant. As of December 31, 2003, the officers listed in this table held the following number of shares of restricted common stock, with the following values: Mr. Sipics 2,280 shares ($99,750), Mr. Bray 6,790 shares ($297,063), Mr. McCabe 4,470 shares ($195,563) and Mr. Abel 4,390 shares ($192,063). These year-end data do not include awards made in January 2004 for 2003 performance, or awards which had originally been restricted and for which the restriction periods have lapsed or been lifted. Dividends are paid currently on restricted stock awards. All outstanding

restricted stock awards to these individuals have a restriction period of three years, except for those shares held by Messrs. Bray and McCabe, of which most restrictions were accelerated as described below under EMPLOYMENT AND SEPARATION AGREEMENTS.

5 Includes Company contributions to the officers Deferred Savings Plan and ESOP accounts.

Table of Contents

**OPTION GRANTS IN LAST FISCAL YEAR**

The following table provides information on stock options for shares of PPL Corporation granted to the Named Executive Officers during 2003.

| | Individual Grants[1] | | | | Grant Date Value |
|---|---|---|---|---|---|
| **Name** | **Number of Securities Underlying Options Granted** | **% of Total Options Granted to Employees in 2003** | **Exercise or Base Price** | **Expiration Date** | **Grant Date Present Value[2]** |
| J. F. Sipics | 11,990 | 1.5% | $ 36.23 | 1/21/2013 | $ 145,319 |
| M. E. Bray | 30,420 | 3.7 | 36.23 | 1/21/2013 | 368,690 |
| J. J. McCabe | 14,160 | 1.7 | 36.23 | 1/21/2013 | 171,619 |
| J. E. Abel | 13,860 | 1.7 | 36.23 | 1/21/2013 | 167,983 |

1 Exercisable in three equal annual installments beginning January 23, 2004.

2 Values indicated are an estimate based on a discounted Black-Scholes option pricing model. The actual value realized, if any, will be determined by the excess of the stock price over the exercise price on the date the option is exercised. There is no certainty that the actual value realized will be at or near the value estimated by the discounted Black-Scholes option pricing model.

Assumptions used for the discounted Black-Scholes option pricing model are as follows:

| | |
|---|---|
| Risk-free interest rate | 4.57% |
| Volatility | 39.94% |
| Dividend yield | 3.48% |
| Time of exercise | 10 years |
| Risk of forfeiture | 94.11% |

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES**

The following table summarizes information for the Named Executive Officers concerning exercises of stock options for shares of PPL Corporation during 2003 and the number and values of all unexercised stock options as of December 31, 2003.

| Shares Acquired on Exercise # | Value Realized $ | Number of Securities Underlying Unexercised Options at December 31, 2003 | Value of Unexercised In-the-Money Options at December 31, 2003 |
|---|---|---|---|

| Name | | | Exercisable # | Unexercisable # | Exercisable $ | Unexercisable $ |
|---|---|---|---|---|---|---|
| J. F. Sipics | 25,790 | $ 407,236 | 13,361 | 24,659 | 44,737 | 171,553 |
| M. E. Bray | 10,487 | 106,472 | 25,187 | 63,986 | 11,556 | 442,781 |
| J. J. McCabe | 0 | | 38,753 | 28,450 | 493,179 | 198,510 |
| J. E. Abel | 16,614 | 230,342 | 10,367 | 27,889 | 4,756 | 194,300 |

Value of unexercised options at fiscal year-end represents the difference between the exercise price of any outstanding in-the-money option grant and $43.615, the average of the high and low price of PPL Corporation common stock on December 31, 2003.

**CHANGE IN CONTROL ARRANGEMENTS**

PPL has entered into agreements with each of the Named Executive Officers, which provide benefits to the officers upon certain terminations of employment following a change in control of PPL (as such term is defined in the agreements). The benefits provided under these agreements replace any other severance benefits provided to these officers by PPL, or any prior severance agreement.

Each of the agreements continues in effect until December 31, 2005, and the agreements generally are automatically extended for additional one-year periods. Upon the occurrence of a change in control, the agreements will expire no earlier than 36 months after the month in which the change in control occurs. Each agreement provides that the officer will be entitled to the severance benefits described below if PPL terminates the officer s employment following a change in control for any reason other than death, disability, retirement or cause, or if the officer terminates employment for good reason (as such terms are defined in the agreements).

**Table of Contents**

The benefits consist of a lump sum payment equal to three times the sum of (a) the officer s base salary in effect immediately prior to date of termination, or if higher, immediately prior to the first occurrence of an event or circumstance constituting good reason, and (b) the highest annual bonus in respect of the last three fiscal years ending immediately prior to the fiscal year in which the change in control occurs, or if higher, the fiscal year immediately prior to the fiscal year in which first occurs an event or circumstance constituting good reason. In addition, under the terms of each agreement, PPL would provide the officer and dependents with continuation of welfare benefits for the 36-month period following separation (reduced to the extent the officer receives comparable benefits), and would pay the officer unpaid incentive compensation that has been allocated or awarded, a lump sum payment having an actuarial present value equal to the additional pension benefits the officer would have received had the officer continued to be employed by the Company for an additional 36 months, outplacement services for up to three years and, for Mr. Sipics, a gross-up payment for any excise tax imposed under the Internal Revenue Code. In addition, under the agreements, PPL would provide post-retirement health care and life insurance benefits to officers who would have become eligible for such benefits within the 36-month period following the change in control.

In addition, in the event of a change in control, the restriction period applicable to any outstanding restricted stock awards under the Incentive Compensation Plan lapses.

**EMPLOYMENT AND SEPARATION AGREEMENTS**

Mr. Bray had an employment agreement with the Company, which provided that if his employment were terminated for reasons other than for cause after his first year of employment, he would continue to receive his salary for a period of 52 weeks or until he secured alternative employment, whichever occurred first, under certain conditions. The agreement also provided that Mr. Bray would participate in the SERP described above, and credited three years of additional service, should he remain an employee as of his 60th birthday. This agreement was superseded by the separation arrangement described below.

Mr. Bray resigned as President of the Company, effective September 30, 2003. As part of the separation arrangement with the Company, Mr. Bray received a lump-sum payment of $203,333 in 2004. Mr. Bray also received benefits under the PPL Retirement Plan and the SERP of $70,000 per year, together with retiree medical and life insurance benefits. Additionally, all restrictions on stock awards granted in 2002, and on 1,900 shares of restricted stock granted in 2003, were accelerated, and all stock options granted prior to his actual retirement in February 2004 became exercisable.

Effective February 20, 2004, Mr. McCabe resigned as Vice President and Controller of PPL Corporation and certain of its subsidiaries, including the Company. As part of a separation arrangement with an affiliate, Mr. McCabe received a lump-sum payment of $118,398. Based on his credited years of service, Mr. McCabe was also eligible to receive benefits under the PPL Retirement Plan and the SERP equal to about $96,000 per year, together with retiree medical and life insurance benefits. Additionally, all restrictions on stock awards granted in 2002 and 2003 were accelerated, the restricted stock units granted in 2004 were paid in the cash equivalent, and all stock options granted prior to January 1, 2004 became exercisable.

**COMPENSATION REPORT OF THE BOARD OF DIRECTORS**

**GENERALLY**

PPL Corporation (together with its subsidiaries, PPL ) is the parent holding company for numerous subsidiaries. PPL s principal operating subsidiaries are PPL Electric Utilities, PPL EnergyPlus, LLC, PPL Generation, LLC and PPL Global, LLC.

The Compensation and Corporate Governance Committee of PPL s Board of Directors (the Committee ) establishes compensation and benefit practices for the members of PPL s Corporate Leadership Council (which sets corporate policy for PPL) and the presidents of PPL s principal operating subsidiaries, including Messrs. Bray and Sipics[1] (collectively, the executive officers ). This Committee is comprised entirely of independent outside directors.

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1 Mr. Sipics has no position with PPL but is a PPL executive officer by virtue of his position as President of PPL Electric Utilities. Mr. Bray resigned as President on September 30, 2003. Because Mr. Sipics only served as President during 2003 from October 1 to December 31, his compensation, and respective percentage goals, were adjusted on a pro rata basis to reflect his positions during 2003.

Table of Contents

Messrs. McCabe and Abel were officers of PPL Electric Utilities and certain other affiliated companies during 2003. Accordingly, their compensation discussed herein includes compensation earned for services to PPL Electric Utilities and its affiliates.

**COMPENSATION PHILOSOPHY**

In addition to the compensation practices for executive officers discussed below, the Committee also promotes policies that are consistent with the intent of PPL s compensation philosophy. While a meaningful ownership of PPL common stock by its executives has always been an important part of this compensation philosophy, specific ownership requirements had not been formally adopted. Accordingly, during 2003 the Committee adopted the Executive Equity Ownership Program ( Equity Guidelines ). The Equity Guidelines provide that executive officers should maintain levels of ownership of PPL Common Stock ranging in value from one to five times base salary (for the officers of the Company, the Equity Guidelines provide for ownership of PPL Common Stock ranging in value from one to two times base salary). Executive officers are expected to achieve their minimum Equity Guidelines level by December 31, 2005. Until the minimum ownership amount is achieved, officers are expected to retain in Common Stock (or Common Stock units) 100% of the profit realized from the vesting of restricted stock and stock units and the exercise of options (net of taxes and, in the case of options, the cost of the exercise). To assist executive officers in achieving or surpassing their minimum ownership amount, in 2003 the Committee adopted the Cash Incentive Premium Exchange Program ( Premium Exchange Program ). Under this program, officers may elect to defer all or a portion of the annual cash incentive award for restricted stock units of PPL equal to 140% of the amount so deferred (an Exchange ). The restricted stock units of PPL are subject to a three-year vesting period. These two programs encourage increased stock ownership on the part of the executive officers, which further aligns the interests of management and shareowners.

**Base Salaries**

In general, PPL s objective is to provide salary levels that are sufficiently competitive with comparable companies to enable PPL to attract and retain high-quality executive talent. To meet this objective, the Committee and PPL regularly review salary information for similar companies provided by independent, nationally recognized compensation consultants. In addition, the Committee and PPL annually review the performance of each executive officer to determine the appropriate level of base salary adjustment for that officer.

The Committee reviewed salary ranges for Mr. Bray by comparing these salary levels with levels at companies of comparable size to the Company in the energy industry and in general industry. Base salary market comparisons were made against the salaries of the comparison companies.

After reviewing salary data for executive positions at comparable companies, the Committee reviewed the actual salary and performance of Mr. Bray. The Committee solicited input and recommendations from the Chief Executive Officer of PPL regarding the performance and the salary of Mr. Bray. Using this information, the Committee set his base salary at $305,000 effective January 1, 2003. Mr. Sipics base salary was established at $250,000 as of October 1, 2003, when he became President of the Company, based on salaries for similar positions at other companies, and consideration of experience, time in the position and other factors. The 2003 base salaries of Messrs. McCabe and Abel were approved by the Executive Vice President and Chief Financial Officer of PPL, to whom they reported, based on market conditions and individual performance.

**INCENTIVE AWARDS**

***Cash Incentive Awards***

Cash incentive awards are made to executive officers for the achievement of specific independent goals established for each calendar year. For 2003, the following award targets as a percentage of base salary were established for each executive officer: Mr. Bray  50%, Mr. Sipics  43% (in consideration of the positions held during 2003), and Messrs. McCabe and Abel  40%.

Annual awards are determined by applying these target percentages to the percentage of goal attainment. The performance goals for each year are established by the Committee, and the Committee reviews actual results at year-end to determine the appropriate goal attainment percentage to apply to the salary targets.

The goal categories for 2003 included specific financial and operational measures designed to enhance the Company s position for success in the competitive market. The weightings for each of these general categories varied for the individual officers to reflect different levels of influence they have on the attainment of goals. Mr. Bray s goal weightings for 2003 were allocated 40% to corporate financial goals, 40% to operation of the Company and 20% to operation of other PPL subsidiaries. These same goals applied to Mr. Sipics for the three months that he served as President in 2003.

With respect to Messrs. McCabe and Abel, 80% of their cash award was based on achievement of key corporate financial and operational goals and 20% on individual performance. The weightings of these corporate goals were 50% for the financial goals and 50% for the operational goals based on the operational results of PPL Electric Utilities and various affiliates.

When the level of goal attainment was measured at the end of the year and the category weightings were multiplied by the annual award target for each position, each executive officer s cash award was determined for 2003 performance.

***Restricted Stock Incentive Awards***

Restricted PPL stock or restricted stock units also are made available to the executive officers based on the achievement of strategic objectives designed to enable PPL to continue to provide value to its shareowners. Goals were related to increasing shareowner value through implementation of certain long-term corporate initiatives, including actions to influence the evolution of government policies toward more competitive markets, develop an internal corporate structure to optimize PPL s wholesale hedging strategy, develop and retain management skills, and establish the financial profile necessary to optimize growth opportunities when the wholesale electricity markets strengthen. Annual awards are based on the achievement of these goals. The executive officers had an award target, based on their positions, as a percentage of base salary; Mr. Bray had a target of 35%, Mr. Sipics target was 31% (reflecting his positions in 2003), and Messrs. McCabe and Abel had a target of 30%.

Awards are made in the form of restricted stock or restricted stock units equivalent to the dollar value of the percentage applied to base pay in effect at the end of the year. Because of the three-year restriction period, this type of stock award encourages executive officers to continue their service at PPL. This program also encourages increased stock ownership on the part of the officers and aligns the interests of management and shareowners.

***Stock Option Incentive Awards***

The Committee may grant the executive officers options to purchase shares of PPL common stock in the future. Because the exercise price for these options is based on the market price of the stock at the time of the grant, the ultimate value received by the option holders is directly tied to increases in the stock price. Therefore, stock options serve to closely link the interests of management and shareowners and motivate executives to make decisions that will serve to increase the long-term shareowner value. Additionally, the option grants include vesting and termination provisions that are designed to encourage option holders to remain employees of PPL. As with the cash and restricted stock awards discussed above, stock option grants varied by accountability level based on award targets.

* * * * * *

10

**Table of Contents**

Based on its review of the incentive goals achieved for 2003, the Committee in January 2004 made the following incentive cash and restricted stock awards for Mr. Sipics and restricted stock awards for Messrs. McCabe and Abel. The incentive cash awards for Messrs. McCabe and Abel were made by PPL s Corporate Leadership Council in February 2004.

| | Cash Incentive Awards | | Restricted Stock Unit Awards | |
|---|---|---|---|---|
| Name and Position | Performance Attained | Cash Bonus[3] | Performance Attained | Shares of Restricted Stock |
| John F. Sipics President[1] | 106.9% | $113,608 | 100% | 1,730 |
| Michael E. Bray former President[2] | n/a | n/a | n/a | n/a |
| Joseph J. McCabe Vice President and Controller | 82.3% | $ 78,000 | 100% | 1,570 |
| James E. Abel Treasurer | 102.3% | $ 98,113 | 100% | 1,560 |

(1) Mr. Sipics award was based partially on separate goals for a portion of the year related to his position prior to becoming President of the Company.
(2) Mr. Bray resigned as President of the Company on September 30, 2003 and was not eligible for awards.
(3) Messrs. Sipics and Abel elected to implement an Exchange of $113,608 and $44,151, respectively, for 3,510 and 1,370 restricted stock units, respectively, under the terms of the Premium Exchange Program described above.

Finally, the Committee made the following non-qualified stock option awards in January 2003, under the Incentive Compensation Plan: Mr. Bray 30,420 options; Mr. McCabe 14,160 options; and Mr. Abel 13,860 options. Mr. Sipics was awarded 11,990 non-qualified options by the Corporate Leadership Council in February 2003, under the Incentive Compensation Plan for Key Employees, as a vice president of the Company.

**COMPENSATION OF THE PRESIDENT**

Mr. Bray s 2003 base salary of $305,000 was established effective January 1, 2003, based on a review of salaries of incumbents in similar positions at comparable companies and on Mr. Bray s performance. Mr. Sipics base salary of $250,000 was established as of October 1, 2003, when he became President, based on salaries for similar positions at other companies, and consideration of experience, time in position and other factors.

Based on PPL s performance on the specific corporate financial and operational goals discussed above, Mr. Sipics received a cash award equal to approximately 45.4% of his salary. Mr. Sipics received a restricted stock award equal to approximately 31.25% of his salary based on corporate performance. In addition, Mr. Sipics was granted stock options in 2003, as described above. Mr. Bray was granted stock options in 2003, as described above, but was not eligible for a cash or restricted stock award due to his resignation as President effective September 30, 2003.

The Board of Directors

William F. Hecht, Chairman

John R. Biggar

Paul T. Champagne

Dean A. Christiansen

Lawrence E. De Simone

Robert J. Grey

James H. Miller

John F. Sipics

**INDEPENDENT AUDITOR**

PPL Corporation s Audit Committee, which consists entirely of independent directors who are not employees of the Company or its affiliates, appointed PricewaterhouseCoopers LLP ( PwC ) to serve as independent auditor for the year ending December 31, 2004, for PPL and its subsidiaries, including the Company. If the shareowners of PPL do not ratify the appointment of PwC, the selection of the independent auditor will be reconsidered by the Audit Committee of PPL.

Table of Contents

**FEES TO INDEPENDENT AUDITOR FOR 2003 AND 2002**

The following table presents fees billed by PwC for the fiscal years ended December 31, 2003 and December 31, 2002 for professional services rendered for the audit of the Company s annual financial statements and for fees billed for other services rendered by PwC.

| | 2003 | 2002 |
|---|---|---|
| | (in thousands) | |
| Audit fees (a) | $ 287 | $ 203 |
| Audit-related fees (b) | 77 | 64 |
| Tax fees (c) | | |
| All other fees (d) | | |

(a) Includes audit of annual financial statements and review of financial statements included in the Company s Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

(b) Fees for audits of employee benefit plans and consultation to ensure appropriate accounting and reporting in connection with various business and financing transactions.

(c) PwC did not render any professional services for tax-related matters for the Company for the fiscal years ended December 31, 2003 and December 31, 2002.

(d) PwC did not render any professional services for any other matters for the fiscal years ended December 31, 2003 and December 31, 2002, other than the Audit Fees and Audit-Related Fees included above.

**Approval of Fees.** During 2002, PPL s Audit Committee adopted procedures for pre-approving audit and non-audit services to be provided by PPL s independent auditor. The procedures are designed to ensure the continued independence of the independent auditor. More specifically, the use of the Company s independent auditor to perform either audit or non-audit services is prohibited unless specifically approved in advance by the Audit Committee of PPL. As a result of this approval process, PPL s Audit Committee has established specific categories of services and authorization levels. All services outside of the specified categories and all amounts exceeding the authorization levels are reviewed by the Chair of PPL s Audit Committee, who serves as the Committee designee to review and approve audit and non-audit related services during the year. A listing of the approved audit and non-audit services is reviewed with the full PPL Audit Committee no later than its next meeting.

PPL s Audit Committee reviewed all 2003 and 2002 audit and non-audit related fees. Since July 2002, when the Sarbanes-Oxley Act of 2002 was signed into law, PPL s Audit Committee has approved 100% of all fees. There were no services provided by the independent auditor during that time that would fall within the Tax or All Other Fees category.

**MISCELLANEOUS**

The Board of Directors is not aware of any other matters to be presented for action at the Annual Meeting.

**PROPOSALS FOR 2005 ANNUAL MEETING**

To be included in the Information Statement for the 2005 Annual Meeting, any proposal intended to be presented at that meeting by a shareowner must be received by the Secretary of the Company no later than November 17, 2004. To be properly brought before the Annual Meeting, any proposal must be received not later than 75 days in advance of the date of the 2005 Annual Meeting.

**ANNUAL FINANCIAL STATEMENTS**

The Company s annual financial statements and related management discussion are appended to this document.

By Order of the Board of Directors.

Elizabeth Stevens Duane

*Secretary*

March 18, 2004

12

**Table of Contents**

**Schedule A**

# PPL Electric Utilities Corporation

## 2003 Financial Statements

**Table of Contents**

## Contents

**Table of Contents**

## GLOSSARY OF TERMS AND ABBREVIATIONS

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

***2001 Senior Secured Bond Indenture*** PPL Electric s Indenture, dated as of August 1, 2001, to JPMorgan Chase Bank, as trustee, as supplemented.

***AFUDC*** (Allowance for Funds Used During Construction) the cost of equity and debt funds used to finance construction projects of regulated businesses that is capitalized as part of construction cost.

***APB*** Accounting Principles Board.

***ARB*** Accounting Research Bulletin.

***CTC*** competitive transition charge on customer bills to recover allowable transition costs under the Customer Choice Act.

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

***DEP*** Department of Environmental Protection, a state government agency.

***EITF*** Emerging Issues Task Force, an organization that assists the FASB in improving financial reporting through the identification, discussion and resolution of financial issues within the framework of existing authoritative literature.

***EMF*** electric and magnetic fields.

***ESOP*** Employee Stock Ownership Plan.

***FASB*** Financial Accounting Standards Board, a rulemaking organization that establishes financial accounting and reporting standards.

***FERC*** Federal Energy Regulatory Commission, the federal agency that regulates interstate transmission and wholesale sales of electricity and related matters.

***FIN*** FASB Interpretation.

***FSP*** FASB Staff Position.

***GAAP*** generally accepted accounting principles.

***ICP*** Incentive Compensation Plan.

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

***ITC*** intangible transition charge on customer bills to recover intangible transition costs associated with securitizing stranded costs under the Customer Choice Act.

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

***LIBOR*** London Interbank Offered Rate.

***NUGs*** (Non-Utility Generators) generating plants not owned by public utilities, whose electrical output must be purchased by utilities under the PURPA if the plant meets certain criteria.

***PCB*** polychlorinated biphenyl, an additive to oil used in certain electrical equipment up to the late-1970s. Now classified as a hazardous chemical.

***PJM*** (PJM Interconnection, L.L.C.) operates the electric transmission network and electric energy market in the mid-Atlantic region of the U.S.

***PLR*** (Provider of Last Resort)  PPL Electric providing electricity to retail customers within its delivery territory who have chosen not to shop for electricity under the Customer Choice Act.

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

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

***PPL Capital Funding***  PPL Capital Funding, Inc., a PPL financing subsidiary.

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

***PPL Energy Funding***  PPL Energy Funding Corporation, a subsidiary of PPL and the parent company of PPL Energy Supply.

***PPL EnergyPlus***  PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply, which markets wholesale and retail electricity, and supplies energy and energy services in deregulated markets.

***PPL Energy Supply***  PPL Energy Supply, LLC, the parent company of PPL Generation, PPL EnergyPlus, PPL Global and other subsidiaries. Formed in November 2000, PPL Energy Supply is a subsidiary of PPL Energy Funding.

A-1

**Table of Contents**

***PPL Gas Utilities*** PPL Gas Utilities Corporation, a regulated utility subsidiary of PPL specializing in natural gas distribution, transmission and storage services, and the competitive sale of propane.

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

***PPL Global*** PPL Global, LLC, a subsidiary of PPL Energy Supply, which acquires and develops domestic generation projects and acquires and holds international energy projects that are primarily focused on the distribution of electricity.

***PPL Services*** PPL Services Corporation, a subsidiary of PPL, which provides shared services for PPL and its subsidiaries.

***PPL Transition Bond Company*** PPL Transition Bond Company, LLC, a wholly-owned subsidiary of PPL Electric that was formed to issue transition bonds under the Customer Choice Act.

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

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

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

***SEC*** Securities and Exchange Commission, a U.S. government agency.

***SFAS*** Statement of Financial Accounting Standards, the accounting and financial reporting rules issued by the FASB.

***SPE*** special purpose entity.

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

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

Table of Contents

## MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF PPL ELECTRIC UTILITIES CORPORATION

Terms and abbreviations appearing here are explained in the glossary. Dollars are in millions, unless otherwise noted.

**Forward-looking Information**

Certain statements contained in these financial statements concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts are forward-looking statements within the meaning of the federal securities laws. Although PPL Electric believes that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. These forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the forward-looking statements. In addition to the specific factors discussed in the Management s Discussion and Analysis of Financial Condition and Results of Operations section herein, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements:

- market demand and prices for energy, capacity and fuel;
- weather variations affecting customer energy usage;
- the effect of any business or industry restructuring;
- PPL Electric s profitability and liquidity;
- new accounting requirements or new interpretations or applications of existing requirements;
- environmental conditions and requirements;
- transmission and distribution system conditions and operating costs;
- development of markets and technologies;
- political, regulatory or economic conditions;
- receipt of necessary governmental permits, approvals and rate relief;

impact of state or federal investigations applicable to PPL Electric and its industry;

the outcome of litigation against PPL Electric;

capital market conditions and decisions regarding capital structure;

the market prices of equity securities and resultant cash funding requirements for defined benefit pension plans;

securities and credit ratings;

state and federal regulatory developments;

new state or federal legislation, including new tax legislation;

national or regional economic conditions, including any potential effects arising from the September 11, 2001 terrorist attacks in the U.S., the situation in Iraq and any consequential hostilities or other hostilities; and

PPL Electric s commitments and liabilities.

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

**Table of Contents**

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

**Overview**

PPL Electric provides electricity delivery service in eastern and central Pennsylvania. Its headquarters are in Allentown, Pennsylvania. PPL Electric s strategy and principal challenge is to own and operate its electricity delivery business at the highest level of quality and reliability and at the most efficient cost.

PPL Electric s electricity delivery business is rate-regulated. Accordingly, PPL Electric is subject to regulatory risks in terms of the costs that it may recover and the investment returns that it may collect in customers rates.

An important challenge for PPL Electric is to maintain a strong credit profile. In the past few years, investors, analysts and rating agencies that follow companies in the energy industry have been particularly focused on the credit quality and liquidity position of these companies. PPL Electric is focused on strengthening its balance sheet and improving its liquidity position, thereby improving its credit profile.

The purpose of Management s Discussion and Analysis of Financial Condition and Results of Operations is to provide information concerning PPL Electric s past and expected future performance in implementing the strategy and challenges outlined above. Specifically:

Results of Operations provides an overview of PPL Electric s operating results in 2003, 2002 and 2001, starting with a review of earnings. The earnings review identifies certain unusual items that had impacts in these years, and it also references the delivery rate increase that PPL Electric expects to file with the PUC in the spring of 2004. Results of Operations also includes an explanation of changes during this three-year period in significant income statement components, such as operating revenues, operation and maintenance expenses, financing costs, income taxes and cumulative effects of accounting changes.

Financial Condition Liquidity provides an analysis of PPL Electric s liquidity position and credit profile, including its sources of cash (including bank credit facilities and sources of operating cash flow) and uses of cash (including contractual commitments and capital expenditure requirements) and the key risks and uncertainties that impact PPL Electric s past and future liquidity position and financial condition. This subsection also includes an explanation of recent rating agency decisions affecting PPL Electric, as well as a listing of PPL Electric s current credit ratings.

Financial Condition Risk Management includes an explanation of PPL Electric s risk management activities regarding commodity price risk and interest rate risk.

Application of Critical Accounting Policies provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of PPL Electric and that require PPL Electric s management to make significant estimates, assumptions and other judgments. Although PPL Electric s management believes that these estimates, assumptions and other judgments are appropriate, they relate to matters that are inherently uncertain. Accordingly, changes in the estimates, assumptions and other judgments applied to these accounting policies could have a significant impact on PPL Electric s results of operations and financial condition, as reflected in PPL Electric s Financial Statements.

The information provided in Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with PPL Electric s Financial Statements and the Notes thereto.

A-4

Table of Contents

**Results of Operations**

The following discussion explains significant changes in principal items on the Statement of Income comparing 2003 to 2002, and 2002 to 2001.

**Earnings**

Income available to PPL was:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | $ 25 | $ 39 | $ 119 |

The after-tax changes in income available to PPL were primarily due to:

| | 2003 vs. 2002 | 2002 vs. 2001 |
|---|---|---|
| Delivery revenues (net of CTC/ITC amortization and interest expense on transition bonds) | $ 17 | $ (10) |
| Operation and maintenance expenses | (15) | (18) |
| PJM ancillary expenses | (6) | (29) |
| Depreciation expense | (5) | (2) |
| Retail electric to affiliate revenues | (9) | 2 |
| Financing costs (excluding transition bond interest expense) | (6) | (2) |
| Other | (4) | 3 |
| Unusual items | 14 | (24) |
| | $ (14) | $ (80) |

The changes in income available to PPL from year to year were, in part, attributable to several unusual items with significant earnings impacts, including an accounting change and an infrequently occurring item. The after-tax impacts of these unusual items are shown below:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Workforce reduction (Note 13) | $ (5) | $ (19) | |
| Accounting method change Pensions (Note 7) | | | $ 5 |

| | | | |
|---|---|---|---|
| Total | $ (5) | $ (19) | $ 5 |

The year to year changes in earnings components are discussed in the balance of the discussion in Results of Operations.

PPL Electric expects to file a request for a distribution rate increase with the PUC in March 2004. If approved, the new rates will go into effect in January 2005, when PPL Electric s distribution rate cap expires. In addition, beginning January 1, 2005, PPL Electric expects to fully recover from its retail customers the charges that it pays to PJM for transmission-related services.

**Operating Revenues**

**Retail Electric (Including to Affiliate)**

The increase (decrease) in revenues from retail electric operations was attributable to the following:

| | 2003 vs. 2002 | 2002 vs. 2001 |
|---|---|---|
| Electric delivery | $ 48 | $ (1) |
| PLR electric generation supply | 22 | 102 |
| Delivery and PLR supply to PPL Generation | (15) | 3 |
| Other | | (11) |
| | $ 55 | $ 93 |

A-5

Table of Contents

The increase in operating revenues from retail electric operations for 2003, compared with the same period in 2002, was primarily due to:

- higher delivery revenues resulting from a 1.1% increase in delivery sales. The increase in sales volume was due in part to colder winter weather in the first quarter of 2003; and
- higher PLR revenues due to higher energy and capacity rates in 2003 compared with 2002; partially offset by
- lower sales to PPL Generation. PPL Generation s power plants began self-supplying their station use in April 2003, rather than taking supply from PPL Electric.

The increase in operating revenues from retail electric operations from 2002 compared with 2001 was primarily due to higher revenues from providing electric generation supply as a PLR. Since December 2001, about 50% to 60% of kWh load in PPL Electric s service territory that had been served by alternate suppliers under the Customer Choice Act had returned to PPL Electric as the supplier.

**Wholesale Electric**

PPL Electric wholesale revenues are derived from sales to municipalities. The $5 million decrease in wholesale electric revenues in 2002 compared with 2001 was due to the expiration of certain municipal contracts in February 2002.

**Wholesale Electric to Affiliate**

PPL Electric has a contract to sell to PPL EnergyPlus the electricity that PPL Electric purchases under contracts with NUGs. The termination of one NUG contract in April 2003 and another in February 2002 caused PPL Electric to purchase $8 million less NUG energy in 2003 compared to 2002 and $16 million less in 2002 compared with 2001. PPL Electric therefore had less electricity to sell to PPL EnergyPlus.

**Energy Purchases**

Effective January 1, 2002, PPL Electric began incurring the costs of certain ancillary services, such as area regulation and operating reserves, in connection with its power supply contract with PPL EnergyPlus. Energy purchases increased by $31 million in 2002 compared with 2001, including $48 million in ancillary service costs. These costs were primarily offset by a $16 million decrease in NUG purchases due to the termination of an energy purchase contract with a NUG in February 2002.

**Energy Purchases from Affiliate**

Energy purchases from affiliate increased by $13 million in 2003 compared with 2002. This increase reflects higher prices for energy purchased under the power supply contracts with PPL EnergyPlus needed to support PLR load.

Energy purchases from affiliate increased by $106 million in 2002 compared with 2001. This increase reflects higher purchases under power supply contracts with PPL EnergyPlus needed to support a higher PLR load, due to the return of customers to PPL Electric as their PLR. See Note 9 to the Financial Statements for a discussion of the power supply contracts.

**Table of Contents**

**Other Operation and Maintenance**

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

| | 2003 vs. 2002 | 2002 vs. 2001 |
|---|---|---|
| Decrease in pension income | $ 13 | $ 7 |
| Lower net rent allocations to other PPL affiliates in 2003 and 2002 | 6 | 4 |
| Increase in other postretirement benefit expense | 7 | 3 |
| Increases in expenses in responding to customers service calls | 2 | 5 |
| Additional costs from winter storms | | 6 |
| Work performed to assure reliability of the T&D system | 2 | 3 |
| Environmental accrual for a former manufactured gas plant | 2 | |
| Television advertising | 2 | |
| Increase in property damage provisions, based on an aging of those accounts receivable | 1 | |
| Estimated reduction in salaries and benefits as a result of the workforce reduction initiated in 2002 | (8) | (4) |
| Vacation liability adjustment in 2002 in conjunction with the workforce reduction | (7) | 7 |
| Other net | 6 | |
| | $ 26 | $ 31 |

The $13 million decrease in net pension income was attributable to decreased asset values at the end of 2002 and reductions in the discount rate assumptions for PPL s domestic pension plans, which was the result of weakness in the financial markets during 2002. The 2002 year-end asset values and discount rates were used to measure net pension income for 2003. Through December 31, 2003, PPL Electric was allocated $4 million of net pension income, based on its participation in PPL s primary domestic pension plan.

Although financial markets have improved and PPL domestic pension plans have experienced significant asset gains in 2003, interest rates on fixed-income obligations have continued to fall requiring a further reduction in the discount rate assumption as of December 31, 2003. The reduction in the discount rate assumption has a significant impact on the measurement of plan obligations and net pension cost, which will result in the allocation of a pension charge to PPL Electric in 2004.

**Depreciation**

Depreciation increased by $9 million in 2003 compared with 2002, primarily due to plant and software additions, including the Automated Meter Reading project.

**Taxes, Other Than Income**

Taxes, other than income, increased by $11 million in 2003 compared with 2002 due to the settlement of prior years capital stock tax refund claims of $8 million in 2002, and higher taxes related to an increase in the basis on which capital stock tax is calculated in 2003.

Taxes, other than income, increased by $37 million in 2002 compared with 2001, primarily due to a $45 million increase in gross receipts tax, partially offset by a $10 million decrease in capital stock tax.

The gross receipts tax increase in 2002 was due to an increase in the revenue-neutral reconciliation (RNR) tax component of the effective Pennsylvania gross receipts tax rate in January 2002. The RNR, which adjusts the base gross receipts tax rate of 4.4%, was enacted as part of the Customer Choice Act as a tax revenue replacement component to recoup losses to the Commonwealth of Pennsylvania or return benefits to customers that may result from the restructuring of the electric industry. This increase was partially offset by the settlement of prior years capital stock tax refund claims and a lower capital stock tax rate in 2002.

A-7

Table of Contents

**Workforce Reduction**

See Note 13 to the Financial Statements for information on the charges recorded in 2003 and 2002.

**Other Income net**

See Note 10 to the Financial Statements for details of other income and deductions.

**Financing Costs**

Interest expense on long-term debt decreased by $7 million in 2003 compared to 2002. This decrease was the net impact of retirements of mortgage bonds, Pollution Control Bonds and Transition Bonds, partially offset by the issuance of $100 million of Senior Secured Bonds and $90 million of Pollution Control Bonds.

Lower interest on long-term debt accounted for the $12 million decrease in interest expense in 2002 compared with 2001. This decrease was the net impact of retirements of mortgage bonds and Transition Bonds, partially offset by the issuance of $800 million of Senior Secured Bonds in August 2001.

Dividends on preferred securities decreased by $13 million from 2002 to 2003 and by $10 million from 2001 to 2002. These decreases were due to retirements and redemptions of preferred securities and preferred stock.

**Income Taxes**

Income tax expense did not change for 2003 compared with 2002. This was due to lower pre-tax book income, resulting in a $5 million reduction in income taxes, offset by a $3 million increase in income tax expense related to the filing of PPL Electric s income tax returns.

Income tax expense decreased by $47 million in 2002 compared with 2001. This change was primarily due to a decrease in pre-tax book income.

**Cumulative Effect of a Change in Accounting Principle**

In 2001, PPL changed its method of amortizing unrecognized gains or losses in the annual pension expense or income determined under SFAS 87, Employers Accounting for Pensions. This change resulted in an allocation to PPL Electric of a cumulative-effect credit of $5 million. See Note 7 to the Financial Statements for additional information.

## Financial Condition

### Liquidity

PPL Electric is focused on maintaining a strong liquidity position and strengthening its balance sheet, thereby improving its credit profile. PPL Electric believes that its cash on hand, operating cash flows, access to debt capital markets and borrowing capacity, taken as a whole, provide sufficient resources to fund its ongoing operating requirements, future security maturities and estimated future capital expenditures. PPL Electric currently expects cash on hand at the end of 2004 to be approximately $110 million, with about $200 million in syndicated credit facilities and up to $150 million in short-term debt capacity related to an asset-backed commercial paper program in which it plans to participate starting in early 2004. However, PPL Electric s cash flows from operations and its access to cost effective bank and capital markets are subject to risks and uncertainties, including but not limited to, the following:

- unusual or extreme weather that may damage PPL Electric s transmission and distribution facilities or effect energy sales to customers;
- ability to recover, and timeliness and adequacy of recovery of costs associated with regulated utility businesses; and

Table of Contents

a downgrade in PPL Electric s credit ratings that could negatively affect its ability to access capital and increase the cost of maintaining credit facilities and any new debt.

At December 31, 2003, PPL Electric had $162 million in cash and cash equivalents and no short-term debt as compared to $29 million in cash and cash equivalents and $15 million of short-term debt at December 31, 2002, and $79 million in cash and cash equivalents and no short-term debt at December 31, 2001. The changes in short-term debt resulted primarily from the repayments described below under Net Cash Provided by (Used in) Financing Activities and in Note 4 to the Financial Statements. The changes in cash and cash equivalents resulted from the following:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net Cash Provided by Operating Activities | $ 528 | $ 274 | $ 392 |
| Net Cash Provided by (Used in) Investing Activities | (145) | 41 | (432) |
| Net Cash Used in Financing Activities | (250) | (365) | (148) |
| Increase (Decrease) in Cash & Cash Equivalents | $ 133 | $ (50) | $ (188) |

**Net Cash Provided by Operating Activities**

Net cash provided by operating activities increased by 93%, or $254 million, in 2003 versus 2002, reflecting working capital improvements resulting from a decrease in accounts receivable and an increase in accounts payable. The savings from a workforce reduction program that was commenced in 2002 was more than offset by rising transmission and distribution operating costs.

An important element supporting the stability of PPL Electric s cash from operations is its long-term energy purchase contracts with PPL EnergyPlus. These contracts provide sufficient energy for PPL Electric to meet its PLR obligation from 2003 through 2009, at the pre-determined capped rates it is entitled to charge its customers during this period. These contracts require cash collateral or other credit enhancement, or reductions or terminations of a portion or the entire contract through cash settlement in the event of a downgrade of PPL Electric or adverse changes in market prices. For example, if PPL Electric s ratings were lowered to below investment grade and energy prices decreased by 10%, PPL Electric estimates that, based on its December 31, 2003 and 2002 positions, it would have to post collateral of approximately $300 million for both years. The maximum that PPL Electric would have to post under these contracts is $300 million.

Net cash provided by operating activities in 2002 was $274 million, compared to $392 million in 2001. The decrease was primarily the result of lower earnings and an increase in accounts receivable. Cash provided by operating activities was lower in 2002, despite a $90 million up-front payment on the PLR contract made in 2001.

**Net Cash Provided by (Used in) Investing Activities**

Net cash used in investing activities in 2003 was $145 million, as compared to net cash provided by investing activities in 2002 of $41 million. The difference primarily was the result of a lower loan repayment by an affiliate. The primary use of cash for investing activities is capital and investment expenditures, which are summarized by category in the table in Capital Expenditure Requirements. In 2004, PPL Electric expects to be able to fund all of its capital expenditures with cash from operations.

Net cash provided by investing activities in 2002 was $41 million, as compared to net cash used in investing activities in 2001 of $432 million. The difference primarily was the result of a loan repayment by an affiliate in 2002, versus net lending to affiliates in 2001.

**Net Cash Used in Financing Activities**

Net cash used in financing activities was $250 million in 2003, compared to $365 million in 2002, which reflects the repayment of long-term debt. In 2003, the $250 million of cash used in financing activities primarily consisted of net debt retirements of $255 million, preferred stock retirements of $31 million, a contribution from

**Table of Contents**

parent of $75 million and common and preferred dividends paid of $32 million. In 2002, the $365 million primarily consisted of net debt retirements of $270 million, company-obligated mandatorily redeemable preferred securities retirements of $250 million, a contribution from parent of $240 million and common and preferred stock dividends paid of $85 million.

PPL Electric s debt financing activity in 2003 was as follows:

| | Additions | Payments | Net |
|---|---|---|---|
| PPL Electric First Mortgage Bonds (FMB) | $ 100 | $ (85) | $ 15 |
| PPL Electric FMB Pollution Control Bonds | 90 | (90) | |
| PPL Electric Commercial Paper (net change) | | (15) | (15) |
| PPL Transition Bond Company | | (255) | (255) |
| Total | $ 190 | $ (445) | $ (255) |

Debt issued during 2003 had stated interest rates ranging from 3.125% to 4.30% and maturities from 2008 through 2013. See Note 4 to the Financial Statements for more detailed information regarding PPL Electric s borrowings.

In July 2003, PPL Electric determined that, based on its current cash position and anticipated cash flows, it would not need to access the commercial paper markets through at least the end of 2003. As a result, PPL Electric requested Standard & Poor s Ratings Services (S&P), Moody s Investors Service, Inc. (Moody s) and Fitch Ratings (Fitch) to withdraw their ratings for its currently inactive commercial paper program, which the rating agencies did effective as of July 9, 2003. This decision has not limited the ability of PPL Electric to fund its short-term liquidity needs. PPL Electric currently does not have any commercial paper outstanding, but it expects to restart its commercial paper program in early 2004.

At December 31, 2003, PPL Electric s total committed borrowing capacity and the use of this borrowing capacity were as follows:

| | Committed Capacity | Borrowed | Letters of Credit Issued (b) | Available Capacity (b) |
|---|---|---|---|---|
| PPL Electric Credit Facilities (a) | $ 300 | | $ 42 | $ 258 |

(a) PPL Electric s credit facilities allow for borrowings at LIBOR-based rates plus a spread, depending upon the company s public debt rating. PPL Electric also has the capability to issue up to $250 million of letters of credit under these facilities, which issuance reduces available borrowing capacity.

These credit facilities contain a financial covenant requiring debt to total capitalization not greater than 70%. At December 31, 2003 and 2002, PPL Electric s consolidated debt to total capitalization percentages, as calculated in accordance with its credit facilities, were 57% and 58%. PPL Electric s 364-day credit facility also allows it to borrow up to the full amount of the credit facility on the day of expiration for up to a one-year period. The credit agreements also contain certain representations and warranties that must be made for PPL Electric to borrow under them, including, but not limited to, a material adverse change clause that relates solely to PPL Electric s ability to perform its obligations under the credit agreements and related loan documents.

(b) PPL Electric has a reimbursement obligation to the extent any letters of credit are drawn upon. The letters of credit issued as of December 31, 2003 expire in 2004.

These credit agreements contain various other covenants. Failure to meet those covenants beyond applicable grace periods could result in acceleration of due dates of borrowings and/or termination of the agreements. PPL Electric monitors the covenants on a regular basis. At December 31, 2003, PPL Electric was in compliance with those covenants. At this time PPL Electric believes that these covenants and other borrowing conditions will not limit access to these funding sources. PPL Electric intends to reduce its total syndicated credit facilities to $200 million in the first quarter of 2004. In early 2004, PPL Electric also intends to participate in an Asset-Backed Commercial Paper (ABCP) Program for up to $150 million that would be secured by a portion of its accounts receivable. The ABCP Program would provide a more reliable and stable source of liquidity than an unsecured commercial paper program.

Table of Contents

PPL Electric s 2001 Senior Secured Bond Indenture restricts dividend payments in the event that PPL Electric fails to meet interest coverage ratios or fails to comply with certain separateness formalities undertaken in connection with its strategic initiative (see Note 12 to the Financial Statements for additional information). PPL Electric does not, at this time, expect that any of such limitations would significantly impact its ability to declare dividends.

Net cash used in financing activities was $365 million in 2002, compared to $148 million in 2001. In 2002, the $365 million primarily consisted of net debt retirements of $270 million, company-obligated mandatorily redeemable preferred securities retirements of $250 million, preferred and common dividend payments of $85 million, offset by a contribution from PPL of $240 million. In 2001, the $148 million primarily consisted of net debt issuances of $276 million, preferred stock redemptions of $15 million, repurchase of common stock from PPL of $280 million and preferred and common dividends of $107 million.

**Operating Leases**

PPL Electric has operating lease agreements to finance vehicles, personal computers and other equipment. These leasing structures provide PPL Electric with additional operating and financing flexibility. The operating leases contain covenants that are standard for these types of arrangements, such as maintaining insurance, maintaining corporate existence and the timely payment of rent and other fees. Failure to meet these covenants could limit or restrict access to these leases or require early payment of obligations. At this time, PPL Electric believes that these covenants will not limit access to these leases or cause acceleration or termination of the leases.

See Note 5 to the Financial Statements for a further discussion of the operating leases.

**Contractual Obligations**

At December 31, 2003, the estimated contractual cash obligations of PPL Electric were as follows:

| Contractual Cash Obligations | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | After 5 Years |
|---|---|---|---|---|---|
| Long-term Debt (a) | $ 2,943 | $ 289 | $ 810 | $ 995 | $ 849 |
| Capital Lease Obligations | | | | | |
| Operating Leases | 50 | 13 | 19 | 10 | 8 |
| Purchase Obligations (b) | 9,981 | 1,489 | 3,192 | 3,466 | 1,834 |
| Other Long-term Liabilities Reflected on the Balance Sheet under GAAP | | | | | |
| Total Contractual Cash Obligations | $ 12,974 | $ 1,791 | $ 4,021 | $ 4,471 | $ 2,691 |

(a)

Reflects maturities only. Includes $1.4 billion of transition bonds issued by PPL Transition Bond Company in 1999 to securitize a portion of PPL Electric s stranded costs. This debt is non-recourse to PPL Electric.

(b) The payments reflected herein are subject to change as the purchase obligation reflected is an estimate based on projected obligated quantities and projected pricing under the contract.

Table of Contents

**Credit Ratings**

The following table summarizes the credit ratings of PPL Electric and its subsidiary, PPL Transition Bond Company, LLC, at December 31, 2003:

| | Moody s | Standard & Poor s | Fitch |
|---|---|---|---|
| **PPL Electric** | | | |
| Senior Unsecured/Issuer Rating | Baa1 | A- | |
| First Mortgage Bonds | Baa1 | A- | A- |
| Pollution Control Bonds* | Aaa | AAA | |
| Senior Secured Bonds | Baa1 | A- | A- |
| Preferred Stock | Ba1 | BBB | BBB+ |
| Outlook | STABLE | NEGATIVE | STABLE |
| **PPL Transition Bond Company** | | | |
| Transition Bonds | Aaa | AAA | AAA |

* Insured as to payment of principal and interest.

**Rating Agency Actions in 2003**

In 2003, S&P, Moody s and Fitch reviewed the credit ratings on the debt and preferred securities of PPL Electric. Based on their respective reviews, the rating agencies made certain ratings revisions that are described below. Management does not expect these ratings decisions to impact PPL Electric s ability to raise new debt or equity capital or to have a significant impact on its cost of any new capital or the cost of maintaining its credit facilities.

The ratings of S&P, Moody s and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric or its subsidiary, PPL Transition Bond Company, LLC. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to their securities.

*S&P*

In April 2003, S&P notified PPL Electric that it affirmed the A- ratings on PPL Electric s first mortgage bonds and senior secured bonds and the A-2 commercial paper ratings of PPL Electric, and that it placed PPL Electric on negative outlook.

*Moody s*

In May 2003, Moody s downgraded the credit ratings on PPL Electric s first mortgage bonds and senior secured bonds, to Baa1 from A3 . Moody s ratings outlook was stable for PPL Electric. PPL Electric s short-term debt rating was not impacted by Moody s long-term debt review. Moody s indicated that the full requirements contract between PPL Electric and PPL EnergyPlus, which previously was approved by the PUC and which extends through December 2009, mitigates PPL Electric s supply and price risk.

**Off-Balance Sheet Arrangements**

PPL Electric has entered into certain guarantee agreements that are within the scope of FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. See Note 8 to the Financial Statements for a discussion on guarantees.

Table of Contents

**Risk Management**

**Market Risk**

*Commodity Price Risk PLR Contracts*

PPL Electric and PPL EnergyPlus have power supply agreements under which PPL EnergyPlus sells to PPL Electric (under a predetermined pricing arrangement) energy and capacity to fulfill PPL Electric s PLR obligation through 2009. As a result, PPL Electric has shifted any electric price risk relating to its PLR obligation to PPL EnergyPlus for 2003 through 2009. See Note 9 to the Financial Statements for information on the PLR contracts.

*Interest Rate Risk*

PPL Electric has issued debt to finance its operations, which increases its interest rate risk. At December 31, 2003, PPL Electric s potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was insignificant.

PPL Electric is also exposed to changes in the fair value of its debt portfolio. At December 31, 2003, PPL Electric estimated that its potential exposure to a change in the fair value of its debt portfolio, through a 10% adverse movement in interest rates, was approximately $51 million, compared to $45 million at December 31, 2002.

**Related Party Transactions**

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management of PPL Electric in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Electric.

For additional information on related party accounting transactions, see Note 9 to the Financial Statements.

**Capital Expenditure Requirements**

The schedule below shows PPL Electric s current capital expenditure projections for the years 2004-2008 and actual spending for the year 2003:

| | Actual | Projected | | | | |
|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Construction expenditures | | | | | | |
| Expenditures for PP&E | $ 232 | $ 168 | $ 185 | $ 205 | $ 219 | $ 211 |

Construction expenditures include AFUDC which is expected to be less than $2 million in each of the years 2004-2008.

PPL Electric s capital expenditure projections for the years 2004-2008 total $988 million. Capital expenditure plans are revised periodically to reflect changes in market, and asset regulatory conditions. PPL Electric also leases vehicles, personal computers and other equipment, as described in Note 5 to the Financial Statements.

**Environmental Matters**

See Note 8 to the Financial Statements for a discussion of environmental matters.

**New Accounting Standards**

See Note 15 to the Financial Statements for information on new accounting standards adopted in 2003 or pending adoption.

**Table of Contents**

### Application of Critical Accounting Policies

PPL Electric s financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations of PPL Electric, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the financial statements. (These accounting policies are also discussed in Note 1 to the Financial Statements.) PPL s senior management has reviewed these critical accounting policies, and the estimates and assumptions regarding them, with its Audit Committee. In addition, PPL s senior management has reviewed the following disclosures regarding the application of these critical accounting policies with the Audit Committee.

**1) Pension and Other Postretirement Benefits**

As described in Note 7 to the Financial Statements, PPL Electric participates in, and is allocated a significant portion of the liability and net periodic pension cost of the PPL Retirement Plan and the PPL Postretirement Benefit Plan. PPL follows the guidance of SFAS 87, Employers Accounting for Pensions, and SFAS 106, Employers Accounting for Postretirement Benefits Other Than Pensions, when accounting for these benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and performance of plan assets. Delayed recognition of differences between actual results and expected or estimated results is a guiding principle of these standards. This delayed recognition of actual results allows for a smoothed recognition of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the plans. The primary assumptions are as follows:

Discount Rate The discount rate is used in calculating the present value of benefits, which are based on projections of benefit payments to be made in the future.

Expected Return on Plan Assets Management projects the future return on plan assets considering prior performance, but primarily based upon the plans mix of assets and expectations for the long-term returns on those asset classes. These projected returns reduce the net benefit costs the company will record currently.

Rate of Compensation Increase Management projects employees annual pay increases, which are used to project employees pension benefits at retirement.

Health Care Cost Trend Rate Management projects the expected increases in the cost of health care.

In selecting discount rates, PPL considers fixed-income security yield rates. At December 31, 2003, PPL decreased the discount rate for its domestic plans from 6.75% to 6.25% as a result of decreased fixed-income security returns.

In selecting an expected return on plan assets, PPL considers past performance and economic forecasts for the types of investments held by the plan. At December 31, 2003, PPL s expected return on plan assets for its domestic pension plans remained at 9.0%.

In selecting a rate of compensation increase, PPL considered past experience in light of movements in inflation rates. At December 31, 2003, PPL s rate of compensation increase remained at 4.0% for its domestic plans.

In selecting health care cost trend rates, PPL considers tax implications, past performance and forecasts of health care costs. At December 31, 2003, PPL s health care cost trend rates were 11% for 2004, gradually declining to 5.0% for 2010.

A variance in the assumptions listed above could have a significant impact on the accrued pension and other postretirement benefit liabilities and reported annual net periodic pension and other postretirement benefit cost allocated to PPL Electric. The following chart reflects the sensitivities associated with a change in certain assumptions. While the chart below reflects either an increase or decrease in each assumption, PPL and its actuaries expect that the inverse of this change would impact the accrued pension and other postretirement

**Table of Contents**

benefit liabilities and reported annual net periodic pension and other postretirement benefit cost by a similar amount in the opposite direction. Each sensitivity below reflects an evaluation of the change based solely on a change in that assumption.

| | Increase/(Decrease) | | |
|---|---|---|---|
| **Actuarial Assumption** | **Change in Assumption** | **Impact on Liabilities** | **Impact on Cost** |
| Discount Rate | (0.25)% | $ 2 | $ 2 |
| Expected Return on Plan Assets | (0.25)% | 2 | 2 |
| Rate of Compensation Increase | 0.25% | 1 | 1 |
| Health Care Cost Trend Rate (a) | 1.0% | 2 | 2 |

(a) Only impacts other postretirement benefits.

At December 31, 2003, PPL Electric had been allocated accrued pension liabilities totaling $74 million, included in Deferred Credits and Other Noncurrent Liabilities Other on the Balance Sheet. At December 31, 2003, PPL Electric had been allocated prepaid postretirement benefit costs totaling $2 million, included in Prepayments on the Balance Sheet.

In 2003, PPL Electric was allocated net periodic pension and other postretirement costs charged to operating expense of $17 million. This amount represents a $21 million reduction in the credit recognized during 2002. This reduction was primarily due to the decrease in the discount rate at December 31, 2002.

Refer to Note 7 to the Financial Statements for additional information regarding pension and other postretirement benefits.

**2) Loss Contingencies**

PPL Electric periodically records the estimated impacts of various conditions, situations or circumstances involving uncertain outcomes. These events are called contingencies, and PPL Electric s accounting for such events is prescribed by SFAS 5, Accounting for Contingencies. SFAS 5 defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.

For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that the loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. FASB defines probable as cases in which the future event or events are likely to occur. SFAS 5 does not permit the accrual of contingencies that might result in gains.

The accrual of a loss contingency involves considerable judgment on the part of management. The accounting aspects of loss contingencies include: (1) the initial identification and recording of the loss contingency; (2) the determination of a triggering event for reducing a recorded loss contingency; and (3) the on-going assessment as to whether a recorded loss contingency is reasonable.

**Initial Identification and Recording of the Loss Contingency**

PPL Electric uses its internal expertise and outside experts (such as lawyers, tax specialists and engineers), as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss. PPL Electric continuously assesses potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events.

PPL Electric has identified certain events which could give rise to a loss, but which do not meet the conditions for accrual under SFAS 5. SFAS 5 requires disclosure, but not a recording, of potential losses when it is reasonably possible that a loss has been incurred. FASB defines reasonably possible as cases in which the chance of the future event or events occurring is more than remote but less than likely. See Note 8 to the Financial Statements for disclosure of potential loss contingencies, most of which have not met the criteria for accrual under SFAS 5.

**Table of Contents**

**Reducing Recorded Loss Contingencies**

When a loss contingency is recorded, PPL Electric identifies the triggering event for subsequently reducing the loss contingency. The triggering events generally occur when the contingency has been resolved and the actual loss is incurred, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events which provide for the reduction of certain recorded loss contingencies:

Certain loss contingencies are systematically reduced based on the expiration of contract terms. An example of this is the recorded liability for above-market NUG purchase commitments, which is described below. This loss contingency was being reduced over the lives of the NUG purchase contracts, prior to the transfer of this loss contingency to PPL EnergyPlus.

Allowances for excess or obsolete inventory are reduced as the inventory items are pulled from the warehouse shelves and sold as scrap or otherwise disposed.

Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted.

Environmental loss contingencies are reduced when PPL Electric makes payments for environmental remediation.

**On-Going Assessment of Recorded Loss Contingencies**

PPL Electric reviews its loss contingencies on a regular basis to assure that the recorded potential loss exposures are reasonable. This involves ongoing communication and analyses with internal and external legal counsel, engineers, tax specialists, managers in various operational areas and other parties.

All three aspects of accounting for loss contingencies  the initial identification and recording of a probable loss, the identification of triggering events to reduce the loss contingency, and the ongoing assessment of the reasonableness of a recorded loss contingency  require significant judgment by PPL Electric s management.

The largest contingency currently on PPL s balance sheet is the loss contingency for above-market NUG purchase commitments, being the difference between the above-market contract terms and the fair value of electricity. This loss contingency was originally recorded at $854 million in 1998, when PPL Electric s generation business was deregulated. Under regulatory accounting, PPL Electric recorded the above-market cost of the purchases from NUGs as part of its purchased power costs on an as-incurred basis, since these costs were recovered in regulated rates. When the generation business was deregulated, the loss contingency associated with the commitment to make above-market NUG purchases was recorded. This loss contingency for the above-market portion of NUG purchase commitments was recorded because it was probable that the loss had been incurred and the estimate of future energy prices could be reasonably determined, using the then forward prices of electricity and capacity information. This loss contingency was transferred to PPL EnergyPlus in the July 1, 2000 corporate realignment.

When the loss contingency related to NUG purchases was recorded in 1998, PPL Electric established the triggering events for when the loss contingency would be reduced. A schedule was established to reduce the liability based on projected purchases over the lives of the NUG contracts. All but one of the NUG contracts expire by 2009, with the last one ending in 2014.

Prior to the July 1, 2000 transfer, PPL Electric reduced the above-market NUG liability based on the aforementioned schedule. As PPL Electric reduced the liability for the above-market NUG purchases, it offset the actual cost of NUG purchases, thereby bringing the net power purchase expense more in line with market prices.

**Other Information**

PPL s Audit Committee has approved the independent auditor to provide audit and audit-related services and other services permitted by the Sarbanes-Oxley Act of 2002 and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, employee benefit plan audits and internal control reviews.

Table of Contents

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**Table of Contents**

## PPL ELECTRIC UTILITIES CORPORATION

## MANAGEMENT S REPORT ON RESPONSIBILITY FOR FINANCIAL STATEMENTS

PPL Electric management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and all other information in this annual report. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based on management s best estimates and judgments where necessary. Management believes that the financial statements are free of material misstatements and present fairly the financial position, results of operations and cash flows of PPL Electric.

PPL Electric management is responsible for establishing and maintaining an effective internal control structure and effective disclosure controls and procedures for financial reporting. PPL Electric maintains a system of internal control that is designed to provide reasonable assurance that PPL Electric assets are safeguarded from loss or unauthorized use or disposition and that transactions are executed in accordance with management s authorization and are properly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles. This system is augmented by a careful selection and training of qualified personnel, specific delegations of authority, a proper division of responsibilities, and utilization of written policies and procedures. An internal audit program monitors the effectiveness of this control system. Management believes that its internal control structure and its disclosure controls and procedures for financial reporting are adequate and effective.

PPL s Audit Committee, which consists entirely of independent directors who are not employees of PPL, reviews audit plans related to PPL Electric s internal controls, financial reports and related matters and meets regularly with management as well as the independent auditors and internal auditors. The independent auditors and the internal auditors have free access to PPL s Audit Committee, without management present, to discuss internal accounting control, auditing and financial reporting matters.

PricewaterhouseCoopers LLP, the independent certified public accountants, audited PPL Electric s consolidated financial statements and issued their opinion below.

PPL Electric management also recognizes its responsibility for fostering a strong ethical climate so that it conducts its business affairs according to the highest standards of personal and corporate conduct.

John F. Sipics

*President*

James E. Abel

*Treasurer*

**Table of Contents**

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareowner of

PPL Electric Utilities Corporation:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of preferred stock and of long-term debt and the related consolidated statements of income, of cash flows and of shareowner s common equity present fairly, in all material respects, the financial position of PPL Electric Utilities Corporation and its subsidiaries ( PPL Electric ) at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of PPL Electric s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 7 to the consolidated financial statements, PPL Electric changed its method of accounting for the amortization of unrecognized gains or losses in the annual pension expense/income determined under Statement of Financial Accounting Standards No. 87, *Employers Accounting for Pensions*, in 2001.

February 2, 2004

Table of Contents

## CONSOLIDATED STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31,

**PPL Electric Utilities Corporation and Subsidiaries**

**(Millions of Dollars)**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Retail electric | **$ 2,597** | $ 2,527 | $ 2,437 |
| Retail electric to affiliate | **8** | 23 | 20 |
| Wholesale electric | **29** | 28 | 33 |
| Wholesale electric to affiliate (Note 9) | **152** | 160 | 176 |
| Energy related businesses | **2** | 10 | 28 |
| Total | **2,788** | 2,748 | 2,694 |
| **Operating Expenses** | | | |
| Operation | | | |
| Energy purchases | **211** | 208 | 177 |
| Energy purchases from affiliate (Note 9) | **1,444** | 1,431 | 1,325 |
| Other operation and maintenance | **345** | 319 | 288 |
| Amortization of recoverable transition costs | **260** | 226 | 251 |
| Depreciation (Note 1) | **103** | 94 | 91 |
| Taxes, other than income (Note 2) | **164** | 153 | 116 |
| Energy related businesses | **1** | 9 | 27 |
| Workforce reduction (Note 13) | **9** | 33 | |
| Total | **2,537** | 2,473 | 2,275 |
| **Operating Income** | **251** | 275 | 419 |
| Other Income net (Note 10) | **6** | 16 | 16 |
| Interest Expense | **211** | 218 | 230 |
| **Income Before Income Taxes** | **46** | 73 | 205 |
| Income Taxes (Note 2) | **18** | 18 | 65 |
| **Income Before Cumulative Effect of a Change in Accounting Principle** | **28** | 55 | 140 |
| Cumulative Effect of a Change in Accounting Principle (net of income taxes) (Note 7) | | | 5 |
| **Income Before Distributions on Preferred Securities** | **28** | 55 | 145 |
| Distributions on Preferred Securities | **3** | 16 | 26 |
| **Income Available to PPL Corporation** | **$ 25** | $ 39 | $ 119 |

*The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.*

**Table of Contents**

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,

**PPL Electric Utilities Corporation and Subsidiaries**

**(Millions of Dollars)**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Cash Flows From Operating Activities** | | | |
| Net income | **$ 25** | $ 39 | $ 119 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation | **103** | 94 | 91 |
| Amortizations recoverable transition costs and other | **281** | 245 | 260 |
| Distribution requirements preferred securities | **3** | 16 | 26 |
| Deferred income taxes and investment tax credits | **17** | 21 | 31 |
| Workforce reduction net of cash paid | **9** | 31 | |
| Deferral of storm-related costs | **(15)** | | |
| Prepayment on PLR energy supply from affiliate | | | (90) |
| Pension income | **(4)** | (17) | (24) |
| Cumulative effect of a change in accounting principle | | | (5) |
| Change in current assets and current liabilities | | | |
| Accounts receivable | **21** | (65) | 76 |
| Accounts payable | **70** | (97) | (113) |
| Other net | **3** | 5 | 33 |
| Other operating activities net | | | |
| Other assets | **(4)** | 11 | (22) |
| Other liabilities | **19** | (9) | 10 |
| Net cash provided by operating activities | **528** | 274 | 392 |