KENTUCKY UTILITIES CO
Form 10-Q/A
August 08, 2011

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

FORM 10-Q/A
AMENDMENT No. 1

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2011
	OR
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _________ to ___________

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

1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, Kentucky 40507 (502) 627-2000	61-0247570

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

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

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

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

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

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	[X]	[ ]	[ ]	[ ]
PPL Energy Supply, LLC	[ ]	[ ]	[X]	[ ]
PPL Electric Utilities Corporation	[ ]	[ ]	[X]	[ ]
LG&E and KU Energy LLC	[ ]	[ ]	[X]	[ ]
Louisville Gas and Electric Company	[ ]	[ ]	[X]	[ ]
Kentucky Utilities Company	[ ]	[ ]	[X]	[ ]

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, $.01 par value, 577,749,262 shares outstanding at July 29, 2011.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 29, 2011.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at July 29, 2011.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at July 29, 2011.

This document is available free of charge at the Investor Center on PPL's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A amends the Quarterly Report on Form 10-Q of PPL Corporation, PPL Energy Supply, LLC and PPL Electric Utilities Corporation for the period ended June 30, 2011, as filed by the Registrants on August 8, 2011 (Original Filing). This Amendment No. 1 is being filed solely to submit the Form 10-Q for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company as the electronic submission of the Original Filing inadvertently excluded LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. This Amendment No. 1 does not reflect events that have occurred subsequent to the filing of the Original Filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

	PPL Corporation (Registrant)
Date: August 8, 2011	/s/ Paul A. Farr Paul A. Farr Executive Vice President and Chief Financial Officer (Principal Financial Officer)
	PPL Energy Supply, LLC (Registrant)
Date: August 8, 2011	/s/ Paul A. Farr Paul A. Farr Executive Vice President (Principal Financial Officer)
	PPL Electric Utilities Corporation (Registrant)
Date: August 8, 2011	/s/ James E. Abel James E. Abel Treasurer (Principal Financial Officer)
	LG&E and KU Energy LLC (Registrant)
	Louisville Gas and Electric Company (Registrant)
	Kentucky Utilities Company (Registrant)

Date: August 8, 2011	/s/ S. Bradford Rives
	S. Bradford Rives
	Chief Financial Officer
	(Principal Financial Officer)

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

FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2011

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

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

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

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

LG&E and KU Services Company - LG&E and KU Services Company (formerly E.ON U.S. Services Inc.), a subsidiary of LKE that provides services for LKE and its subsidiaries.

LKE - LG&E and KU Energy LLC (formerly E.ON U.S. LLC), a subsidiary of PPL and the parent of LG&E, KU, and other subsidiaries. PPL acquired E.ON U.S. LLC in November 2010 and changed the name to LG&E and KU Energy LLC. Within the context of this document, references to LKE also relate to the consolidated entity.

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

PPL Capital Funding - PPL Capital Funding, Inc., a wholly owned financing subsidiary of PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL that transmits and distributes electricity in its Pennsylvania 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 holding company of PPL Energy Supply, PPL Global (effective January 2011) and other subsidiaries.

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

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

PPL Gas Utilities - PPL Gas Utilities Corporation, which was a regulated utility subsidiary of PPL until its sale in October 2008, provided natural gas distribution, transmission and storage services, and the competitive sale of propane.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating stations in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pounds sterling.

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

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

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

2010 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2010.

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

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

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

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

2011 Registration Statements - refers to the registration statements on Form S-4 filed with the SEC by each of LKE (Registration No. 333-173665) on April 21, 2011, LG&E (Registration No 333-173676) on April 22, 2011 and KU (Registration No. 333-173675) on April 22, 2011, each as amended by Amendment No. 1 filed with the SEC on May 26, 2011 and effective June 1, 2011.

Acid Rain Program - allowance trading system established by the Clean Air Act to reduce levels of sulfur dioxide. Under this program, affected power plants are allocated allowances based on their fuel consumption during specified baseline years and a specific emissions rate.

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

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

A.M. Best - A.M. Best Company, a company that reports on the financial condition of insurance companies.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

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

Bcf - billion cubic feet.

CAIR - the EPA's Clean Air Interstate Rule.

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

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

CSAPR - Cross State Air Pollution Rule, the CSAPR implements Clean Air Act requirements concerning the transport of air pollution from power plants across state boundaries. The CSAPR replaces the 2005 Clean Air Interstate Rule (CAIR), which the U.S. Court of Appeals for the D.C. Circuit ordered the EPA to revise in 2008. The court allowed CAIR to remain in place temporarily while the EPA worked to finalize the replacement rule.

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

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

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

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

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

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

E.ON AG - a German corporation and the parent of E.ON UK plc, the former parent of Central Networks.

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

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

EMF - electric and magnetic fields.

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

EPS - earnings per share.

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

ESOP - Employee Stock Ownership Plan.

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

E. W. Brown - a generating station in Kentucky with capacity of 1,631 MW. LG&E and KU are participants in a sale-leaseback transaction involving two combustion turbines at the station.

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

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

FTR - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion. They entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion in the transmission grid.

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

GAAP - generally accepted accounting principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

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

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

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

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

ISO - Independent System Operator.

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

LIBOR - London Interbank Offered Rate.

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

MACT - maximum achievable control technology.

MISO - Midwest Independent System Operator, an independent system operator and the regional transmission organization that provides open-access transmission service and monitors the high-voltage transmission system in all or parts of Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin and Manitoba, Canada.

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

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

MW - megawatt, one thousand kilowatts.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

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

NPDES - National Pollutant Discharge Elimination System.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules.

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

OCI - other comprehensive income or loss.

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

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

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

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

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

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

PP&E - property, plant and equipment.

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

Purchase Contracts - refers collectively to the 2010 and 2011 Purchase Contracts.

PURTA - The Pennsylvania Public Utility Realty Tax Act.

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

RECs - renewable energy credits.

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

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

RMC - Risk Management Committee.

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

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

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

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

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

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

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

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

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

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

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

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a capacity of 760 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2, or 570 MW of the capacity.

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

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

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

VIE - variable interest entity.

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

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

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

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FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" in this Form 10-Q and each Registrant's 2010 Form 10-K (in the case of PPL, PPL Energy Supply and PPL Electric) or 2011 Registration Statements (in the case of LKE, LG&E and KU), and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the length of scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- potential expansion of alternative sources of electricity generation;
- potential laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against PPL and its subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, or natural disasters;
- the commitments and liabilities of PPL and its subsidiaries;
- market demand and prices for energy, capacity, transmission services, emission allowances, RECs and delivered fuel;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical, and nuclear decommissioning liabilities, and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- the profitability and liquidity, including access to capital markets and credit facilities, of PPL and its subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- foreign currency exchange rates;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;

- political, regulatory or economic conditions in states, regions or countries where PPL or its subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation, including new tax, environmental, healthcare or pension-related legislation;
- state, federal and foreign regulatory developments;
- the outcome of any rate cases by PPL Electric at the PUC or the FERC; by LG&E at the KPSC or the FERC; by KU at the KPSC, VSCC, TRA or the FERC; or by WPD at Ofgem in the U.K.;
- the impact of any state, federal or foreign investigations applicable to PPL and its subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and

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- business dispositions or acquisitions and our ability to successfully operate such acquired businesses and realize expected benefits from business acquisitions, including PPL's 2011 acquisition of WPD Midlands and 2010 acquisition of LKE.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU on file with the SEC.

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

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, except share data)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating Revenues				
Utility	$ 1,484	$ 692	$ 3,020	$ 1,706
Unregulated retail electric and gas	181	101	328	205
Wholesale energy marketing				
Realized	732	1,231	1,770	2,590
Unrealized economic activity (Note 14)	(44)	(666)	13	(242)
Net energy trading margins	10	5	21	16
Energy-related businesses	126	110	247	204
Total Operating Revenues	2,489	1,473	5,399	4,479
Operating Expenses				
Operation				
Fuel	414	258	889	488
Energy purchases				
Realized	434	737	1,105	1,746
Unrealized economic activity (Note 14)	(109)	(445)	(127)	118
Other operation and maintenance	723	419	1,306	863
Depreciation	237	125	445	249
Taxes, other than income	75	53	148	125
Energy-related businesses	120	100	233	188
Total Operating Expenses	1,894	1,247	3,999	3,777
Operating Income	595	226	1,400	702
Other Income (Expense) - net	(34)		(39)	8
Other-Than-Temporary Impairments		3	1	3
Interest Expense	264	131	438	242
Income from Continuing Operations Before Income Taxes	297	92	922	465
Income Taxes	96	7	319	133
	201	85	603	332

Income from Continuing Operations After Income Taxes								
Income (Loss) from Discontinued Operations (net of income taxes)		(1)		7		2		15
Net Income		200		92		605		347
Net Income Attributable to Noncontrolling Interests		4		7		8		12
Net Income Attributable to PPL Corporation	$	196	$	85	$	597	$	335
Amounts Attributable to PPL Corporation:								
Income from Continuing Operations After Income Taxes	$	197	$	78	$	595	$	320
Income (Loss) from Discontinued Operations (net of income taxes)		(1)		7		2		15
Net Income	$	196	$	85	$	597	$	335
Earnings Per Share of Common Stock:								
Income from Continuing Operations After Income Taxes Available								
to PPL Corporation Common Shareowners:								
Basic	$	0.35	$	0.20	$	1.13	$	0.84
Diluted	$	0.35	$	0.20	$	1.13	$	0.84
Net Income Available to PPL Corporation Common Shareowners:								
Basic	$	0.35	$	0.22	$	1.14	$	0.88
Diluted	$	0.35	$	0.22	$	1.14	$	0.88
Dividends Declared Per Share of Common Stock	$	0.350	$	0.350	$	0.700	$	0.700
Weighted-Average Shares of Common Stock Outstanding (in thousands)								
Basic		561,652		381,896		522,897		379,810
Diluted		562,019		382,075		523,184		380,034

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2011	2010
Cash Flows from Operating Activities		
Net income	$ 605	$ 347
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	446	258
Amortization	126	87
Defined benefit plans - expense	71	51
Deferred income taxes and investment tax credits	337	(63)
Unrealized (gains) losses on derivatives, and other hedging activities	(165)	344
Provision for Montana hydroelectric litigation	7	59
Other	60	51
Change in current assets and current liabilities		
Accounts receivable	(36)	(45)
Accounts payable	(60)	79
Unbilled revenue	194	(114)
Prepayments	111	(156)
Counterparty collateral	(258)	98
Taxes	(63)	(15)
Other	27	(93)
Other operating activities		
Defined benefit plans - funding	(550)	(345)
Other assets	(42)	9
Other liabilities	4	20
Net cash provided by operating activities	814	572
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(1,003)	(624)
Proceeds from the sale of certain non-core generation facilities	381	
Proceeds from the sale of the Long Island generation business		124
Acquisition of WPD Midlands	(5,763)	
Purchases of nuclear plant decommissioning trust investments	(107)	(75)
Proceeds from the sale of nuclear plant decommissioning trust investments	100	68
Proceeds from the sale of other investments	163	
Net (increase) decrease in restricted cash and cash equivalents	(22)	80
Other investing activities	(48)	(31)
Net cash provided by (used in) investing activities	(6,299)	(458)
Cash Flows from Financing Activities		
Issuance of long-term debt	4,350	1,747
Issuance of common stock	2,266	2,410

Payment of common stock dividends		(340)		(263)
Redemption of preferred stock of a subsidiary				(54)
Debt issuance and credit facility costs		(72)		(76)
Net increase (decrease) in short-term debt		(321)		(158)
Other financing activities		(36)		(11)
Net cash provided by (used in) financing activities		5,847		3,595
Effect of Exchange Rates on Cash and Cash Equivalents		(18)		(5)
Net Increase (Decrease) in Cash and Cash Equivalents		344		3,704
Cash and Cash Equivalents at Beginning of Period		925		801
Cash and Cash Equivalents at End of Period	$	1,269	$	4,505

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 1,269	$ 925
Short-term investments		163
Restricted cash and cash equivalents	43	28
Accounts receivable (less reserve: 2011, $39; 2010, $55)		
Customer	712	652
Other	72	90
Unbilled revenues	708	789
Fuel, materials and supplies	647	643
Prepayments	344	435
Price risk management assets	1,467	1,918
Other intangibles	42	70
Assets held for sale		374
Regulatory assets	25	85
Other current assets	35	16
Total Current Assets	5,364	6,188
Investments		
Nuclear plant decommissioning trust funds	648	618
Other investments	78	75
Total Investments	726	693
Property, Plant and Equipment		
Regulated utility plant	22,572	15,994
Less: accumulated depreciation - regulated utility plant	3,290	3,037
Regulated utility plant, net	19,282	12,957
Non-regulated property, plant and equipment		
Generation	10,366	10,165
Nuclear fuel	575	578
Other	505	403
Less: accumulated depreciation - non-regulated property, plant and equipment	5,535	5,440
Non-regulated property, plant and equipment, net	5,911	5,706
Construction work in progress	1,415	2,160
Property, Plant and Equipment, net (a)	26,608	20,823
Other Noncurrent Assets		
Regulatory assets	1,200	1,180
Goodwill (Note 15)	4,190	1,761
Other intangibles (a)	1,078	966
Price risk management assets	665	655
Other noncurrent assets	706	571

Total Other Noncurrent Assets		7,839		5,133
Total Assets	$	40,537	$	32,837

(a) At June 30, 2011 and December 31, 2010, includes $418 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 431	$ 694
Long-term debt	502	502
Accounts payable	1,246	1,028
Taxes	110	134
Interest	175	166
Dividends	207	174
Price risk management liabilities	817	1,144
Counterparty collateral	80	338
Regulatory liabilities	77	109
Other current liabilities	948	925
Total Current Liabilities	4,593	5,214
Long-term Debt	17,532	12,161
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	3,434	2,563
Investment tax credits	262	237
Price risk management liabilities	443	470
Accrued pension obligations	1,015	1,496
Asset retirement obligations	491	435
Regulatory liabilities	1,023	1,031
Other deferred credits and noncurrent liabilities	825	752
Total Deferred Credits and Other Noncurrent Liabilities	7,493	6,984
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
PPL Corporation Shareowners' Common Equity		
Common stock - $0.01 par value (a)	6	5
Additional paid-in capital	6,774	4,602
Earnings reinvested	4,306	4,082
Accumulated other comprehensive loss	(435)	(479)
Total PPL Corporation Shareowners' Common Equity	10,651	8,210
Noncontrolling Interests	268	268
Total Equity	10,919	8,478
Total Liabilities and Equity	$ 40,537	$ 32,837

(a) 780,000 shares authorized; 577,265 and 483,391 shares issued and outstanding at June 30, 2011 and December 31, 2010.

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	PPL Corporation Shareowners						
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non-controlling interests	Total
March 31, 2011	484,618	$ 5	$ 4,637	$ 4,312	$ (424)	$ 268	$ 8,798
Common stock issued (b)	92,647	1	2,273				2,274
Purchase Contracts (c)			(141)				(141)
Stock-based compensation			5				5
Net income				196		4	200
Dividends, dividend equivalents and distributions (d)				(202)		(4)	(206)
Other comprehensive income (loss)					(11)		(11)
June 30, 2011	577,265	$ 6	$ 6,774	$ 4,306	$ (435)	$ 268	$ 10,919
December 31, 2010	483,391	$ 5	$ 4,602	$ 4,082	$ (479)	$ 268	$ 8,478
Common stock issued (b)	93,874	1	2,312				2,313
Purchase Contracts (c)			(141)				(141)
Stock-based compensation			1				1
Net income				597		8	605
Dividends, dividend equivalents and distributions (d)				(373)		(8)	(381)

Other comprehensive income (loss)					44		44
June 30, 2011	577,265	$ 6	$ 6,774	$ 4,306	$ (435)	$ 268	$ 10,919
March 31, 2010	378,131	$ 4	$ 2,310	$ 3,866	$ (288)	$ 319	$ 6,211
Common stock issued (b)	104,057	1	2,425				2,426
Purchase Contracts (c)			(186)				(186)
Stock-based compensation			4				4
Net income				85		7	92
Dividends, dividend equivalents, redemptions and distributions (d)				(133)		(58)	(191)
Other comprehensive income (loss)					(151)		(151)
June 30, 2010	482,188	$ 5	$ 4,553	$ 3,818	$ (439)	$ 268	$ 8,205
December 31, 2009	377,183	$ 4	$ 2,280	$ 3,749	$ (537)	$ 319	$ 5,815
Common stock issued (b)	105,005	1	2,458				2,459
Purchase Contracts (c)			(186)				(186)
Stock-based compensation			1				1
Net income				335		12	347
Dividends, dividend equivalents, redemptions and distributions (d)				(266)		(63)	(329)
Other comprehensive income (loss)					98		98
June 30, 2010	482,188	$ 5	$ 4,553	$ 3,818	$ (439)	$ 268	$ 8,205

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented to any shareowners' meeting.

(b) The 2011 periods include the April issuance of 92 million shares of common stock. See Note 7 for additional information. The 2010 periods include the June issuance of 103.5 million shares of common stock. The 2011 and 2010 periods include shares of common stock issued through various stock and incentive compensation plans.

(c) The 2011 periods include $123 million for the 2011 Purchase Contracts and $18 million of related fees and expenses, net of tax. See Note 7 for additional information. The 2010 periods include $157 million for the 2010 Purchase Contracts and $29 million of related fees and expenses.

(d) "Earnings reinvested" includes dividends and dividend equivalents on PPL Corporation common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests, for which the 2010 periods include $54 million paid to redeem PPL Electric's preferred stock.

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	$ 200	$ 92	$ 605	$ 347
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of $0, $0, $1, ($1)	93	(67)	160	(160)
Available-for-sale securities, net of tax of ($1), $21, ($13), $10	1	(17)	13	(7)
Qualifying derivatives, net of tax of $21, $114, ($11), ($148)	(30)	(151)	7	226
Equity investees' other comprehensive income (loss)			(1)	
Defined benefit plans:				
Net actuarial gain, net of tax of $0, ($31), $0, ($31)		80		80
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of $0, $0, $5, $2	(1)	(2)	(8)	(4)
Qualifying derivatives, net of tax of $55, $1, $106, $38	(89)	(7)	(158)	(67)
Equity investees' other comprehensive (income) loss	1		3	
Defined benefit plans:				
Prior service costs, net of tax of ($1), ($1), ($3), ($4)	2	5	5	7
Net actuarial loss, net of tax of ($6), ($6), ($10), ($6)	12	7	23	21
Transition obligation, net of tax of $0, ($1), $0, ($1)		1		2
Total other comprehensive income (loss)	(11)	(151)	44	98
Comprehensive income (loss)	189	(59)	649	445
Comprehensive income attributable to noncontrolling interests	4	7	8	12
Comprehensive income (loss) attributable to PPL Corporation	$ 185	$ (66)	$ 641	$ 433

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating Revenues				
Wholesale energy marketing				
Realized	$ 732	$ 1,231	$ 1,770	$ 2,590
Unrealized economic activity (Note 14)	(44)	(666)	13	(242)
Wholesale energy marketing to affiliate	4	64	10	179
Unregulated retail electric and gas	181	101	328	205
Net energy trading margins	10	5	21	16
Energy-related businesses	114	100	224	181
Total Operating Revenues	997	835	2,366	2,929
Operating Expenses				
Operation				
Fuel	208	258	468	488
Energy purchases				
Realized	226	530	540	1,130
Unrealized economic activity (Note 14)	(109)	(445)	(127)	118
Energy purchases from affiliate	1		2	1
Other operation and maintenance	288	254	533	552
Depreciation	60	60	119	117
Taxes, other than income	16	11	32	22
Energy-related businesses	112	93	220	174
Total Operating Expenses	802	761	1,787	2,602
Operating Income	195	74	579	327
Other Income (Expense) - net	4	5	18	11
Other-Than-Temporary Impairments		3	1	3
Interest Income from Affiliates	1	2	4	2
Interest Expense	51	49	98	102
Income from Continuing Operations Before Income Taxes	149	29	502	235
Income Taxes	59	3	201	85
Income from Continuing Operations After Income Taxes	90	26	301	150

Income (Loss) from Discontinued Operations (net of income taxes)		(1)		60		2		136
Net Income	$	89	$	86	$	303	$	286

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2011	2010
Cash Flows from Operating Activities		
Net income	$ 303	$ 286
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	120	183
Amortization	50	69
Defined benefit plans - expense	17	29
Deferred income taxes and investment tax credits	186	(95)
Unrealized (gains) losses on derivatives, and other hedging activities	(163)	347
Provision for Montana hydroelectric litigation	7	59
Other	22	45
Change in current assets and current liabilities		
Accounts receivable	57	94
Accounts payable	(104)	(38)
Unbilled revenue	126	(190)
Taxes	31	37
Counterparty collateral	(258)	98
Other	(69)	(66)
Other operating activities		
Defined benefit plans - funding	(137)	(275)
Other assets	(25)	(25)
Other liabilities	25	44
Net cash provided by operating activities	188	602
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(324)	(464)
Proceeds from the sale of certain non-core generation facilities	381	
Proceeds from the sale of the Long Island generation business		124
Purchases of nuclear plant decommissioning trust investments	(107)	(75)
Proceeds from the sale of nuclear plant decommissioning trust investments	100	68
Net (increase) decrease in notes receivable from affiliates	(37)	
Net (increase) decrease in restricted cash and cash equivalents	(14)	77
Other investing activities	(35)	(30)
Net cash provided by (used in) investing activities	(36)	(300)
Cash Flows from Financing Activities		
Issuance of long-term debt		597
Contributions from member	168	3,525
Distributions to member	(134)	(364)
Cash included in net assets of subsidiary distributed to member	(325)	

Net increase (decrease) in short-term debt		(100)		(158)
Other financing activities				(8)
Net cash provided by (used in) financing activities		(391)		3,592
Effect of Exchange Rates on Cash and Cash Equivalents				(5)
Net Increase (Decrease) in Cash and Cash Equivalents		(239)		3,889
Cash and Cash Equivalents at Beginning of Period		661		245
Cash and Cash Equivalents at End of Period	$	422	$	4,134

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 422	$ 661
Restricted cash and cash equivalents	31	19
Accounts receivable (less reserve: 2011, $1; 2010, $20)		
Customer	173	225
Other	25	24
Unbilled revenues	290	486
Accounts receivable from affiliates	72	124
Note receivable from affiliate	37	
Fuel, materials and supplies	316	297
Prepayments	83	89
Price risk management assets	1,457	1,907
Other intangibles	12	11
Assets held for sale		374
Other current assets	2	11
Total Current Assets	2,920	4,228
Investments		
Nuclear plant decommissioning trust funds	648	618
Other investments	40	37
Total Investments	688	655
Property, Plant and Equipment (Note 8)		
Regulated utility plant		4,269
Less: accumulated depreciation - regulated utility plant		888
Regulated utility plant, net		3,381
Non-regulated property, plant and equipment		
Generation	10,370	10,169
Nuclear fuel	575	578
Other	242	314
Less: accumulated depreciation - non-regulated property, plant and equipment	5,438	5,401
Non-regulated property, plant and equipment, net	5,749	5,660
Construction work in progress	569	594
Property, Plant and Equipment, net (a)	6,318	9,635
Other Noncurrent Assets		
Goodwill (Note 8)	86	765
Other intangibles (a) (Note 8)	382	464
Price risk management assets	655	651
Other noncurrent assets	383	398

Total Other Noncurrent Assets		1,506		2,278
Total Assets	$	11,432	$	16,796

(a) At June 30, 2011 and December 31, 2010, includes $418 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 250	$ 531
Long-term debt	500	500
Accounts payable	451	592
Accounts payable to affiliates	13	43
Taxes	97	119
Interest	38	110
Price risk management liabilities	792	1,112
Counterparty collateral	80	338
Other current liabilities	458	624
Total Current Liabilities	2,679	3,969
Long-term Debt (Note 8)	2,775	5,089
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,303	1,548
Investment tax credits	110	81
Price risk management liabilities	409	438
Accrued pension obligations (Note 8)	173	619
Asset retirement obligations	336	332
Other deferred credits and noncurrent liabilities	195	211
Total Deferred Credits and Other Noncurrent Liabilities	2,526	3,229
Commitments and Contingent Liabilities (Note 10)		
Equity		
Member's equity	3,434	4,491
Noncontrolling interests	18	18
Total Equity	3,452	4,509
Total Liabilities and Equity	$ 11,432	$ 16,796

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Member's equity	Non-controlling interests	Total
March 31, 2011	$ 3,316	$ 18	$ 3,334
Net income	89		89
Other comprehensive income (loss)	(86)		(86)
Contributions from member	168		168
Distributions	(53)		(53)
June 30, 2011	$ 3,434	$ 18	$ 3,452
December 31, 2010	$ 4,491	$ 18	$ 4,509
Net income	303		303
Other comprehensive income (loss)	(106)		(106)
Contributions from member	168		168
Distributions	(134)		(134)
Distribution of membership interest in PPL Global (a)	(1,288)		(1,288)
June 30, 2011	$ 3,434	$ 18	$ 3,452
March 31, 2010	$ 4,857	$ 18	$ 4,875
Net income	86		86
Other comprehensive income (loss)	(98)		(98)
Contributions from member	3,525		3,525
Distributions	(202)		(202)
June 30, 2010	$ 8,168	$ 18	$ 8,186
December 31, 2009	$ 4,568	$ 18	$ 4,586
Net income	286		286
Other comprehensive income (loss)	153		153
Contributions from member	3,525		3,525
Distributions	(364)		(364)
June 30, 2010	$ 8,168	$ 18	$ 8,186

(a) See Note 8 for additional information.

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	$ 89	$ 86	$ 303	$ 286
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of $0, $0, $0, ($1)		(67)		(160)
Available-for-sale securities, net of tax of ($1), $21, ($13), $10	1	(17)	13	(7)
Qualifying derivatives, net of tax of $13, $75, ($21), ($190)	(21)	(97)	29	285
Defined benefit plans:				
Net actuarial gain, net of tax of $0, ($31), $0, ($31)		80		80
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of $0, $0, $5, $2	(1)	(2)	(8)	(4)
Qualifying derivatives, net of tax of $49, $0, $103, $38	(68)	(8)	(147)	(68)
Equity investee's other comprehensive (income) loss	1		3	
Defined benefit plans:				
Prior service costs, net of tax of ($1), $0, ($2), ($3)	1	4	2	5
Net actuarial loss, net of tax of ($1), ($5), ($1), ($6)	1	8	2	20
Transition obligation		1		2
Total other comprehensive income (loss)	(86)	(98)	(106)	153
Comprehensive income (loss)	$ 3	$ (12)	$ 197	$ 439

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

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating Revenues				
Retail electric	$ 436	$ 520	$ 990	$ 1,331
Electric revenue from affiliate	4	2	8	4
Total Operating Revenues	440	522	998	1,335
Operating Expenses				
Operation				
Energy purchases	169	209	420	619
Energy purchases from affiliate	4	64	10	179
Other operation and maintenance	126	131	256	251
Depreciation	37	33	70	67
Taxes, other than income	22	29	57	76
Total Operating Expenses	358	466	813	1,192
Operating Income	82	56	185	143
Other Income (Expense) - net	1	2	1	3
Interest Income from Affiliate				1
Interest Expense	24	24	48	50
Income Before Income Taxes	59	34	138	97
Income Taxes	19	11	42	32
Net Income	40	23	96	65
Distributions on Preferred Securities	4	7	8	12
Net Income Available to PPL Corporation	$ 36	$ 16	$ 88	$ 53

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash Flows from Operating Activities		
Net income	$ 96	$ 65
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	70	67
Defined benefit plans - expense	9	11
Deferred income taxes and investment tax credits	(19)	29
Other	2	9
Change in current assets and current liabilities		
Accounts receivable	(48)	(40)
Accounts payable	(75)	(29)
Unbilled revenue	47	77
Prepayments	38	(98)
Regulatory assets and liabilities	63	(21)
Taxes	10	(34)
Other	(16)	(25)
Other operating activities		
Defined benefit plans - funding	(102)	(44)
Other assets	(7)	14
Other liabilities	(5)	(8)
Net cash provided by (used in) operating activities	63	(27)
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(244)	(145)
Other investing activities	4	(3)
Net cash provided by (used in) investing activities	(240)	(148)
Cash Flows from Financing Activities		
Contributions from parent		55
Redemption of preferred stock		(54)
Payment of common stock dividends to parent	(52)	(40)
Net increase (decrease) in note payable to affiliate	37	
Distributions on preferred securities	(8)	(9)
Net cash provided by (used in) financing activities	(23)	(48)
Net Increase (Decrease) in Cash and Cash Equivalents	(200)	(223)
Cash and Cash Equivalents at Beginning of Period	204	485
Cash and Cash Equivalents at End of Period	$ 4	$ 262

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 4	$ 204
Accounts receivable (less reserve: 2011, $16; 2010, $17)		
Customer	311	268
Other	21	24
Accounts receivable from affiliates	23	8
Unbilled revenues	87	134
Materials and supplies	48	47
Prepayments	98	136
Regulatory assets	10	63
Other current assets	10	4
Total Current Assets	612	888
Property, Plant and Equipment		
Regulated utility plant	5,679	5,494
Less: accumulated depreciation - regulated utility plant	2,174	2,123
Regulated utility plant, net	3,505	3,371
Other, net	2	2
Construction work in progress	192	177
Property, Plant and Equipment, net	3,699	3,550
Other Noncurrent Assets		
Regulatory assets	610	592
Intangibles	151	147
Other noncurrent assets	77	76
Total Other Noncurrent Assets	838	815
Total Assets	$ 5,149	$ 5,253

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

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Note payable to affiliate	$ 37	
Accounts payable	174	$ 221
Accounts payable to affiliates	42	73
Taxes	33	23
Interest	17	17
Regulatory liabilities	23	18
Other current liabilities	94	126
Total Current Liabilities	420	478
Long-term Debt	1,472	1,472
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	952	932
Accrued pension obligations	163	259
Regulatory liabilities	15	14
Other deferred credits and noncurrent liabilities	147	154
Total Deferred Credits and Other Noncurrent Liabilities	1,277	1,359
Commitments and Contingent Liabilities (Notes 6 and 10)		
Shareowners' Equity		
Preferred securities	250	250
Common stock - no par value (a)	364	364
Additional paid-in capital	879	879
Earnings reinvested	487	451
Total Equity	1,980	1,944
Total Liabilities and Equity	$ 5,149	$ 5,253

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 30, 2011 and December 31, 2010.

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

CONDENSED CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Preferred securities	Common stock	Additional paid-in capital	Earnings reinvested	Total
March 31, 2011	66,368	$ 250	$ 364	$ 879	$ 485	$ 1,978
Net income (b)					40	40
Cash dividends declared on preferred securities					(4)	(4)
Cash dividends declared on common stock					(34)	(34)
June 30, 2011	66,368	$ 250	$ 364	$ 879	$ 487	$ 1,980
December 31, 2010	66,368	$ 250	$ 364	$ 879	$ 451	$ 1,944
Net income (b)					96	96
Cash dividends declared on preferred securities					(8)	(8)
Cash dividends declared on common stock					(52)	(52)
June 30, 2011	66,368	$ 250	$ 364	$ 879	$ 487	$ 1,980
March 31, 2010	66,368	$ 301	$ 364	$ 824	$ 427	$ 1,916
Net income (b)					23	23
Redemption of preferred stock (c)		(51)			(3)	(54)
Capital contributions from PPL				55		55
Cash dividends declared on preferred securities					(4)	(4)
Cash dividends declared on common stock					(23)	(23)
June 30, 2010	66,368	$ 250	$ 364	$ 879	$ 420	$ 1,913
December 31, 2009	66,368	$ 301	$ 364	$ 824	$ 407	$ 1,896
Net income (b)					65	65
Redemption of preferred stock (c)		(51)			(3)	(54)
Capital contributions from PPL				55		55
Cash dividends declared on preferred securities					(9)	(9)
Cash dividends declared on common stock					(40)	(40)
June 30, 2010	66,368	$ 250	$ 364	$ 879	$ 420	$ 1,913

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.
(b) PPL Electric's net income approximates comprehensive income.

(c) In April 2010, PPL Electric redeemed all five series of its outstanding preferred stock.

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

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Operating Revenues	$ 638	$ 603	$ 1,404	$ 1,316
Operating Expenses				
Operation				
Fuel	206	209	421	418
Energy purchases	40	40	147	161
Other operation and maintenance	198	172	379	332
Depreciation	84	69	165	138
Taxes, other than income	9	7	18	14
Total Operating Expenses	537	497	1,130	1,063
Operating Income	101	106	274	253
Other Income (Expense) - net		(14)	(1)	(14)
Interest Expense	36	7	72	13
Interest Expense with Affiliate		39		79
Income from Continuing Operations Before Income Taxes	65	46	201	147
Income Taxes	24	15	73	53
Income from Continuing Operations After Income Taxes	41	31	128	94
Income (Loss) from Discontinued Operations (net of income taxes)		1		(2)
Net Income	$ 41	$ 32	$ 128	$ 92

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2011 Successor	2010 Predecessor
Cash Flows from Operating Activities		
Net income	$ 128	$ 92
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	165	138
Defined benefit plans - expense	25	37
Deferred income taxes and investment tax credits	146	48
Unrealized (gains) losses on derivatives		15
Other	(2)	(10)
Change in current assets and current liabilities		
Accounts receivable	15	(15)
Accounts payable	(19)	(24)
Unbilled revenue	38	7
Fuel, materials and supplies	42	10
Regulatory assets	4	22
Income tax receivable	40	(10)
Other current assets	(2)	9
Regulatory liabilities	(9)	(24)
Other current liabilities	(18)	(23)
Other operating activities		
Defined benefit plans - funding	(157)	(51)
Discontinued operations		28
Change in smelter contract liability		(29)
Other assets	4	(8)
Other liabilities	1	(4)
Net cash provided by operating activities	401	208
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(174)	(213)
Proceeds from sales of consolidated subsidiaries		14
Proceeds from sales of investments in unconsolidated ventures		7
Proceeds from the sale of other investments	163	
Net (increase) decrease in notes receivable from affiliates	(29)	
Net (increase) decrease in restricted cash and cash equivalents	(4)	
Net cash provided by (used in) investing activities	(44)	(192)
Cash Flows from Financing Activities		
Issuance of short-term debt with affiliate		250
Net increase (decrease) in notes payable with affiliates		(32)
Issuance of long-term debt with affiliate		50
Retirement of long-term debt with affiliate		(250)
Net increase (decrease) in short-term debt	(163)	

Debt issuance and credit facility costs		(3)		
Distributions to member		(146)		(31)
Net cash provided by (used in) financing activities		(312)		(13)
Net Increase (Decrease) in Cash and Cash Equivalents		45		3
Cash and Cash Equivalents at Beginning of Period		11		7
Cash and Cash Equivalents at End of Period	$	56	$	10

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

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E AND KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 56	$ 11
Short-term investments		163
Accounts receivable (less reserve: 2011, $17; 2010, $17)		
Customer	146	160
Other	15	33
Unbilled revenues	132	170
Accounts receivable from affiliates		2
Fuel, materials and supplies	257	298
Notes receivable from affiliate	90	61
Income tax receivable		40
Deferred income taxes	66	66
Other intangibles	29	58
Regulatory assets	15	22
Other current assets	31	26
Total Current Assets	837	1,110
Investments	31	31
Property, Plant and Equipment		
Regulated utility plant	7,278	6,230
Less: accumulated depreciation - regulated utility plant	158	31
Regulated utility plant, net	7,120	6,199
Other, net	3	4
Construction work in progress	465	1,340
Property, Plant and Equipment, net	7,588	7,543
Other Noncurrent Assets		
Regulatory assets	590	588
Goodwill	996	996
Other intangibles	335	356
Other noncurrent assets	99	94
Total Other Noncurrent Assets	2,020	2,034
Total Assets	$ 10,476	$ 10,718

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

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt		$ 163
Long-term debt	$ 2	2
Accounts payable	173	189
Accounts payable to affiliates	2	3
Customer deposits	46	46
Taxes	21	27
Regulatory liabilities	54	91
Other current liabilities	108	122
Total Current Liabilities	406	643
Long-term Debt	3,823	3,823
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	391	240
Investment tax credits	147	150
Price risk management liabilities	32	32
Accrued pension obligations	325	449
Asset retirement obligations	105	103
Regulatory liabilities	1,008	1,017
Other deferred credits and noncurrent liabilities	248	250
Total Deferred Credits and Other Noncurrent Liabilities	2,256	2,241
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's Equity	3,991	4,011
Total Liabilities and Equity	$ 10,476	$ 10,718

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Member's Equity	Non-controlling interests	Total
March 31, 2011 - Successor	$ 4,042		$ 4,042
Net income (a)	41		41
Distributions to member	(92)		(92)
June 30, 2011 - Successor	$ 3,991		$ 3,991
December 31, 2010 - Successor	$ 4,011		$ 4,011
Net income (a)	128		128
Distributions to member	(146)		(146)
Other comprehensive income (loss)	(2)		(2)
June 30, 2011 - Successor	$ 3,991		$ 3,991
March 31, 2010 - Predecessor	$ 2,236		$ 2,236
Net income (a)	32		32
Distributions to member	(25)		(25)
Other comprehensive income (loss)	(2)		(2)
June 30, 2010 - Predecessor	$ 2,241		$ 2,241
December 31, 2009 - Predecessor	$ 2,192	$ 32	$ 2,224
Net income (a)	92		92
Distributions to member	(31)		(31)
Disposal of discontinued operations	(11)	(32)	(43)
Other comprehensive income (loss)	(1)		(1)
June 30, 2010 - Predecessor	$ 2,241	$	$ 2,241

(a) LG&E and KU Energy's net income approximates comprehensive income.

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

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CONDENSED STATEMENTS OF INCOME
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Operating Revenues				
Retail and wholesale	$ 280	$ 256	$ 651	$ 597
Electric revenue from affiliate	17	23	44	48
Total Operating Revenues	297	279	695	645
Operating Expenses				
Operation				
Fuel	82	90	167	173
Energy purchases	32	22	131	113
Energy purchases from affiliate	7	3	18	10
Other operation and maintenance	91	82	181	165
Depreciation	37	35	73	69
Taxes, other than income	5	4	9	8
Total Operating Expenses	254	236	579	538
Operating Income	43	43	116	107
Other Income (Expense) - net	1	(10)		(12)
Interest Expense	12	5	23	9
Interest Expense with Affiliate		7		14
Income Before Income Taxes	32	21	93	72
Income Taxes	12	7	34	25
Net Income	$ 20	$ 14	$ 59	$ 47

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

CONDENSED STATEMENTS OF CASH FLOWS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2011 Successor	Six Months Ended June 30, 2010 Predecessor
Cash Flows from Operating Activities		
Net income	$ 59	$ 47
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	73	69
Defined benefit plans - expense	17	11
Deferred income taxes and investment tax credits	27	18
Unrealized (gains) losses on derivatives		15
Other	4	(2)
Change in current assets and current liabilities		
Accounts receivable	17	(19)
Accounts payable	(18)	(8)
Unbilled revenue	27	6
Fuel, materials and supplies	40	29
Regulatory assets	1	3
Income tax receivable		(12)
Other current assets	(4)	3
Regulatory liabilities	(4)	(26)
Taxes		(15)
Other current liabilities	(2)	(1)
Other operating activities		
Defined benefit plans - funding	(67)	(23)
Other assets	5	(1)
Other liabilities		(10)
Net cash provided by operating activities	175	84
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(77)	(68)
Proceeds from the sale of assets to affiliate		48
Proceeds from the sale of other investments	163	
Net (increase) decrease in restricted cash and cash equivalents	(4)	
Net cash provided by (used in) investing activities	82	(20)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	(12)	(33)
Net increase (decrease) in short-term debt	(163)	
Debt issuance and credit facility costs	(1)	
Payment of common stock dividends to parent	(42)	(30)
Net cash provided by (used in) financing activities	(218)	(63)
Net Increase (Decrease) in Cash and Cash Equivalents	39	1

Cash and Cash Equivalents at Beginning of Period		2		5
Cash and Cash Equivalents at End of Period	$	41	$	6

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

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 41	$ 2
Short-term investments		163
Accounts receivable (less reserve: 2011, $2; 2010, $2)		
Customer	67	70
Other	6	13
Unbilled revenues	54	81
Accounts receivable from affiliates	13	30
Fuel, materials and supplies	122	162
Regulatory assets	11	13
Other intangibles	18	36
Other current assets	21	13
Total Current Assets	353	583
Property, Plant and Equipment		
Regulated utility plant	2,868	2,600
Less: accumulated depreciation - regulated utility plant	68	17
Regulated utility plant, net	2,800	2,583
Construction work in progress	181	385
Property, Plant and Equipment, net	2,981	2,968
Other Noncurrent Assets		
Regulatory assets	363	367
Goodwill	389	389
Other intangibles	174	181
Other noncurrent assets	33	31
Total Other Noncurrent Assets	959	968
Total Assets	$ 4,293	$ 4,519

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

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt		$ 163
Notes payable with affiliates		12
Accounts payable	$ 87	100
Accounts payable to affiliates	13	20
Customer deposits	23	23
Taxes	10	10
Regulatory liabilities	29	51
Other current liabilities	37	38
Total Current Liabilities	199	417
Long-term Debt	1,112	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	453	419
Investment tax credits	44	46
Accrued pension obligations	72	126
Asset retirement obligations	50	49
Regulatory liabilities	480	483
Price risk management liabilities	32	32
Other deferred credits and noncurrent liabilities	113	114
Total Deferred Credits and Other Noncurrent Liabilities	1,244	1,269
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,278	1,278
Earnings reinvested	36	19
Total Equity	1,738	1,721
Total Liabilities and Equity	$ 4,293	$ 4,519

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 30, 2011 and December 31, 2010.

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

CONDENSED STATEMENTS OF EQUITY
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
March 31, 2011 - Successor	21,294	$ 424	$ 1,278	$ 41		$ 1,743
Net income (b)				20		20
Cash dividends declared on common stock				(25)		(25)
June 30, 2011 - Successor	21,294	$ 424	$ 1,278	$ 36		$ 1,738
December 31, 2010 - Successor	21,294	$ 424	$ 1,278	$ 19		$ 1,721
Net income (b)				59		59
Cash dividends declared on common stock				(42)		(42)
June 30, 2011 - Successor	21,294	$ 424	$ 1,278	$ 36		$ 1,738
March 31, 2010 - Predecessor	21,294	$ 424	$ 84	$ 758	$ (11)	$ 1,255
Net income (b)				14		14
Other comprehensive income (loss)					(2)	(2)
June 30, 2010 - Predecessor	21,294	$ 424	$ 84	$ 772	$ (13)	$ 1,267
December 31, 2009 - Predecessor	21,294	$ 424	$ 84	$ 755	$ (10)	$ 1,253
Net income (b)				47		47
Cash dividends declared on common stock				(30)		(30)
					(3)	(3)

Other comprehensive income (loss)										
June 30, 2010 - Predecessor	21,294	$	424	$	84	$	772	$	(13)	$ 1,267

(a) Shares in thousands. All common shares of Louisville Gas and Electric stock are owned by LG&E and KU Energy.

(b) Louisville Gas and Electric's net income approximates comprehensive income.

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

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CONDENSED STATEMENTS OF INCOME
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Operating Revenues				
Retail and wholesale	$ 358	$ 347	$ 753	$ 720
Electric revenue from affiliate	7	3	18	10
Total Operating Revenues	365	350	771	730
Operating Expenses				
Operation				
Fuel	124	119	254	245
Energy purchases	8	19	16	48
Energy purchases from affiliate	17	23	44	48
Other operation and maintenance	100	81	184	157
Depreciation	47	34	92	68
Taxes, other than income	4	3	9	6
Total Operating Expenses	300	279	599	572
Operating Income	65	71	172	158
Other Income (Expense) - net		(2)	1	1
Interest Expense	17	1	35	3
Interest Expense with Affiliate		19		37
Income Before Income Taxes	48	49	138	119
Income Taxes	18	18	50	44
Net Income	$ 30	$ 31	$ 88	$ 75

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

CONDENSED STATEMENTS OF CASH FLOWS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2011 Successor	2010 Predecessor
Cash Flows from Operating Activities		
Net income	$ 88	$ 75
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	92	68
Defined benefit plans - expense	14	7
Deferred income taxes and investment tax credits	49	29
Other	(2)	(2)
Change in current assets and current liabilities		
Accounts receivable	6	(1)
Accounts payable	(17)	11
Unbilled revenue	11	1
Fuel, materials and supplies	1	(17)
Regulatory assets	3	19
Income tax receivable		(15)
Other current assets		6
Regulatory liabilities	(4)	2
Taxes	(14)	(5)
Other current liabilities		(5)
Other operating activities		
Defined benefit plans - funding	(45)	(16)
Other assets	(1)	(4)
Other liabilities		2
Net cash provided by operating activities	181	155
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(97)	(145)
Purchases of assets from affiliate		(48)
Net cash provided by (used in) investing activities	(97)	(193)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	(10)	39
Debt issuance and credit facility costs	(2)	
Payment of common stock dividends to parent	(68)	
Net cash provided by (used in) financing activities	(80)	39
Net Increase (Decrease) in Cash and Cash Equivalents	4	1
Cash and Cash Equivalents at Beginning of Period	3	2
Cash and Cash Equivalents at End of Period	$ 7	$ 3

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

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CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 7	$ 3
Accounts receivable (less reserve: 2011, $2; 2010, $6)		
Customer	79	90
Other	9	20
Unbilled revenues	78	89
Accounts receivable from affiliates	5	12
Fuel, materials and supplies	135	136
Regulatory assets	4	9
Other intangibles	11	22
Other current assets	18	15
Total Current Assets	346	396
Investments	30	30
Property, Plant and Equipment		
Regulated utility plant	4,410	3,630
Less: accumulated depreciation - regulated utility plant	90	14
Regulated utility plant, net	4,320	3,616
Construction work in progress	283	955
Property, Plant and Equipment, net	4,603	4,571
Other Noncurrent Assets		
Regulatory assets	227	221
Goodwill	607	607
Other intangibles	161	175
Other noncurrent assets	60	58
Total Other Noncurrent Assets	1,055	1,061
Total Assets	$ 6,034	$ 6,058

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

CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Notes payable with affiliates		$ 10
Accounts payable	$ 73	67
Accounts payable to affiliates	26	45
Customer deposits	23	23
Taxes	11	25
Regulatory liabilities	25	40
Other current liabilities	39	41
Total Current Liabilities	197	251
Long-term Debt	1,841	1,841
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	429	376
Investment tax credits	103	104
Accrued pension obligations	79	113
Asset retirement obligations	55	54
Regulatory liabilities	528	534
Other deferred credits and noncurrent liabilities	92	94
Total Deferred Credits and Other Noncurrent Liabilities	1,286	1,275
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,348	2,348
Accumulated other comprehensive income (loss)	(1)	
Earnings reinvested	55	35
Total Equity	2,710	2,691
Total Liabilities and Equity	$ 6,034	$ 6,058

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 30, 2011 and December 31, 2010.

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

CONDENSED STATEMENTS OF EQUITY
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)		Common stock		Additional paid-in capital		Earnings reinvested		Accumulated other comprehensive income (loss)		Total
March 31, 2011 - Successor	37,818	$	308	$	2,348	$	62	$	(1)	$	2,717
Net income (b)							30				30
Cash dividends declared on common stock							(37)				(37)
June 30, 2011 - Successor	37,818	$	308	$	2,348	$	55	$	(1)	$	2,710
December 31, 2010 - Successor	37,818	$	308	$	2,348	$	35			$	2,691
Net income (b)							88				88
Cash dividends declared on common stock							(68)				(68)
Other comprehensive income (loss)								$	(1)		(1)
June 30, 2011 - Successor	37,818	$	308	$	2,348	$	55	$	(1)	$	2,710
March 31, 2010 - Predecessor	37,818	$	308	$	316	$	1,372			$	1,996
Net income (b)							31				31
June 30, 2010 - Predecessor	37,818	$	308	$	316	$	1,403			$	2,027
December 31, 2009 - Predecessor	37,818	$	308	$	316	$	1,328			$	1,952
Net income (b)							75				75
June 30, 2010 - Predecessor	37,818	$	308	$	316	$	1,403			$	2,027

(a) Shares in thousands. All common shares of Kentucky Utilities stock are owned by LG&E and KU Energy.
(b) Kentucky Utilities' net income approximates comprehensive income.

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

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

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

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with accounting principles generally accepted in the U.S. are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2010 is derived from that Registrant's 2010 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2010 Form 10-K (in the case of PPL and PPL Electric), in the Form 8-K dated June 24, 2011 (in the case of PPL Energy Supply), or the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU). The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year ending December 31, 2011 or other future periods, because results for interim periods can be disproportionately influenced by various factors and developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the June 30, 2011 financial statements.

(PPL)

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. See Note 8 for additional information. Since PPL is consolidating WPD Midlands on a one-month lag, two months of WPD Midlands' operating results are included in PPL's results of operations for the three and six months ended June 30, 2011 with no comparable amounts for the same periods in 2010. See Note 2 for additional information regarding PPL's consolidation policy.

In November 2010, PPL completed the acquisition of LKE. See Notes 1 and 10 in PPL's 2010 Form 10-K for additional information. LKE's operating results for the three and six months ended June 30, 2011 are included in PPL's results of operations with no comparable amounts for the same periods in 2010.

(LKE, LG&E and KU)

LKE's, LG&E's and KU's financial statements and accompanying footnotes have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives in the Successor financial statements to conform to PPL's accounting policies, which are discussed in the annual financial statements included in each 2011 Registration Statement for LKE, LG&E and KU. The cost bases of certain assets and liabilities were changed as of November 1, 2010 as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor period are not comparable to the Predecessor period.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011. See Note 8 for additional information.

(PPL, PPL Energy Supply and LKE)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of various businesses that were sold or distributed in 2011 and 2010. See Note 8 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations, except for the LKE Predecessor period, which separately discloses these cash flows within operating, investing and financing activities, consistent with LKE's pre-acquisition accounting policy.

(LG&E)

During the second quarter of 2011, LG&E made out-of-period adjustments to correct the calculation of the revenue collected through the ECR and DSM rate mechanisms. The correction reduced LG&E's revenues by $4 million ($2 million after tax). The adjustments for LG&E related to 2010 and the first quarter of 2011. The impacts were not material to any previously reported financial statements, and are not expected to be material to the financial statements for the full year of 2011.

2. Summary of Significant Accounting Policies

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

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2010 Form 10-K (in the case of PPL and PPL Electric), in the Form 8-K dated June 24, 2011 (in the case of PPL Energy Supply), or in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) and should be read in conjunction with those disclosures.

General

Business and Consolidation (PPL)

As noted above, on April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed the acquisition of WPD Midlands. PPL is consolidating WPD Midlands on a one-month lag. Material intervening events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed. See Note 8 for additional information.

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

The electricity distribution subsidiaries of PPL WW and PPL WEM are not subject to accounting for the effects of certain types of regulation as prescribed by GAAP, as their operations do not meet the requirements for such accounting guidance. However, PPL Electric, LG&E and KU all apply this accounting guidance.

Accounts Receivable (PPL, PPL Energy Supply and PPL Electric)

PPL Electric's customers may elect to procure generation supply from an alternative supplier. As a result of a PUC-approved purchase of accounts receivable program, PPL Electric has purchased certain accounts receivable from alternative suppliers at a nominal discount, which reflects a provision for uncollectible accounts. The alternative suppliers (including PPL Electric's affiliate, PPL EnergyPlus) have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. PPL Electric receives a nominal fee for administering its program. During the three and six months ended June 30, 2011, PPL Electric purchased $187 million and $452 million of accounts receivable from unaffiliated third parties and $57 million and $120 million from its affiliate, PPL EnergyPlus. During the three and six months ended June 30, 2010, PPL Electric purchased $149 million and $225 million of accounts receivable from unaffiliated third parties and $58 million and $91 million from its affiliate, PPL EnergyPlus.

New Accounting Guidance Adopted (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

No new accounting guidance has been adopted during the three or six months ended June 30, 2011. See Note 18 for a discussion of new accounting guidance pending adoption.

3. Segment and Related Information

(PPL and PPL Energy Supply)

See Note 2 to the Financial Statements in the 2010 Form 10-K for PPL and in the Form 8-K dated June 24, 2011 for PPL Energy Supply for a discussion of reportable segments. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. Following the distribution, PPL Energy Supply operates in a single business segment, the Supply segment. PPL Energy Supply's 2010 segment information was restated to reflect PPL Global as a Discontinued Operation. See Note 8 for additional information.

(PPL)

PPL includes the results of PPL Global in the International Regulated segment. This includes the operating results and assets of WPD Midlands since the acquisition date, April 1, 2011. See Note 8 for additional information regarding the acquisition.

Financial data for the segments for the periods ended June 30, 2011 are:

	Three Months		Six Months	
	2011	2010	2011	2010
PPL				
Income Statement Data				
Revenues from external customers				
Kentucky Regulated (a)	$ 638		$ 1,404	
International Regulated	420	$ 178	645	$ 391
Pennsylvania Regulated	436	520	990	1,331
Supply (b)	995	775	2,360	2,757
Total	$ 2,489	$ 1,473	$ 5,399	$ 4,479
Intersegment electric revenues				
Pennsylvania Regulated	$ 4	$ 2	$ 8	$ 4
Supply (c)	4	64	10	179
Net Income Attributable to PPL				
Kentucky Regulated (a)	$ 31		$ 106	
International Regulated (b)	38	$ 58	93	$ 134
Pennsylvania Regulated	36	16	88	53
Supply (b) (d) (e)	91	30	310	167
Unallocated Costs (f)		(19)		(19)
Total	$ 196	$ 85	$ 597	$ 335
PPL Energy Supply				
Income Statement Data				
Revenues from external customers				
Supply (b)	$ 997	$ 835	$ 2,366	$ 2,929
Net Income				
International Regulated (b) (d)		$ 53		$ 121
Supply (b) (d) (e)	$ 89	33	$ 303	165
Total	$ 89	$ 86	$ 303	$ 286

	PPL		PPL Energy Supply	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Balance Sheet Data				
Assets				
Kentucky Regulated (g)	$ 10,087	$ 10,318		
International Regulated	13,387	4,800		$ 4,800
Pennsylvania Regulated	5,086	5,189		
Supply (g)	11,977	12,530	$ 11,432	11,996
Total assets	$ 40,537	$ 32,837	$ 11,432	$ 16,796

(a) This segment primarily includes the operating activities and assets of LKE, which was acquired in November 2010. Net income attributable to PPL includes the allocation of interest expense from the 2010 Equity Units issued to fund the acquisition and interest rate swaps.

(b) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.

(c) See "PLR Contracts" in Note 11 for a discussion of the basis of accounting between reportable segments.

(d) Either includes Discontinued Operations or is reported in Discontinued Operations. See Note 8 for additional information.

(e) In April 2011, during the PPL Susquehanna Unit 2 scheduled refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect the turbine blades in that unit. This inspection revealed cracked blades similar to those found in Unit 2. Replacement of these blades was completed, which significantly extended these outages. PPL Energy Supply incurred an after-tax earnings impact, including reduced energy sales margins and repair expense for both units, of approximately $60 million in the three and six months ended June 30, 2011.
(f) Represents 2010 Bridge Facility financing costs and other costs related to the acquisition of LKE.
(g) A portion of the goodwill related to the 2010 LKE acquisition has been attributed to PPL's Supply segment.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares. In 2011 and 2010, these securities included stock options, performance units granted under incentive compensation plans and the 2010 Purchase Contract component of the 2010 Equity Units. Additionally, in 2011, these securities included the 2011 Purchase Contract component of the 2011 Equity Units. The 2011 Purchase Contracts will be dilutive only if the average VWAP of PPL's common stock for a certain period exceeds approximately $30.99. The 2010 Purchase Contracts will be dilutive only if the average VWAP of PPL's common stock for a certain period exceeds $28.80. Because the average VWAP has not exceeded either applicable value since issuance, the 2011 and 2010 Purchase Contracts were excluded from the diluted EPS calculations. Subject to antidilution adjustments at June 30, 2011, the maximum number of shares issuable to settle the Purchase Contracts was 105,202,345 shares, including 86,552,565 shares that could be issued under standard provisions of the Purchase Contracts and 18,649,780 shares that could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change. See Note 7 for additional information on the 2011 Equity Units.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended June 30 used in the EPS calculation are:

	Three Months		Six Months	
	2011	2010	2011	2010
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL	$ 197	$ 78	$ 595	$ 320
Less amounts allocated to participating securities	1		3	1
Income from continuing operations after income taxes available to PPL common shareowners	$ 196	$ 78	$ 592	$ 319
Income (loss) from discontinued operations (net of income taxes) available to PPL	$ (1)	$ 7	$ 2	$ 15
Net income attributable to PPL	$ 196	$ 85	$ 597	$ 335

Less amounts allocated to participating securities		1				3		1
Net income available to PPL common shareowners	$	195	$	85	$	594	$	334
Shares of Common Stock (Denominator)								
Weighted-average shares - Basic EPS		561,652		381,896		522,897		379,810
Add incremental non-participating securities:								
Stock options and performance units		367		179		287		224
Weighted-average shares - Diluted EPS		562,019		382,075		523,184		380,034
Basic EPS								
Available to PPL common shareowners:								
Income from continuing operations after income taxes	$	0.35	$	0.20	$	1.13	$	0.84
Income (loss) from discontinued operations (net of income taxes)				0.02		0.01		0.04
Net Income	$	0.35	$	0.22	$	1.14	$	0.88
Diluted EPS								
Available to PPL common shareowners:								
Income from continuing operations after income taxes	$	0.35	$	0.20	$	1.13	$	0.84
Income (loss) from discontinued operations (net of income taxes)				0.02		0.01		0.04
Net Income	$	0.35	$	0.22	$	1.14	$	0.88

For the periods ended June 30 the following stock options to purchase PPL common stock and performance units were excluded from the computations of diluted EPS because the effect would have been antidilutive.

(Shares in thousands)	Three Months 2011	Three Months 2010	Six Months 2011	Six Months 2010
Stock options	5,045	5,184	5,829	4,669
Performance units	1	105	4	91

During the three and six months ended June 30, 2011, PPL issued 48,592 and 392,972 shares of common stock related to the exercise of stock options, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors under its stock-based compensation plans. In addition, PPL issued 598,198 and 1,179,909 shares of common stock related to its DRIP during the three and six months ended June 30, 2011. PPL also issued 301,319 shares related to its ESOP during the six months ended June 30, 2011.

See Note 7 for information on the April 2011 issuance of common stock and 2011 Equity Units.

5. Income Taxes

Reconciliations of income tax expense for the periods ended June 30 are:

(PPL)

	Three Months 2011	Three Months 2010	Six Months 2011	Six Months 2010
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 104	$ 32	$ 323	$ 163
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	14	1	39	15
State valuation allowance adjustments (a)			11	(8)
Impact of lower U.K. income tax rates (b)	(11)	(3)	(19)	(7)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	(9)	(8)	(15)	(6)
Federal and state tax reserve adjustments (d)	(2)	1	(3)	(7)
Foreign tax reserve adjustments (e)		22		22
Domestic manufacturing deduction (f)		(8)		(12)
Health Care Reform (g)				8
Foreign losses resulting from restructuring (e)		(25)		(25)
Federal income tax credits	(2)	(2)	(7)	(4)
Amortization of investment tax credit	(1)	(1)	(4)	(2)
Depreciation not normalized (a)	(2)		(6)	
Nondeductible acquisition-related costs (h)	8		8	
Other	(3)	(2)	(8)	(4)
Total increase (decrease)	(8)	(25)	(4)	(30)
Total income taxes from continuing operations	$ 96	$ 7	$ 319	$ 133

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL adjusted its deferred tax valuation allowances for Pennsylvania net operating losses. As a result, during the six months ended June 30, 2011 PPL recorded $11 million of deferred income tax expense.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

(b) The U.K.'s Finance Act of 2010, enacted in July 2010, included a reduction in the U.K. statutory income tax rate. Effective April 1, 2011, the statutory income tax rate was reduced from 28% to 27%.

(c) During the three and six months ended June 30, 2011, PPL recorded a $7 million and $14 million federal income tax benefit related to U.K. pension contributions.

(d) During the six months ended June 30, 2010, PPL recorded a $6 million federal income tax benefit related to claims associated with foreign earnings.

(e) During the three and six months ended June 30, 2010, PPL recorded a $25 million foreign tax benefit and a related $22 million foreign tax reserve in conjunction with losses resulting from restructuring in the U.K. These losses offset tax on a deferred gain from a prior year sale of WPD's supply business.

(f) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated income tax benefit related to the domestic manufacturing deduction in 2011.

(g) Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL recorded deferred income tax expense in the first quarter of 2010. See Note 9 for additional information.

(h) During the three and six months ended June 30, 2011, PPL recorded nondeductible acquisition-related costs (primarily the U.K. stamp duty tax) associated with its acquisition of WPD Midlands. See Note 8 for additional information on the acquisition.

In July 2011, the U.K. Finance Act 2011 was enacted. The most significant change to the law was a reduction in the U.K.'s statutory income tax rate. The statutory tax rate was changed from 27% to 26%, effective April 1, 2011 and from 26% to 25%, effective April 1, 2012. As a result of these changes, PPL expects to record a deferred tax benefit in the range of $65 million to $75 million in the third quarter of 2011.

(PPL Energy Supply)

	Three Months		Six Months	
	2011	2010	2011	2010
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before				
Income Taxes at statutory tax rate - 35%	$ 52	$ 10	$ 176	$ 82
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	10	1	27	12
State valuation allowance adjustments (a)			6	
Domestic manufacturing deduction (b)		(8)		(12)
Health Care Reform (c)				5
Federal income tax credits	(1)	(1)	(6)	(3)
Other	(2)	1	(2)	1
Total increase (decrease)	7	(7)	25	3
Total income taxes from continuing operations	$ 59	$ 3	$ 201	$ 85

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL Energy Supply adjusted its deferred tax valuation allowances for Pennsylvania net operating losses. As a result, during the six months ended June 30, 2011, PPL Energy Supply recorded $6 million of deferred income tax expense.

(b) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated tax benefit related to the domestic manufacturing deduction in 2011.

(c) Beginning in 2013, provisions within Health Care Reform eliminated the income tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL Energy Supply recorded deferred income tax expense in the first quarter of 2010. See Note 9 for additional information.

(PPL Electric)

	Three Months		Six Months	
	2011	2010	2011	2010
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory				
tax rate - 35%	$ 21	$ 12	$ 48	$ 34
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	1	7	4

Federal and state tax reserve adjustments		(2)		(2)		(4)		(4)
Federal and state income tax return adjustments						(2)		
Depreciation not normalized (a)		(2)				(5)		
Other		(1)				(2)		(2)
Total increase (decrease)		(2)		(1)		(6)		(2)
Total income taxes	$	19	$	11	$	42	$	32

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

(LKE)

	Three Months				Six Months			
	2011 Successor		2010 Predecessor		2011 Successor		2010 Predecessor	
Reconciliation of Income Tax Expense								
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$	23	$	16	$	70	$	51
Increase (decrease) due to:								
State income taxes, net of federal income tax benefit		2				7		4
Other		(1)		(1)		(4)		(2)
Total increase (decrease)		1		(1)		3		2
Total income taxes from continuing operations	$	24	$	15	$	73	$	53

(LG&E)

	Three Months 2011 Successor	Three Months 2010 Predecessor	Six Months 2011 Successor	Six Months 2010 Predecessor
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 11	$ 7	$ 33	$ 25
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	1	1	3	2
Other		(1)	(2)	(2)
Total increase (decrease)	1		1	
Total income taxes	$ 12	$ 7	$ 34	$ 25

(KU)

	Three Months 2011 Successor	Three Months 2010 Predecessor	Six Months 2011 Successor	Six Months 2010 Predecessor
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 17	$ 17	$ 48	$ 42
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	2	4	4
Other	(1)	(1)	(2)	(2)
Total increase (decrease)	1	1	2	2
Total income taxes	$ 18	$ 18	$ 50	$ 44

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

Changes to unrecognized tax benefits for the periods ended June 30 were as follows.

	Three Months 2011	Three Months 2010	Six Months 2011	Six Months 2010
PPL				
Beginning of period	$ 251	$ 201	$ 251	$ 212
Additions based on tax positions of prior years	1	2	1	4
Reductions based on tax positions of prior years				(6)
Additions based on tax positions related to the current year		30		30
Reductions based on tax positions related to the current year	(1)		(2)	(5)
Settlements		(5)		(1)
	(3)	(2)	(5)	(4)

Lapse of applicable statutes of limitations								
Effects of foreign currency translation		2		(2)		5		(6)
End of period	$	250	$	224	$	250	$	224
PPL Energy Supply								
Beginning of period	$	28	$	115	$	183	$	124
Additions based on tax positions of prior years				2				2
Reductions based on tax positions of prior years								(4)
Additions based on tax positions related to the current year				30				30
Reductions based on tax positions related to the current year				(3)				(3)
Settlements								(1)
Derecognition (a)						(155)		
Effects of foreign currency translation				(2)				(6)
End of period	$	28	$	142	$	28	$	142
PPL Electric								
Beginning of period	$	59	$	72	$	62	$	74
Additions based on tax positions of prior years								2
Reductions based on tax positions of prior years								(2)
Reductions based on tax positions related to the current year				(2)		(1)		(2)
Lapse of applicable statutes of limitations		(3)		(2)		(5)		(4)
End of period	$	56	$	68	$	56	$	68

(a) Represents unrecognized tax benefits derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution.

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits are insignificant for the three and six months ended June 30, 2011 and 2010.

At June 30, 2011, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts. For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

	Increase	Decrease
PPL	$ 25	$ 231
PPL Energy Supply		26
PPL Electric	26	41

These changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

At June 30, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective tax rate were as follows. The amounts for LKE, LG&E and KU were insignificant.

	2011	2010
PPL	$ 185	$ 132
PPL Energy Supply	12	112
PPL Electric	10	11

Tax Litigation (PPL and PPL Electric)

In January 2011, the IRS appealed, to the U.S. Court of Appeals for the Third Circuit, the U.S. Tax Court's decision that the 1997 U.K. Windfall Profits Tax (WPT) is a creditable tax for U.S. Federal income tax purposes. In its decision, the Tax Court ruled on two issues: (1) the 1997 U.K. WPT imposed on all U.K. privatized utilities, including PPL's U.K. subsidiary, was creditable against the Company's U.S. income taxes; and (2) PPL Electric's street lighting assets could be depreciated for tax purposes over seven years as permitted for "property without a class life" instead of the 20-year depreciation recovery period argued by the IRS. The IRS is not appealing the street lighting decision. PPL filed its tax returns for 1997 and all intervening years on the basis that the WPT was creditable and that the appropriate tax depreciable life for its street lighting assets was seven years. Therefore, the cash benefit resulting from these items has already been realized. PPL cannot predict the outcome of this matter.

6. Utility Rate Regulation

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

The following tables provide information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	June 30,	December 31,	June 30,	December 31,

	2011	2010	2011	2010
Current Regulatory Assets:				
Generation supply charge		$ 45		$ 45
Universal service rider	$ 6	10	$ 6	10
Other	19	30	4	8
Total current regulatory assets	$ 25	$ 85	$ 10	$ 63

	PPL June 30, 2011	PPL December 31, 2010	PPL Electric June 30, 2011	PPL Electric December 31, 2010
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 588	$ 592	$ 258	$ 262
Taxes recoverable through future rates	268	254	268	254
Storm costs	128	129	7	7
Unamortized loss on debt	58	61	25	27
Interest rate swaps	44	43		
Accumulated cost of removal of utility plant (a)	40	35	40	35
Coal contracts (b)	16	22		
Other	58	44	12	7
Total noncurrent regulatory assets	$ 1,200	$ 1,180	$ 610	$ 592
Current Regulatory Liabilities:				
Coal contracts (b)	$ 23	$ 46		
Generation supply charge	16		$ 16	
ECR	9	12		
PURTA tax	5	10	5	$ 10
Transmission service charge		8		8
Other	24	33	2	
Total current regulatory liabilities	$ 77	$ 109	$ 23	$ 18
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 638	$ 623		
Coal contracts (b)	197	213		
Power purchase agreement - OVEC (b)	120	124		
Net deferred tax assets	36	40		
Act 129 compliance rider	15	14	$ 15	$ 14
Defined benefit plans	10	10		
Other	7	7		
Total noncurrent regulatory liabilities	$ 1,023	$ 1,031	$ 15	$ 14

	LKE June 30, 2011	LKE December 31, 2010	LG&E June 30, 2011	LG&E December 31, 2010	KU June 30, 2011	KU December 31, 2010
Current Regulatory Assets:						
ECR		$ 5		$ 5		
Coal contracts (b)	$ 3	5	$ 1	1	$ 2	$ 4
Gas supply clause	5	4	5	4		
Fuel adjustment clause	7	3	5	3	2	
Virginia fuel factor		5				5
Total current regulatory assets	$ 15	$ 22	$ 11	$ 13	$ 4	$ 9

Noncurrent Regulatory Assets:						
Defined benefit plans	$ 330	$ 330	$ 213	$ 213	$ 117	$ 117
Storm costs	121	122	61	65	60	57
Unamortized loss on debt	33	34	21	22	12	12
Interest rate swaps	44	43	44	43		
Coal contracts (b)	16	22	6	8	10	14
Other	46	37	18	16	28	21
Total noncurrent regulatory assets	$ 590	$ 588	$ 363	$ 367	$ 227	$ 221

Current Regulatory Liabilities:						
Coal contracts (b)	$ 23	$ 46	$ 15	$ 31	$ 8	$ 15
ECR	9	12			9	12
Other	22	33	14	20	8	13
Total current regulatory liabilities	$ 54	$ 91	$ 29	$ 51	$ 25	$ 40
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 638	$ 623	$ 281	$ 275	$ 357	$ 348
Coal contracts (b)	197	213	83	87	114	126
Power purchase agreement - OVEC (b)	120	124	83	86	37	38
Net deferred tax assets	36	40	31	34	5	6
Defined benefit plans	10	10			10	10
Other	7	7	2	1	5	6
Total noncurrent regulatory liabilities	$ 1,008	$ 1,017	$ 480	$ 483	$ 528	$ 534

(a) The December 31, 2010 balance of accumulated cost of removal of utility plant was reclassified from "Accumulated depreciation - regulated utility plant" to noncurrent "Regulatory assets" on the Balance Sheets. These costs will continue to be included in future rate proceedings.
(b) These regulatory assets and liabilities were recorded as offsets to certain intangible assets and liabilities that were recorded at fair value upon the acquisition of LKE.

Regulatory Matters

Kentucky Activities (PPL, LKE, LG&E and KU)

Environmental Upgrades

In order to achieve compliance with new and pending federal EPA regulations including CSAPR and the MACT rule, in June 2011, LG&E and KU filed an ECR plan with the KPSC requesting approval to install environmental upgrades for their coal-fired plants and recovery of the expected $2.5 billion in associated capital costs, as well as operating expenses, as incurred. The ECR plan details upgrades that will be made to certain of their coal-fired generating stations to continue to be compliant with EPA regulations. Additionally, LG&E and KU notified the KPSC that a likely further effect of the new requirements is to accelerate the retirement of three other older coal-fired plants requiring LG&E and KU to replace the lost energy supplied by those plants.

LG&E requested $1.4 billion to modernize the scrubbers at the Mill Creek generating station as well as install fabric-filter baghouse systems for increased particulate and mercury control on all units at Mill Creek and for Unit 1 at Trimble County. In its KPSC application, LG&E estimated the impact on rates to LG&E's electric customers to be an increase of 2.3% in 2012, growing to an increase of 19.2% in 2016. KU requested $1.1 billion for upgrades that include fabric-filter baghouse systems for increased particulate and mercury control on units at the E.W. Brown and Ghent generating stations and the conversion of a wet storage facility to a dry landfill at the E.W. Brown generating station. In its KPSC application, KU estimated the impact on rates to KU's electric customers to be an increase of 1.5% in 2012, growing to an increase of 12.2% in 2016.

Certain parties have submitted interventions in the ECR proceedings. The KPSC issued a procedural schedule under which data discovery is expected to continue into the fourth quarter. A KPSC order is anticipated to be issued in December 2011. LG&E and KU cannot predict the outcome of these proceedings.

Integrated Resource Planning

Integrated Resource Planning (IRP) regulations in Kentucky require major utilities to make triennial IRP filings with the KPSC. In April 2011, LG&E and KU filed their 2011 joint IRP with the KPSC. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. In May 2011, the KPSC issued a procedural schedule and data discovery will continue through the third quarter. Pursuant to a December 2008 Order, KU will file the 2011 joint IRP with the VSCC by September 2011, with certain supplemental information as required by this Order. Impending environmental regulation could result in the retirements of older, smaller coal-fired units and therefore the IRP assumes approximately 800 MW of potential retirements of coal-fired capacity in 2016 and replacement by combined-cycle gas units. In addition, the IRP assumes approximately 500 MW of peak demand reductions by 2017 through existing or expanded DSM or energy efficiency programs. Implementation of the major findings of the IRP is subject to further analysis and decision-making and further regulatory approvals.

Demand-Side Management/Energy Efficiency

In April 2011, LG&E and KU filed a DSM application to expand existing energy efficiency programs and implement new energy efficiency programs. LG&E and KU requested new DSM rates to become effective on May 13, 2011. On May 10, 2011, the KPSC issued an Order suspending the proposed rates for five months until October 12, 2011. On May 20, 2011, the KPSC issued an Order establishing a procedural schedule for discovery and intervenor testimony, but the KPSC did not schedule a hearing in the proceeding.

PPL's Acquisition of LKE

In September 2010, the KPSC approved a settlement agreement among PPL and all of the intervening parties to PPL's joint application to the KPSC for approval of its acquisition of ownership and control of LKE, LG&E and KU. In the settlement agreement, the parties agreed that LG&E and KU would commit that no base rate increases would take effect before January 1, 2013. Under the terms of the settlement, LG&E and KU retain the right to seek KPSC approval for the deferral of "extraordinary and uncontrollable costs," such as significant storm restoration costs, if incurred. Additionally, interim rate adjustments will continue to be permissible during that period for existing recovery mechanisms such as the ECR and DSM.

Virginia Activities (PPL, LKE and KU)

Rate Case

In April 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. The proposed increase reflects a rate of return on rate base of 8%, based on a return on equity of 11%, inclusive of expenditures to complete TC2, all new flue gas desulfurization controls, recovery over five years of a 2009 storm regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. While KU cannot predict the amount of the allowed increase, it expects the new rates to go into effect in January 2012.

Levelized Fuel Factor

In February 2011, KU filed an application with the VSCC seeking approval of an increase in its fuel cost factor beginning with service rendered in April 2011. In March 2011, a hearing was held on KU's requested fuel factor and an Order was issued approving a revised fuel factor to be in effect beginning with service rendered on and after April 1, 2011, with recovery of the regulatory asset for prior period under recoveries over a three-year period.

Storm Costs

In December 2009, a major snowstorm hit KU's Virginia service area causing approximately 30,000 customer outages. During the normal 2009 Virginia Annual Information Filing (AIF), KU requested that the VSCC establish a regulatory asset and defer for future recovery $6 million in incremental operation and maintenance expenses related to the storm restoration. In March 2011, the VSCC Staff issued its report on KU's 2009 AIF stating that it considered this storm damage to be extraordinary, non-recurring and material to KU. The Staff Report also recommended establishing a regulatory asset for these costs, with recovery over a five-year period upon approval in the next base rate case. In March 2011, a regulatory asset of $6 million was established for actual costs incurred. In June 2011, the VSCC issued an Order approving the recommendations contained in the Staff Report.

Pennsylvania Activities (PPL and PPL Electric)

Act 129

Act 129 requires electric utilities to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. Utilities not meeting the requirements of Act 129 are exposed to significant penalties.

Under Act 129, Electric Distribution Companies (EDCs) must develop and file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. Act 129 requires EDCs to cause reduced overall electricity consumption of 1.0% by 2011 and 3.0% by

2013, and reduced peak demand of 4.5% for the 100 hours of highest demand by 2013. To date, PPL Electric has met the 2011 requirement. EDCs will be able to recover the costs (capped at 2% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's EE&C Plan. The plan includes 14 programs, all of which are voluntary for customers. The plan includes a proposed rate mechanism for recovery of all costs incurred by PPL Electric to implement the plan. In September 2010, PPL Electric filed its Program Year 1 Annual Report and Process Evaluation Report. PPL Electric also filed a petition requesting permission to modify two components of its EE&C Plan. The PUC issued its Final Order in January 2011, approving the changes proposed by PPL Electric and directing PPL Electric to re-file its plan to reflect all changes made since its initial approval. In February 2011, PPL Electric filed the changes to its plan and in May 2011, the PUC approved those changes.

Act 129 also requires installation of smart meters for new construction, upon the request of consumers at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs will be able to recover the costs of providing smart metering technology. In August 2009, PPL Electric filed its proposed smart meter technology procurement and installation plan with the PUC. All of PPL Electric's metered customers currently have smart meters installed at their service locations, and PPL Electric's current advanced metering technology generally satisfies the requirements of Act 129 and does not need to be replaced. In June 2010, the PUC entered its order approving PPL Electric's smart meter plan with several modifications. In compliance with the Order, in the third quarter of 2010, PPL Electric submitted a revised plan with a cost estimate of $38 million to be incurred over a five-year period, beginning in 2009, and filed a rider to recover these costs beginning January 1, 2011. In December 2010, the PUC approved PPL Electric's rate rider to recover the costs of its smart meter program.

Act 129 also requires the Default Service Provider (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved competitive procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (four to 20 years), with long-term contracts limited to up to 25% of the load unless otherwise approved by the PUC). The DSP will be able to recover the costs associated with a competitive procurement plan.

Under Act 129, the DSP competitive procurement plan must ensure adequate and reliable service "at least cost to customers" over time. Act 129 grants the PUC authority to extend long-term power contracts up to 20 years, if necessary, to achieve the "least cost" standard. The PUC has approved PPL Electric's procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric has begun purchasing under that plan. In December 2010, the PUC approved PPL Electric's rate rider to recover the costs of providing default service.

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market which will be conducted in two phases. Phase one will address the status of the current retail market and explore potential changes. Questions promulgated by the PUC for this phase of the investigation focus primarily on default service issues. In June 2011, interested parties filed comments and the PUC held a hearing in this phase of the investigation. In July 2011, the PUC entered an order initiating phase two of the investigation which will study how best to address issues identified by the PUC as being most relevant to improving the current retail electricity market. It is likely that investigation will not be completed before the end of the year. PPL Electric cannot predict the outcome of the investigation.

Legislation – Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover certain capital costs and related operating expenses. The legislation is now before the full Pennsylvania House of Representatives. PPL Electric is working with other stakeholders to support passage of this legislation.

Federal Matters

FERC Formula Rates

(PPL and PPL Electric)

In May 2010, PPL Electric initiated the 2010 Annual Update of its formula rate. In November 2010, a group of municipal customers taking transmission service in PPL Electric's zone filed a preliminary challenge to the update, and in December 2010 they filed a formal challenge. In January 2011, PPL Electric filed a motion to dismiss a number of the challenges and submitted responses to all of the challenges. The group of municipal customers filed answers to PPL Electric's motion to dismiss and its responses to the formal challenge. PPL Electric cannot predict the outcome of this proceeding which remains pending before the FERC.

International Activities (PPL)

U.K. Overhead Electricity Networks

In 2002, for safety reasons, the U.K. Government issued guidance that low voltage overhead electricity networks within three meters horizontal clearance of a building should either be insulated or relocated. This imposed a retroactive requirement on existing assets that were built with lower clearances. In 2008, the U.K. Government determined that the U.K. electricity network should comply with the issued guidance. WPD estimates that the cost of compliance will be approximately $126

50

million. The projected expenditures in the current regulatory period, April 1, 2010 through March 31, 2015, have been included in allowed revenues, and it is expected that expenditures beyond this five-year period (including WPD Midlands expenditures) will also be included in allowed revenues. The U.K. Government has determined that WPD (South Wales) and WPD Midlands should comply by 2015 and WPD (South West) by 2018.

To improve network reliability, the U.K. Government amended a regulation relating to safety and continuity of supply by adding a new obligation which broadly requires, beginning January 31, 2009, network operators to implement a risk-based program to clear trees away from overhead lines. WPD estimates that the cost of compliance will be approximately $208 million over a 25-year period. The projected expenditures in the current regulatory period have been included in allowed revenues under the current price control review, and it is expected that expenditures beyond this five-year period will also be included in allowed revenues.

In addition to the above, WPD (East Midlands) and WPD (West Midlands) were not in compliance with earlier regulations pertaining to overhead line clearances as of the acquisition date. WPD (East Midlands) and WPD (West Midlands) expect to incur costs through 2015 to comply with these requirements that are not included in allowed revenues under the current price control review. Management is in the process of assessing and quantifying this exposure as a result of the acquisition.

New U.K. Pricing Model

The electricity distribution subsidiaries of PPL WW and PPL WEM operate under distribution licenses and price controls granted and set by Ofgem for each of their distribution subsidiaries. The price control formula that governs allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. The price control formula is normally determined every five years. Ofgem completed its review in December 2009 that became effective April 1, 2010 and will continue through March 31, 2015.

In October 2010, Ofgem announced a new pricing model that will be effective for the U.K. electricity distribution sector, beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. Key components of the model are: an extension of the price review period from five to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, expansion of the current Low Carbon Network Fund to stimulate innovation and continued use of a single weighted average cost of capital.

7. Financing Activities

Credit Arrangements and Short-term Debt

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

Credit facilities are maintained to enhance liquidity and provide credit support, and as a backstop to commercial paper programs, when necessary. The following credit facilities were in place at:

		June 30, 2011				December 31, 2010	
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued	Unused Capacity	Borrowed (a)	Letters of Credit Issued
PPL							
WPD Credit Facilities							

PPL WW Syndicated Credit Facility (b)	Jan. 2013	£ 150	£ 113	n/a	£ 37	£ 115	n/a
WPD (South West) Syndicated Credit Facility	July 2012	210		n/a	210		n/a
WPD (East Midlands) Syndicated Credit Facility (c)	Apr. 2016	300		£ 70	230	n/a	n/a
WPD (West Midlands) Syndicated Credit Facility (c)	Apr. 2016	300		71	229	n/a	n/a
Uncommitted Credit Facilities		113		3	110		£ 3
Total WPD Credit Facilities (d)		£ 1,073	£ 113	£ 144	£ 816	£ 115	£ 3
PPL Energy Supply (e)							
Syndicated Credit Facility (f)	Dec. 2014	$ 3,000	$ 250	$ 122	$ 2,628	$ 350	
Letter of Credit Facility	Mar. 2013	200	n/a	55	145	n/a	$ 24
Structured Credit Facility (g)	Mar. 2011	n/a	n/a	n/a	n/a	n/a	161
Total PPL Energy Supply Credit Facilities		$ 3,200	$ 250	$ 177	$ 2,773	$ 350	$ 185

		June 30, 2011				December 31, 2010	
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued	Unused Capacity	Borrowed (a)	Letters of Credit Issued
PPL Electric (e)							
Syndicated Credit Facility	Dec. 2014	$ 200		$ 13	$ 187		$ 13
Asset-backed Credit Facility (h)	July 2011	150		n/a	150		n/a
Total PPL Electric Credit Facilities		$ 350		$ 13	$ 337		$ 13
LG&E (e) (i)							
Syndicated Credit Facility (j)	Dec. 2014	$ 400			$ 400	$ 163	
KU (e) (i)							
Syndicated Credit Facility (j)	Dec. 2014	$ 400			$ 400		$ 198
Letter of Credit Facility (k)	Apr. 2014	198	n/a	$ 198		n/a	n/a
Total KU Credit Facilities		$ 598		$ 198	$ 400		$ 198

(a) Amounts borrowed are recorded as "Short-term debt" on the Balance Sheets.

(b) The borrowing outstanding at June 30, 2011 was a USD-denominated borrowing of $181 million, which equated to £113 million at the time of borrowing and bore interest at approximately 1.07%.

(c) In April 2011, following the completion of the acquisition of WPD Midlands, WPD (East Midlands) and WPD (West Midlands) each entered into a £300 million 5-year syndicated credit facility. Under the facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to make cash borrowings and to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing. Each company pays customary commitment and utilization fees under its respective facility, and borrowings generally bear interest at LIBOR-based rates plus a spread, depending upon the respective company's senior unsecured long-term debt rating. Each credit facility contains financial covenants that require the respective company to maintain an interest coverage ratio of consolidated earnings before interest, income taxes, depreciation and amortization to interest expense of at least 3.0 to 1 and total net debt not in excess of 85% of its RAV, in each case calculated in accordance with the credit facilities. An aggregate of $7 million in fees were incurred in connection with establishing these facilities.

(d) In June 2011, WPD repaid £84 million of short-term debt (which equated to $138 million at the time of repayment) with proceeds received from the issuance of long-term debt. Although financial information of foreign subsidiaries is recorded on a one-month lag, the repayment of short-term debt is reflected in the financial statements for the quarter ended June 30, 2011. See "Long-term Debt and Equity Securities" below for further discussion.

At June 30, 2011, the unused capacity of the WPD credit facilities was approximately $1.3 billion.

(e) All credit facilities at PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL on a consolidated basis for financial reporting purposes.

(f) The borrowing outstanding at June 30, 2011 bears interest at 2.44%.

(g) In March 2011, PPL Energy Supply's $300 million Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate but related $300 million 5-year credit agreement, which also expired in March 2011.

(h) PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary has pledged these assets to secure loans from a commercial paper conduit sponsored by a financial institution.

At June 30, 2011 and December 31, 2010, $274 million and $248 million of accounts receivable and $87 million and $134 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at June 30, 2011, the amount available for borrowing under the facility was limited to $107 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.

In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement to July 2012.

(i) All credit facilities at LG&E and KU also apply to LKE on a consolidated basis for financial reporting purposes.

(j) In June 2011, these facilities were amended such that the fees and the spreads to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured long-term debt rating.

(k) In April 2011, KU entered into a letter of credit facility that has been used to issue letters of credit to support outstanding tax-exempt bonds. The facility contains a financial covenant requiring KU's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility. KU pays customary commitment and letter of credit fees under the new facility.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a $500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to $500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At June 30, 2011, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an $800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2015, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at June 30, 2011.

(PPL and PPL Electric)

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility, which expires in December 2014, based on available capacity. PPL Electric had no commercial paper outstanding at June 30, 2011.

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

See Note 11 for discussion of intercompany borrowings.

2011 Bridge Facility (PPL)

In March 2011, concurrently and in connection with entering into the agreement to acquire WPD Midlands, PPL entered into a commitment letter with certain lenders pursuant to which the lenders committed to provide PPL with 364-day unsecured bridge financing of up to £3.6 billion solely to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. The bridge financing commitment was subsequently syndicated to a group of banks, including the initial commitment lenders. Upon the syndication of the commitment, in March 2011, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into the £3.6 billion 2011 Bridge Facility. During the six months ended June 30, 2011, PPL incurred $43 million of fees in connection with establishing the 2011 Bridge Facility, which is reflected in "Interest Expense" on the Statement of Income. Of the total fees incurred, $36 million was recorded in "Interest Expense" on the Statement of Income for the three months ended June 30, 2011.

On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. Borrowings bore interest at approximately 2.62%, determined by one-month LIBOR rates plus a spread, based on PPL Capital Funding's senior unsecured debt rating and the length of time from the date of the acquisition closing that borrowings were outstanding. See Note 8 for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately $2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011, as discussed in "Long-term Debt and Equity Securities" below. In April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes, which is also discussed below. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings then-outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands), as described below.

In anticipation of the repayment of a portion of the borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 14 for further discussion.

Long-term Debt and Equity Securities

(PPL)

In connection with the closing of the acquisition of WPD Midlands, PPL assumed, through consolidation, £250 million of Senior Notes due 2040 (2040 Notes) previously issued by WPD (East Midlands), and £250 million of Senior Notes due 2025 (2025 Notes) previously issued by WPD (West Midlands), equating to an aggregate principal amount of approximately $800 million at the time of closing. The interest rates on the notes are subject to adjustment into June 2012 in the event of a rating change on the notes. The 2040 Notes currently bear interest at 5.75%, and the 2025 Notes currently bear interest at 6.00%.

The maximum rate of interest allowable under the adjustment provisions is 6.50% for the 2040 Notes and 6.25% for the 2025 Notes. The notes may be put by the holders back to the respective issuer for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (West Midlands) and WPD (East Midlands) operate.

In April 2011, PPL issued 92 million shares of its common stock at a public offering price of $25.30 per share, for a total of $2.328 billion. Proceeds from the issuance were $2.258 billion, net of the $70 million underwriting discount. PPL also issued 19.55 million 2011 Equity Units at a stated amount per unit of $50.00 for a total of $978 million. Proceeds from the issuance were $948 million, net of the $30 million underwriting discount. PPL used the net proceeds to repay PPL Capital Funding's borrowings under the 2011 Bridge Facility, as discussed above, to pay certain acquisition-related fees and expenses and for general corporate purposes.

Each 2011 Equity Unit consists of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019 (2019 Notes).

Each 2011 Purchase Contract obligates the holder to purchase, and PPL to sell, for $50.00 a number of shares of PPL common stock to be determined by the average VWAP of PPL's common stock for the 20-trading day period ending on the third trading day prior to May 1, 2014, subject to antidilution adjustments and an early settlement upon a Fundamental Change as follows:

- if the average VWAP equals or exceeds approximately $30.99, then 1.6133 shares (a minimum of 31,540,015 shares);
- if the average VWAP is less than approximately $30.99 but greater than $25.30, a number of shares of common stock having a value, based on the average VWAP, equal to $50.00; and
- if the average VWAP is $25.30, then 1.9763 shares (a maximum of 38,636,665 shares).

If holders elect to settle the 2011 Purchase Contract prior to May 1, 2014, they will receive 1.6133 shares of PPL common stock, subject to antidilution adjustments and an early settlement upon a Fundamental Change.

A holder's ownership interest in the 2019 Notes is pledged to PPL to secure the holder's obligation under the related 2011 Purchase Contract. If a holder of a 2011 Purchase Contract chooses at any time no longer to be a holder of the 2019 Notes, such holder's obligation under the 2011 Purchase Contract must be secured by a U.S. Treasury security.

Each 2011 Purchase Contract also requires PPL to make quarterly contract adjustment payments at a rate of 4.43% per year on the $50.00 stated amount of the 2011 Equity Unit. PPL has the option to defer these contract adjustment payments until the 2011 Purchase Contract settlement date. Deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of 8.75% per year until paid. Until any deferred contract adjustment payments have been paid, PPL may not declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, subject to certain exceptions.

The 2019 Notes are fully and unconditionally guaranteed by PPL as to payment of principal and interest. The 2019 Notes initially bear interest at 4.32% and are not subject to redemption prior to May 2016. Beginning May 2016, PPL Capital Funding may, at its option, redeem the 2019 Notes, in whole but not in part, at any time, at par plus accrued and unpaid interest. The 2019 Notes are expected to be remarketed in 2014 into two tranches, such that neither tranche will have an aggregate principal amount of less than the lesser of $250 million and 50% of the aggregate principal amount of the 2019 Notes to be remarketed. One tranche will mature on or about the third anniversary of the settlement of the remarketing, and the other tranche will mature on or about the fifth anniversary of such settlement. Upon a successful remarketing, the interest rate on the 2019 Notes may be reset and the maturity of the tranches may be modified as necessary. In connection with a remarketing, PPL Capital Funding may elect with respect to each tranche, to extend or eliminate the early redemption date and/or calculate interest on the notes of a tranche on a fixed or floating rate basis. If the remarketing fails, holders of the

2019 Notes will have the right to put their notes to PPL Capital Funding on May 1, 2014 for an amount equal to the principal amount plus accrued interest.

Prior to May 2016, PPL Capital Funding may elect at one or more times to defer interest payments on the 2019 Notes for one or more consecutive interest periods until the earlier of the third anniversary of the interest payment due date and May 2016. Deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2019 Notes. Until any deferred interest payments have been paid, PPL may not, subject to certain exceptions, (i) declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, (ii) make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of its debt securities that upon its liquidation ranks equal with, or junior in interest to, the subordinated guarantee of the 2019 Notes by PPL as of the date of issuance and (iii) make any payments regarding any guarantee by PPL of securities of any of its subsidiaries (other than PPL Capital Funding) if the guarantee ranks equal with, or junior in interest to, the 2019 Notes as of the date of their issuance.

In the financial statements, the proceeds from the sale of the 2011 Equity Units were allocated to the 2019 Notes and the 2011 Purchase Contracts, including the obligation to make contract adjustment payments, based on the underlying fair value of each instrument at the time of issuance. As a result, the 2019 Notes were recorded at $978 million, which approximated fair value, as long-term debt. At the time of issuance, the present value of the contract adjustment payments of $123 million was recorded to other liabilities representing the obligation to make contract adjustment payments, with an offsetting reduction to additional paid-in capital for the issuance of the 2011 Purchase Contracts, which approximated the fair value of each. The liability is being accreted through interest expense over the three-year term of the 2011 Purchase Contracts. The initial valuation of the contract adjustment payments is considered a non-cash transaction that is excluded from the Statement of Cash Flows in 2011. Costs to issue the 2011 Equity Units were primarily allocated on a relative cost basis, resulting in $25 million being recorded to "Additional paid-in capital" and $5 million being recorded to "Other noncurrent assets". See Note 4 for EPS considerations related to the 2011 Purchase Contracts.

Also in April 2011, PPL WEM issued $460 million of 3.90% Senior Notes due 2016 (2016 Notes) and $500 million of 5.375% Senior Notes due 2021 (2021 Notes). The 2016 Notes may be redeemed any time prior to maturity at PPL WEM's option at make-whole redemption prices. The 2021 Notes may be redeemed at PPL WEM's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. PPL WEM received proceeds of $953 million, net of discounts and underwriting fees, from the combined issuance of the notes. The net proceeds were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility as discussed above. In connection with the issuance of the senior notes, PPL WEM, through PPL, entered into cross currency interest rate swaps for the entire aggregate principal amount of each series of notes in order to hedge PPL WEM's risk of variability in the GBP functional currency equivalent cash flows related to its U.S. dollar interest and principal payments on the notes.

In May 2011, WPD (West Midlands) issued £800 million of 5.75% Senior Notes due 2032 (2032 Notes) and WPD (East Midlands) issued £600 million of 5.25% Senior Notes due 2023 (2023 Notes). WPD (West Midlands) and WPD (East Midlands) collectively received proceeds of £1.4 billion, which equated to $2.2 billion at the time of issuance, net of discounts and underwriting fees, from the combined debt issuances. A portion of the net proceeds were dividended to PPL WEM and used to repay the remaining balance of PPL WEM's borrowing under the 2011 Bridge Facility in May 2011 as discussed above. The balance of the net proceeds have been or will be used to pre-fund certain capital expenditures and for other general corporate purposes.

The 2032 Notes and the 2023 Notes may be put by the holders back to the respective issuer for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (West Midlands) and WPD (East Midlands) operate.

In June 2011, WPD (East Midlands) issued £100 million of Index-Linked Notes due 2043 (2043 Notes). The principal amount of the 2043 Notes is adjusted on a semi-annual basis based on changes in a specified index, as detailed in the terms of the notes. WPD (East Midlands) received proceeds of £99 million, which equated to $163 million at the time of issuance, net of discounts and underwriting fees, from the issuance of the 2043 Notes. As discussed below, the majority of the net proceeds were used to repay certain short-term debt.

The 2043 Notes may be put by the holders back to WPD (East Midlands) for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (East Midlands) operates.

Although financial information of foreign subsidiaries is recorded on a one-month lag, the June 2011 issuance of the 2043 Notes, and the related repayment of £84 million of short-term debt (which equated to $138 million at the time of repayment), are reflected in the financial statements for the quarter ended June 30, 2011 due to the materiality of the issuance of the 2043 Notes.

(PPL and PPL Energy Supply)

In July 2011, PPL Energy Supply redeemed at par the entire $250 million aggregate principal amount of its 7.00% Senior Notes due 2046.

(PPL and PPL Electric)

In July 2011, PPL Electric issued $250 million of 5.20% First Mortgage Bonds due 2041. The bonds may be redeemed at PPL Electric's option at make-whole redemption prices until the date six months prior to maturity and at par thereafter. PPL Electric received proceeds of $246 million, net of discounts and underwriting fees. The net proceeds will be used for capital expenditures and other general corporate purposes.

Also in July 2011, PPL Electric redeemed the entire $400 million aggregate principal amount of its 7.125% Senior Secured Bonds due 2013 for $458 million, plus accrued interest.

(PPL, LKE, LG&E and KU)

In April 2011, LKE, LG&E and KU each filed a 2011 Registration Statement with the SEC, as agreed in registration rights agreements entered into in connection with the issuances of senior notes (in the case of LKE) and first mortgage bonds (in the case of LG&E and KU) in November 2010 in transactions not registered under the Securities Act of 1933. See Note 7 in PPL's 2010 Form 10-K for additional information on the original debt issuances. The 2011 Registration Statements relate to offers to exchange either the senior notes or first mortgage bonds issued in November 2010 with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011, with substantially all of LKE's senior notes and LG&E's and KU's first mortgage bonds being exchanged.

(PPL, LKE and LG&E)

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky, to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. At December 31, 2010, such bonds were held by LG&E and reflected as "Short-term investments" on the Balance Sheet. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's syndicated credit facility.

Legal Separateness

(PPL, PPL Energy Supply, PPL Electric and LKE)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions and Capital Contributions

(PPL)

In May 2011, PPL declared its quarterly common stock dividend, payable July 1, 2011, at 35.0 cents per share (equivalent to $1.40 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

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

During the six months ended June 30, 2011 the following distributions and capital contributions occurred:

	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Dividends/distributions paid to parent	$ 134 (a)	$ 52	$ 146	$ 42	$ 68
Capital contributions received from parent	168				

(a) In addition to the cash distributions paid, in January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent company, PPL Energy Funding. See Note 8 for additional information.

8. Acquisitions, Development and Divestitures

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

PPL continuously evaluates potential acquisitions, divestitures and development projects as opportunities arise or are identified. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See below for information on PPL's acquisitions of WPD Midlands and LKE, PPL Energy Supply's distribution of its membership interest in PPL Global to its parent, PPL Energy Funding that was presented as discontinued operations by PPL Energy Supply and the sales of businesses that were presented as discontinued operations by PPL and PPL Energy Supply.

Acquisitions

Acquisition of WPD Midlands (PPL)

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. The consideration for the acquisition consisted of cash of $5.8 billion, including the repayment of $1.7 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and approximately $800 million of long-term debt assumed through consolidation. WPD Midlands' regulated distribution operations serve five million end users in the Midlands area of England. The acquisition continues to reapportion the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability. Further, the service territories of WPD (South Wales), WPD (South West) and WPD Midlands are contiguous and cost savings, efficiencies and other benefits are expected from the combined operations.

The fair value of the consideration paid for Central Networks was as follows (in billions):

Aggregate enterprise consideration	$	6.6
Less: fair value of long-term debt outstanding assumed through consolidation		0.8
Total cash consideration paid		5.8
Less: funds made available to Central Networks to repay pre-acquisition affiliate indebtedness		1.7
Cash consideration paid for Central Networks' outstanding ordinary share capital	$	4.1

The total cash consideration paid was primarily funded by borrowings under the 2011 Bridge Facility on the date of acquisition. Subsequently, PPL repaid the borrowings under the 2011 Bridge Facility using proceeds from the permanent financing, including April 2011 issuances of common stock and 2011 Equity Units, and proceeds from the issuance of debt by PPL WEM, WPD (East Midlands) and WPD (West Midlands) in the second quarter of 2011. See Note 7 for additional information on the 2011 Bridge Facility and permanent financing.

Preliminary Purchase Price Allocation

The following table summarizes (in billions) the preliminary allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed.

Current assets (a)	$	0.3
PP&E		4.9
Intangible assets (b)		0.1
Other noncurrent assets		0.1
Current liabilities (c)		(0.6)
PPL WEM affiliate indebtedness		(1.7)
Long-term debt (current and noncurrent) (c)		(0.8)
Other noncurrent liabilities (c)		(0.5)
Net identifiable assets acquired		1.8
Goodwill		2.3
Net assets acquired	$	4.1

(a) Includes gross contractual amount of the accounts receivable acquired of $119 million, which approximates fair value.
(b) Intangible assets recorded include $88 million of easements, which have an indefinite life, and $11 million of customer contracts, which have a weighted-average amortization period of 10 years.
(c) Represents non-cash activity excluded from the Statement of Cash Flows for the six months ended June 30, 2011.

The purchase price allocation is preliminary and could change materially in subsequent periods. Any changes to the purchase price allocation during the measurement period that result in material changes to the consolidated financial results will be adjusted retrospectively. The measurement period can extend up to one year from the date of acquisition, but PPL expects to complete the purchase price allocation before the end of 2011. The items pending finalization include, but are not limited to, the valuation of PP&E, intangible assets, defined benefit plans, certain liabilities, goodwill and income tax-related matters.

The preliminary purchase price allocation resulted in goodwill of $2.3 billion that was assigned to the International Regulated segment. This reflects the expected continued growth of a rate-regulated business with a defined service territory operating under a constructive regulatory framework, expected cost savings, efficiencies and other benefits resulting from contiguous service territories with WPD (South West) and WPD (South Wales) and the ability to leverage WPD (South West)'s and WPD (South Wales)'s existing management team's high level of performance both in capital cost efficiency and customer service. The goodwill is not expected to be deductible for income tax purposes. No deferred taxes were recorded related to goodwill.

Separation Benefit – International Regulated Segment

In connection with the acquisition of WPD Midlands, PPL has initiated a reorganization designed to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales). The reorganization, which is expected to be completed in early 2012, is intended to transition WPD Midlands from a functional structure to a regional structure that will require a smaller combined support structure, reduce duplication and implement more efficient procedures.

In June 2011, WPD published its new organizational structure and the job positions that will comprise WPD Midlands. It is currently estimated that approximately 600 to 800 employees of WPD Midlands will leave the companies as a result of the reorganization. The actual number of employees that leave will depend, in part, on the number of people who accept positions they are offered and on the number who elect voluntarily to accept severance compensation.

The categories of separation costs to be associated with the reorganization are severance compensation, early retirement deficiency costs associated with the applicable pension plans, outplacement services and other legal and administrative expenses. Other than the cost for outplacement services, there is considerable uncertainty in estimating the range of costs that will ultimately be incurred, as the amount of each of those cost categories will depend on the number of persons leaving the company, their current compensation level, years of service, age and the terms of the applicable pension plan in which they participate. As a result, a range of the total separation costs associated with the reorganization cannot be reasonably estimated at this time; however, separation costs are not expected to exceed $140 million. Such separation costs will be recognized primarily in the third and fourth quarters of 2011.

In addition, during the second quarter of 2011, WPD recognized $6 million of separation costs associated with the dismissal of eight senior executives of WPD Midlands, which is included in "Other operation and maintenance" on the Statement of Income. Of these costs, $2 million relates to early retirement deficiency costs payable under applicable pension plans and $4 million relates to severance compensation.

Pro forma Information

The actual WPD Midlands operating revenues and net income (which are recorded on a one-month lag) included in PPL's Statements of Income for both the three and six months ended June 30, 2011 were $207 million and $7 million, representing two months of activity since the date of acquisition. The net income included in the International Regulated segment associated with the acquisition of WPD Midlands, excluding nonrecurring acquisition-related adjustments for the three and six months ended June 30, 2011 was $57 million.

The pro forma operating revenues and net income attributable to PPL for the periods ended June 30, which includes LKE as if the acquisition had occurred January 1, 2009 and WPD Midlands as if the acquisition had occurred January 1, 2010, are as follows.

	Three Months		Six Months	
	2011	2010	2011	2010
Operating Revenues - PPL consolidated pro forma	$ 2,570	$ 2,324	$ 5,772	$ 6,351
Net Income (Loss) Attributable to PPL - PPL consolidated pro forma	319	172	820	554

The pro forma financial information presented above has been derived from the historical consolidated financial statements of PPL and LKE, which was acquired on November 1, 2010, and from the historical combined financial statements of WPD Midlands. Income (loss) from discontinued operations (net of income taxes) of $(1) million and $2 million for the three and six months ended June 30, 2011 and $8 million and $13 million for the three and six months ended June 30, 2010 was excluded from the pro forma amounts above.

The pro forma adjustments include adjustments to depreciation, net periodic pension costs, interest expense, nonrecurring adjustments and the related income tax effects. Nonrecurring adjustments include the following credits (expenses):

	Income Statement Line Item	Three Months 2011	Three Months 2010	Six Months 2011	Six Months 2010
WPD Midlands acquisition					
2011 Bridge facility costs	Interest Expense	$ (36)		$ (43)	
Foreign currency loss on 2011 Bridge Facility	Other Income (Expense) - net	(58)		(58)	
Net hedge gains associated with the 2011 Bridge Facility	Other Income (Expense) - net	63		56	
Hedge ineffectiveness	Interest Expense	(12)		(12)	
U.K. stamp duty tax	Other Income (Expense) - net	(21)		(21)	
Other acquisition-related costs	(a)	(42)		(52)	
LKE acquisition					
2010 Bridge facility costs	Interest Expense		$ (22)		$ (22)
Other acquisition-related costs			(7)		(7)

Other Income
(Expense) - net

(a) Primarily includes advisory, accounting and legal fees recorded in "Other Income (Expense) - net" and the separation costs recognized during the second quarter of 2011 as noted above, recorded in "Other operation and maintenance" on the Statements of Income.

Acquisition of LKE (PPL, LKE, LG&E and KU)

See Notes 1 and 10 in PPL's 2010 Form 10-K and Note 2 in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) for information on PPL's November 2010 acquisition of LKE.

Development

(PPL, LKE, LG&E and KU)

In January 2011, LKE began dispatching electricity from TC2 to meet customer demand. See Note 10 in this Form 10-Q, Notes 8 and 15 in PPL's 2010 Form 10-K and Note 13 in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) for additional information.

(PPL and PPL Energy Supply)

The NRC continues to review the COLA submitted by a PPL Energy Supply subsidiary for the proposed Bell Bend nuclear generating unit to be built adjacent to the Susquehanna plant. PPL has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL has announced that it does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL and its subsidiaries are currently authorized by PPL's Board of Directors to spend up to $144 million on the COLA and other permitting costs (including land costs) necessary for construction. At June 30, 2011 and December 31, 2010, $119 million and $109 million of costs associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL believes it is probable that these costs are ultimately recoverable following NRC approval of the COLA either through construction of the new nuclear unit, transfer of the COLA rights to a joint venture, or sale of the COLA rights to another party. The PPL Energy Supply subsidiary remains active in the DOE Federal loan guarantee application process. See Note 8 in PPL's 2010 Form 10-K and Note 5 in PPL Energy Supply's Form 8-K dated June 24, 2011 for additional information.

(PPL and PPL Electric)

PPL Electric anticipates that delays in obtaining necessary National Park Service approvals for the Susquehanna-Roseland transmission line will delay its in-service date to 2014 or later. In the first quarter of 2011, PJM issued an updated assessment of the new line within its 2010 Regional Transmission Expansion Plan, which confirms that the line is needed by 2012 to prevent overloads on other power lines in the region. PJM has developed a strategy to manage potential reliability problems until the line is built. PPL Electric cannot predict what additional actions, if any, PJM might take in the event of a continued delay to its scheduled in-service date for the new line. See Note 8 in each Registrant's 2010 Form 10-K for additional information.

Discontinued Operations

(PPL and PPL Energy Supply)

Sale of Certain Non-core Generation Facilities

In March 2011, PPL Energy Supply subsidiaries completed the sale of their ownership interests in certain non-core generation facilities, which were included in the Supply segment, for $381 million. The transaction included the natural gas-fired facilities in Wallingford, Connecticut and University Park, Illinois and an equity interest in Safe Harbor Water Power Corporation, which owns a hydroelectric facility in Conestoga, Pennsylvania. In connection with the completion of the sale, PPL Energy Supply recorded insignificant losses in the first and second quarters of 2011. See Note 9 in PPL's 2010 Form 10-K and Note 6 in PPL Energy Supply's Form 8-K dated June 24, 2011 for additional information, including after-tax impairment charges totaling $64 million recorded in the third and fourth quarters of 2010.

Following are the components of Discontinued Operations in the Statements of Income for the periods ended June 30.

	Three Months		Six Months	
	2011	2010	2011	2010
Operating revenues		$ 29	$ 19	$ 57
Operating expenses	$ 2	17	11	29

Operating income		(2)		12		8		28
Other income (expense) - net				1				1
Interest expense (a)				1		3		3
Income before income taxes		(2)		12		5		26
Income tax expense		(1)		5		3		11
Income (Loss) from Discontinued Operations	$	(1)	$	7	$	2	$	15

(a) Represents allocated interest expense based upon debt attributable to the generation facilities sold.

Upon completion of the sale, assets primarily consisting of $357 million of PP&E and a $14 million equity method investment, which were classified as held for sale at December 31, 2010, were removed from the Balance Sheet.

Sale of Long Island Generation Business

In February 2010, PPL Energy Supply subsidiaries completed the sale of the Long Island generation business, which was included in the Supply segment. The definitive sales agreement included provisions that reduced the $135 million purchase price monthly, commencing September 1, 2009. After adjusting for these price-reduction provisions, proceeds from the sale approximated $124 million. There was no significant impact on earnings in the six months ended June 30, 2010 from the operation of this business or as a result of this sale.

Distribution of Membership Interest in PPL Global to Parent (PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global, which represented the entire International Regulated segment, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011, and no gains or losses were recognized on the distribution. The purpose of the distribution was to better align PPL's organizational structure with the manner in which it manages these businesses, separating the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. Following the distribution, PPL Energy Supply operates in a single business segment, and through its subsidiaries is primarily engaged in the generation and marketing of power, primarily in the northeastern and northwestern U.S.

Following are the components of Discontinued Operations in the Statement of Income for the periods ended June 30, 2010.

	Three Months	Six Months
Operating revenues	$ 178	$ 391
Operating expenses	85	176
Operating income	93	215
Other income (expense) - net	1	2
Interest expense (a)	33	64
Income before income taxes	61	153
Income tax expense	8	32
Income (Loss) from Discontinued Operations	$ 53	$ 121

(a) No interest was allocated, as PPL Global is sufficiently capitalized.

In connection with the distribution, the following assets and liabilities were removed from PPL Energy Supply's Balance Sheet in the first quarter of 2011. Except for "Cash and cash equivalents," which has been reflected as a financing activity, the remaining distribution represents a non-cash transaction excluded from PPL Energy Supply's Statement of Cash Flows for the six months ended June 30, 2011.

Cash and cash equivalents	$ 325
Accounts receivable	46
Unbilled revenues	70
Other current assets	21
PP&E, net	3,502
Goodwill	679
Other intangibles	80
Other noncurrent assets	77

Total Assets	4,800
Short-term debt	181
Accounts payable	86
Accrued interest	71
Other current liabilities	112
Long-term debt	2,313
Deferred income tax liabilities - noncurrent	399
Accrued pension obligations	320
Other deferred credits and noncurrent liabilities	30
Total Liabilities	3,512
Net assets distributed	$ 1,288

9. Defined Benefits

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

Net periodic defined benefit costs (credits) of the plans sponsored by the registrants for the periods ended June 30 were:

	Pension Benefits							
	Three Months				Six Months			
	U.S.		U.K.		U.S.		U.K.	
	2011	2010	2011	2010	2011	2010	2011	2010
PPL								
Service cost	$ 23	$ 15	$ 12	$ 4	$ 47	$ 30	$ 17	$ 9
Interest cost	54	37	73	36	109	74	112	75
Expected return on plan assets	(61)	(44)	(88)	(49)	(123)	(88)	(140)	(99)
Amortization of:								
Prior service cost	6	5	1	1	12	10	2	2
Actuarial (gain) loss	8	1	15	12	14	2	29	24
Net periodic defined benefit costs (credits) prior to termination benefits	30	14	13	4	59	28	20	11
Termination benefits			2				2	
Net periodic defined benefit costs (credits)	$ 30	$ 14	$ 15	$ 4	$ 59	$ 28	$ 22	$ 11
PPL Energy Supply								
Service cost	$ 1	$ 1		$ 4	$ 2	$ 2		$ 9
Interest cost	2	1		36	4	3		75
Expected return on plan assets	(2)	(1)		(49)	(4)	(3)		(99)
Amortization of:								
Prior service cost				1				2
Actuarial (gain) loss	1			12	1	1		24
Net periodic defined benefit costs (credits)	$ 2	$ 1		$ 4	$ 3	$ 3		$ 11

	Pension Benefits			
	Three Months		Six Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
LKE				

Service cost	$ 6	$ 5	$ 12	$ 10
Interest cost	17	16	34	32
Expected return on plan assets	(16)	(14)	(32)	(27)
Amortization of:				
Prior service cost	1	2	2	4
Actuarial (gain) loss	6	5	11	10
Net periodic defined benefit costs (credits)	$ 14	$ 14	$ 27	$ 29
LG&E				
Service cost	$ 1	$ 1	$ 1	$ 1
Interest cost	3	3	7	7
Expected return on plan assets	(5)	(4)	(9)	(8)
Amortization of:				
Prior service cost	1		1	1
Actuarial (gain) loss	3	2	6	4
Net periodic defined benefit costs (credits)	$ 3	$ 2	$ 6	$ 5

	Other Postretirement Benefits			
	Three Months		Six Months	
	2011	2010	2011	2010
PPL				
Service cost	$ 3	$ 2	$ 6	$ 4
Interest cost	8	7	16	14
Expected return on plan assets	(5)	(5)	(11)	(10)
Amortization of:				
Transition obligation	1	2	1	4
Prior service cost		2		4
Actuarial cost	1	1	3	2
Net periodic defined benefit costs (credits)	$ 8	$ 9	$ 15	$ 18

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	Other Postretirement Benefits			
	Three Months		Six Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
LKE				
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	2	2	5	5
Expected return on plan assets	(1)		(2)	(1)
Amortization of:				
Transition obligation	1		1	
Prior service cost			1	1
Net periodic defined benefit costs (credits)	$ 3	$ 3	$ 7	$ 7

(PPL Energy Supply)

See Note 8 for information on PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, which included associated accrued pension obligations.

(PPL Energy Supply and PPL Electric)

In addition to the specific plans it sponsors, PPL Energy Supply and its subsidiaries are also allocated costs of defined benefit plans sponsored by PPL Services, based on their participation in those plans, which management believes are reasonable. PPL Electric does not directly sponsor any defined benefit plans. PPL Electric was allocated costs of defined benefit plans sponsored by PPL Services, based on its participation in those plans, which management believes are reasonable. PPL Services allocated the following net periodic benefit costs to PPL Energy Supply and PPL Electric, including amounts applied to accounts that are further distributed between capital and expense for the periods ended June 30.

	Three Months		Six Months	
	2011	2010	2011	2010
PPL Energy Supply	$ 8	$ 9	$ 15	$ 18
PPL Electric	6	7	12	14

(LG&E and KU)

In addition to the specific plan it sponsors, LG&E is also allocated costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable. KU does not directly sponsor any defined benefit plans. KU is allocated costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable. LKE allocated the following net periodic benefit costs to LG&E and KU, including amounts applied to accounts that are further distributed between capital and expense for the periods ended June 30.

	Three Months		Six Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor

LG&E	$ 6	$ 5	$ 12	$ 11
KU	9	8	18	17

Expected Cash Flows - U.K. Pension Plans

(PPL)

During 2011, WPD updated its expected pension contributions for 2011 to $111 million from the $15 million expected contributions disclosed in PPL's 2010 Form 10-K. The updated contributions reflect $27 million of contributions required to fund the acquired WPD Midlands' plan and $69 million of increased PPL WW contributions to prepay future contribution requirements to fund pension plan deficits. As of June 30, 2011, WPD had contributed $91 million to its plans.

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

In March 2010, Health Care Reform was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time, and most will require the publication of implementing regulations and/or issuance of program guidelines.

Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, in the first quarter of 2010, PPL and its subsidiaries took the following actions and will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform on their benefit programs.

(PPL, PPL Energy Supply, PPL Electric)

- PPL decreased deferred tax assets by $13 million, increased regulatory assets by $9 million, increased deferred tax liabilities by $4 million and recorded income tax expense of $8 million;
- PPL Energy Supply decreased deferred tax assets by $5 million and recorded income tax expense of $5 million; and
- PPL Electric decreased deferred tax assets by $5 million, increased regulatory assets by $9 million and increased deferred tax liabilities by $4 million.

(LKE, LG&E and KU)

- LKE and KU recorded insignificant amounts as a result of this enactment. LG&E was not impacted.

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL, LKE, LG&E and KU)

Pursuant to a power purchase agreement with OVEC, extended in February 2011 to 2040, pending KPSC and VSCC approvals, LG&E and KU are conditionally responsible for their pro-rata share of certain obligations of OVEC under defined circumstances. These contingent liabilities may include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and other post-employment benefit costs. LKE's contingent proportionate share of OVEC's outstanding debt was $111 million at June 30, 2011, consisting of LG&E's share of $77 million and KU's share of $34 million.

(PPL and PPL Electric)

In 2009, the PUC approved PPL Electric's procurement plan for the period January 2011 through May 2013. Through July 2011, PPL Electric has conducted eight of its 14 planned competitive solicitations. The solicitations include a mix of long-term and short-term purchases ranging from five months to ten years to fulfill PPL Electric's obligation to provide for customer supply as a PLR. See Note 6 for a discussion of the default service supply procurement provisions of Act 129.

Legal Matters

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

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business.

(PPL, LKE, LG&E and KU)

Trimble County Unit 2 Construction

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price. During 2009 and 2010, LG&E and KU received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, LG&E, KU and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions, LG&E and KU took care, custody and control of TC2 in January 2011. LG&E and KU and the contractor have agreed to certain amendments to the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. The remaining issues are still under discussion with the contractor. PPL, LKE, LG&E and KU cannot currently predict the outcome of this matter or the potential impact on the capital costs of this project.

Trimble County Unit 2 Transmission

LG&E's and KU's Certificate of Public Convenience and Necessity (CCN) and condemnation rights relating to a transmission line associated with the TC2 construction have been challenged by certain property owners in Hardin County, Kentucky. Certain proceedings relating to CCN challenges and federal historic preservation permit requirements have concluded with outcomes in LG&E's and KU's favor. With respect to the remaining issues in dispute, during 2008 KU obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Kentucky Court of Appeals. In July 2010, the Kentucky Court of Appeals denied that petition. In August 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court. In March 2011, the Kentucky Supreme Court issued an order declining the discretionary review request, thus closing this matter.

Argentina Matters (LKE, LG&E and KU)

In connection with an administrative proceeding alleging a violation by a former Argentine subsidiary under that country's 2002-2003 emergency currency exchange laws, claims were brought against the subsidiary's then directors, including two individuals who are executive officers of LKE, in a specialized Argentine financial criminal court. Under applicable Argentine laws, directors of a local company may be liable for monetary penalties for a subject company's violations of the currency laws. In February 2011, the Argentine court issued an order acquitting the former subsidiary and its directors of all claims, which order has become final.

(PPL and PPL Energy Supply)

Spent Nuclear Fuel Litigation

Federal law requires the U.S. government to provide for the permanent disposal of commercial spent nuclear fuel, but there is no definitive date by which a repository will be operational. As a result, it was necessary to expand Susquehanna's on-site spent fuel storage capacity. To support this expansion, PPL Susquehanna contracted for the design and construction of a spent fuel storage facility employing dry cask fuel storage technology. The facility is modular, so that additional storage capacity can be added as needed. The facility began receiving spent nuclear fuel in 1999. PPL Susquehanna estimates that there is sufficient storage capacity in the spent nuclear fuel pools and the on-site dry cask storage facility at Susquehanna to accommodate spent fuel discharged through approximately 2017 under current operating conditions. If necessary, on-site dry cask storage capability can be expanded, assuming appropriate regulatory approvals are obtained, such that, together, the spent fuel pools and the expanded dry fuel storage facilities will accommodate all of the spent fuel expected to be discharged through the current licensed life of each unit, 2042 for Unit 1 and 2044 for Unit 2.

In 1996, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) ruled that the Nuclear Waste Policy Act imposed on the DOE an unconditional obligation to begin accepting spent nuclear fuel on or before January 31, 1998. In 1997, the D.C. Circuit Court ruled that the contracts between the utilities and the DOE provide a potentially adequate remedy if the DOE failed to begin accepting spent nuclear fuel by January 31, 1998. The DOE did not, in fact, begin to accept spent nuclear fuel by that date. The DOE continues to contest claims that its breach of contract resulted in recoverable damages. In January 2004, PPL Susquehanna filed suit in the U.S. Court of Federal Claims for unspecified damages suffered as a result of the DOE's breach of its contract to accept and dispose of spent nuclear fuel. In May 2011, the parties entered into a settlement agreement which resolved all claims of PPL Susquehanna through December 2013. Under the settlement agreement, PPL Susquehanna received approximately $50 million for its share of claims to recover costs to store spent nuclear fuel at the Susquehanna station through September 30, 2009, and will be eligible to receive payment of annual claims for allowed costs, as set forth in the settlement agreement, that are incurred thereafter through the December 31, 2013 termination date of the settlement agreement. In exchange, PPL Susquehanna has waived any claims against the United States government for costs paid or injuries sustained related to storing spent nuclear fuel at PPL Susquehanna through December 31, 2013.

Montana Hydroelectric Litigation

In November 2004, PPL Montana, Avista Corporation (Avista) and PacifiCorp commenced an action for declaratory judgment in Montana First Judicial District Court seeking a determination that no lease payments or other compensation for their hydroelectric facilities' use and occupancy of certain riverbeds in Montana can be collected by the State of Montana. This lawsuit followed dismissal on jurisdictional grounds of an earlier federal lawsuit seeking such compensation in the U.S. District Court of Montana. The federal lawsuit alleged that the beds of Montana's navigable rivers became state-owned trust property upon Montana's admission to statehood, and that the use of them should, under a 1931 regulatory scheme enacted after all but one of the hydroelectric facilities in question were constructed, trigger lease payments for use of land beneath. In July 2006, the Montana state court approved a stipulation by the State of Montana that it was not seeking compensation for the period prior to PPL Montana's December 1999 acquisition of the hydroelectric facilities.

Following a number of adverse trial court rulings, in 2007 Pacificorp and Avista each entered into settlement agreements with the State of Montana providing, in pertinent part, that each company would make prospective lease payments for use of the State's navigable riverbeds (subject to certain future adjustments), resolving the State's claims for past and future compensation.

Following an October 2007 trial of this matter on damages, in June 2008, the Montana District Court awarded the State retroactive compensation of approximately $35 million for the 2000-2006 period and approximately $6 million for 2007 compensation. Those unpaid amounts continue to accrue interest at 10% per year. The Montana District Court also deferred determination of compensation for 2008 and future years to the Montana State Land Board. In October 2008, PPL Montana appealed the decision to the Montana Supreme Court, requesting a stay of judgment and a stay of the Land Board's authority to assess compensation for 2008 and future periods.

In March 2010, the Montana Supreme Court substantially affirmed the June 2008 Montana District Court decision. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million ($34 million after tax or $0.08 per share, basic and diluted, for PPL), representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. Rental compensation was estimated for periods subsequent to 2007, although such estimated amounts may differ from amounts ultimately determined by the Montana State Land Board. The portion of the pre-tax charge that related to prior years totaled $54 million ($32 million after tax). The pre-tax charge recorded on the Statement of Income was $49 million in "Other operation and maintenance" and $7 million in "Interest Expense." PPL Montana continues to accrue interest expense for the prior years and rent expense for the current year. PPL Montana's total loss accrual at June 30, 2011 was $81 million.

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. This matter will be briefed on its merits, with oral argument likely to occur in late November or early December 2011 and a decision likely to be rendered by the Court by June 30, 2012. The stay of the judgment granted during the proceedings before the Montana Supreme Court has been extended by agreement with the State of Montana, to cover the anticipated period of the proceeding before the U.S. Supreme Court. PPL and PPL Energy Supply cannot predict the outcome of this matter, but do not expect to incur material losses beyond the estimated losses recorded.

PJM/MISO Billing Dispute (PPL, PPL Energy Supply and PPL Electric)

In 2009, PJM reported that it had discovered a modeling error in the market-to-market power flow calculations between PJM and MISO. The error was a result of incorrect modeling of certain generation resources that have an impact on power flows across the PJM/MISO border. Informal settlement discussions on this issue terminated in March 2010. Also in March 2010, MISO filed two complaints with the FERC concerning the modeling error and related matters with a demand for $130 million of principal plus interest. In April 2010, PJM filed answers to the complaints and filed a related complaint against MISO. In its answers and complaint, PJM denies that any compensation is due to MISO and seeks recovery in excess of $25 million from MISO for alleged violations by MISO regarding market-to-market power flow calculations. PPL participates in markets in both PJM and MISO. In June 2010, the FERC ordered the complaints to be consolidated and set for settlement discussions, followed by hearings if the discussions are unsuccessful. In January 2011, the parties to this dispute filed a settlement with the FERC under which no compensation would be paid to either PJM or MISO and providing for certain improvements in how the calculations are administered going forward. The settlement was contested by several parties and in June 2011 the FERC issued an order approving the contested settlement, which order has become final and is not subject to rehearing and appeal.

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

See Note 6 for information on regulatory matters related to utility rate regulation.

Enactment of Financial Reform Legislation (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

In July 2010, the Dodd-Frank Act was signed into law. Of particular relevance to PPL and PPL Energy Supply, the Dodd-Frank Act includes provisions that will likely impose derivative transaction reporting requirements and will require most over-the-counter derivative transactions to be executed through an exchange or to be centrally cleared. The Dodd-Frank Act, however, provides an exemption from mandatory clearing and exchange trading requirements for over-the-counter derivative transactions used to hedge or mitigate commercial risk. Although the phrase "to hedge or mitigate commercial risk" is not defined in the Dodd-Frank Act, the 2010 rules proposed by the Commodity Futures Trading Commission (CFTC) set forth an inclusive, multi-pronged definition for the phrase. Based on this proposed definition and other requirements in the proposed rule, it is anticipated that transactions utilized by PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU should qualify if they are not entered into for speculative purposes. The Dodd-Frank Act also provides that the CFTC may impose collateral and margin requirements for over-the-counter derivative transactions, including those that are used to hedge commercial risk. However, during drafting of the Dodd-Frank Act, certain members of Congress adopted report language and issued a public letter stating that it was not their intention to impose margin and collateral requirements on counterparties that utilize these transactions to hedge commercial risk. Final rules on major provisions in the Dodd-Frank Act, including imposition of collateral and margin requirements, will be established through rulemakings and the CFTC has postponed implementation until December 31, 2011. PPL and PPL Energy Supply may be required to post additional collateral if they are subject to margin requirements as ultimately adopted in the implementing regulations of the Dodd-Frank Act. PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU will continue to evaluate the provisions of the Dodd-Frank Act and monitor developments related to its implementation. At this time, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict the impact that the new law or its implementing regulations will have on their businesses or operations, or the markets in which they transact business, but currently do not expect to incur material costs related to this matter.

New Jersey Capacity Legislation (PPL, PPL Energy Supply and PPL Electric)

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

In addition, in February 2011, PPL, with several other generating companies and utilities, filed a complaint in Federal Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution. In this action, the Plaintiffs request declaratory and injunctive relief barring implementation of the Act by the Commissioners of the BPU. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

California ISO and Western U.S. Markets (PPL and PPL Energy Supply)

Through its subsidiaries, PPL Energy Supply made $18 million of sales to the California ISO during the period October 2000 through June 2001, $17 million of which has not been paid to PPL subsidiaries. Also, there has been further litigation about additional claims of refunds for periods prior to October 2000. In January 2011, PPL and the "California Parties" (collectively, three California utility companies, the California Public Utility Commission and certain California state authorities) filed a settlement under which PPL would receive approximately $1 million of its $17 million claim, plus interest of $1 million. In June 2011, the FERC approved the settlement; therefore PPL released its reserve and wrote-off the related receivable. Settlement proceeds were received in July.

In June 2003, the FERC took several actions as a result of several related investigations beyond the California ISO litigation. The FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. The FERC also commenced additional investigations relating to "gaming" and bidding practices during 2000 and 2001, but neither PPL EnergyPlus nor PPL Montana believes it is a subject of these investigations.

Although PPL and its subsidiaries believe that they have not engaged in any improper trading or marketing practices affecting the western markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described investigations, lawsuits and proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to these matters.

PJM RPM Litigation (PPL, PPL Energy Supply and PPL Electric)

In May 2008, a group of state public utility commissions, state consumer advocates, municipal entities and electric cooperatives, industrial end-use customers and a single electric distribution company (collectively, the RPM Buyers) filed a complaint before the FERC objecting to the prices for capacity under the PJM Reliability Pricing Model (RPM) that were set in the 2008-09, 2009-10 and 2010-11 RPM base residual auctions. The RPM Buyers requested that the FERC reset the rates paid to generators for capacity in those periods to a significantly lower level. Thus, the complaint requests that generators be paid less for those periods through refunds and/or prospective changes in rates. The relief requested in the complaint, if granted, could have a material effect on PPL, PPL Energy Supply and PPL Electric. PJM, PPL and numerous other parties responded to the complaint, strongly opposing the relief sought by the RPM Buyers. In September 2008, the FERC entered an order denying the complaint. In August 2009, the RPM Buyers appealed the FERC's decision to the U.S. Court of Appeals for the Fourth Circuit, and the appeal was subsequently transferred to the U.S. Court of Appeals for the District of Columbia Circuit. In February 2011, the U.S. Court of Appeals for the District of Columbia Circuit issued an order denying the appeal. No party sought review of the order denying the appeal. FERC's September 2008 denial of the complaint is therefore final.

In December 2008, PJM submitted amendments to certain provisions governing its RPM capacity market. The amendments were intended to permit the compensation available to suppliers that provide capacity, including PPL Energy Supply, to increase. PJM sought approval of the amendments in time for them to be implemented for the May 2009 capacity auction (for service in June 2012 through May 2013). Numerous parties, including PPL, protested PJM's filing. Certain of the protesting parties, other than PPL, proposed changes to the capacity market auction that would result in a reduction in compensation to capacity suppliers. The changes proposed by PJM and by other parties in response to PJM proposals could significantly affect the compensation available to suppliers of capacity participating in future RPM auctions. In March 2009, the FERC entered an order approving in part and disapproving in part the changes proposed by PJM. In August 2009, the FERC issued an order granting rehearing in part, denying rehearing in part and clarifying its March 2009 order. No request for rehearing or appeal of the August 2009 order was timely filed. In October 2010, the August 2009 Order became final and will not have a material impact on PPL, PPL Energy Supply or PPL Electric.

FERC Market-Based Rate Authority (PPL, PPL Energy Supply, LKE, LG&E and KU)

In December 1998, the FERC authorized PPL EnergyPlus to make wholesale sales of electric power and related products at market-based rates. In that order, the FERC directed PPL EnergyPlus to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In December 2010, PPL filed its market-based rate update for the Eastern region. In January 2011, PPL filed the market-based rate update for the Western region. In June 2011, PPL filed its market-based rate update for the Southeast region, including LG&E and KU in addition to PPL EnergyPlus. In June 2011, the FERC issued an order approving LG&E's and KU's request for a determination that they no longer be deemed to have market power in the Big Rivers Electric Corporation balancing area and removing restrictions on their market-based rate authority in such region.

Currently, a seller granted market-based rate authority by the FERC may enter into power contracts during an authorized time period. If the FERC determines that the market is not workably competitive or that the seller possesses market power or is not charging "just and reasonable" rates, it may institute prospective action, but any contracts entered into pursuant to the FERC's market-based rate authority remain in effect and are generally subject to a high standard of review before the FERC can order changes. Recent court decisions by the U.S. Court of Appeals for the Ninth Circuit have raised issues that may make it more difficult for the FERC to continue its program of promoting wholesale electricity competition through market-based rate authority. These court decisions permit retroactive refunds and a lower standard of review by the FERC for changing power contracts, and could have the effect of requiring the FERC in advance to review most, if not all, power contracts. In June 2008, the U.S. Supreme Court reversed one of the decisions of the U.S. Court of Appeals for the Ninth Circuit, thereby upholding the higher standard of review for modifying contracts. The FERC has not yet taken action in response to these court decisions. At this time, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the impact of these court decisions on the FERC's future market-based rate authority program or on their businesses.

Energy Policy Act of 2005 - Reliability Standards (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. The FERC has indicated it intends to vigorously enforce the Reliability Standards using, among other means, civil penalty authority. Under the Federal Power Act, the FERC may assess civil penalties of up to $1 million per day, per violation, for certain violations. The first group of Reliability Standards approved by the FERC became effective in June 2007.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans. The resolution of a number of these potential violation reports is pending. Any regional reliability entity determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC. PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In the course of implementing its program to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time.

Environmental Matters - Domestic

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

Due to the environmental issues discussed below or other environmental matters, PPL subsidiaries may be required to modify, curtail, replace or cease operating certain facilities or operations to comply with statutes, regulations and other requirements of regulatory bodies or courts.

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

Air

The Clean Air Act addresses, among other things, emissions causing acid deposition, installation of best available control technologies for new or substantially modified sources, attainment of national ambient air quality standards, toxic air emissions and visibility standards in the U.S. Amendments to the Clean Air Act requiring additional emission reductions had been proposed but are unlikely to be introduced or passed in this Congress. The Clean Air Act allows states to develop more stringent regulations and in some instances, as discussed below, Kentucky, Pennsylvania and Montana have done so.

To comply with air related requirements and other environmental requirements as described below, PPL's forecast for capital expenditures reflects a best estimate projection of expenditures that may be required within the next five years. Such projections are a combined $3.1 billion for LG&E and KU (which includes $600 million currently approved in its ECR plans during the 2011 through 2013 time period to achieve emissions reductions and manage coal combustions residuals and $2.5 billion recently requested through the 2011 ECR Plan for additional expenditures to comply with new clean air rules and manage coal combustion residuals) and $400 million for PPL Energy Supply. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are subject to recovery through the ECR. See Note 6 for additional information on the ECR plan.

Cross State Air Pollution Rule (CSAPR) formerly Clean Air Transport Rule

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. The CSAPR replaces the EPA's previous Clean Air Interstate Rule (called CAIR) which was struck down by the U.S. Court of Appeals for the District of Columbia Circuit (the Court) in July 2008. CAIR subsequently was effectively reinstated by the Court in December 2008, pending finalization of the Transport Rule. Like CAIR and the proposed Transport Rule, the CSAPR only applies to PPL's generation facilities located in Kentucky and Pennsylvania.

The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxides. The CSAPR establishes a new sulfur dioxide emission allowance cap and trade program that is completely independent of and more stringent than the current Acid Rain Program. The CSAPR also establishes new nitrogen oxide emission allowance cap and trade programs to replace the current programs that are also more restrictive than the existing programs. All trading is more restrictive than previously under CAIR. The CSAPR will be implemented in two phases. The first phase of the sulfur dioxide and nitrogen oxide emissions caps becomes effective in 2012. The second phase, lowering both of these caps, becomes effective in 2014.

With respect to PPL's competitive generation in Pennsylvania, greater reductions in sulfur dioxide emissions will be required beginning in 2012 under CSAPR than were required under CAIR starting in 2015. For the initial phase of the rule beginning in 2012, PPL Energy Supply's sulfur dioxide allowance allocations are expected to meet the forecasted emissions based on present operations of existing scrubbers and coal supply. For the second phase beginning in 2014, the further reduction in allocations will most likely be met with increased operations of the existing scrubbers. With respect to nitrogen oxide, CSAPR provides a slightly higher amount of allowances for PPL Energy Supply's Pennsylvania plants, but still less than PPL Energy Supply's current forecasted emissions. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Pennsylvania fleet, such as the installation of new technology or modifications of plant operations.

With respect to LG&E and KU, greater reductions in sulfur dioxide emissions will also be required under the CSAPR beginning in 2012 than were required under CAIR starting in 2015. For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to meet the forecasted emissions based on present operations of existing scrubbers and coal supply. However, by the second phase beginning in 2014, LG&E and KU will likely have to take additional measures with respect to the operation and dispatch of their generation fleet, including upgrades or installation of new scrubbers for certain generating units or retirement of certain units. With respect to nitrogen oxide, the CSAPR allocates a slightly lower amount of allowances compared to those allocated under CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Kentucky fleet, such as the installation of new technology, the retirement of certain units and modifications of plant operations. LG&E and KU are seeking recovery of their expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011. See Note 6 for additional information.

In addition to the reductions in sulfur dioxide and nitrogen oxide emissions required under the CSAPR for the Pennsylvania and Kentucky plants, PPL's plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. The EPA has recently finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. For non-attainment areas, states are required to develop plans by 2014 to achieve attainment by 2017. For areas in attainment or unclassifiable, states are required to develop maintenance plans by mid-2013 that demonstrate continued attainment. PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with CSAPR such as upgraded or new scrubbers at some of their plants or retirements of certain units may also be necessary to achieve compliance with new sulfur dioxide standards. If additional reductions were to be required, the economic impact to each could be significant.

Mercury and other Hazardous Air Pollutants

Citing its authority under the Clean Air Act, in 2005, the EPA issued the Clean Air Mercury Rule (CAMR) affecting coal-fired power plants. Since the CAMR was overturned in a 2008 U.S. Circuit Court decision, the EPA is now proceeding to develop standards imposing MACT for mercury emissions and other hazardous air pollutants from electric generating units. Under a recently approved settlement, the EPA is required to issue final MACT standards by November 2011. In order to develop these standards, the EPA has collected information from coal- and oil-fired electric utility steam generating units. In May 2011, the EPA published a proposed MACT regulation providing for stringent reductions of mercury and other hazardous air pollutants. The proposed rule also provides for a three-year compliance deadline, with the potential for a one-year extension as provided under the statute. Based on their assessment of the need to install pollution control equipment to meet this rule, LG&E and KU have filed requests with the KPSC for environmental cost recovery to facilitate moving forward with plans to install environmental controls including sorbent injection and fabric-filter baghouses to remove certain hazardous air pollutants. The cost for these controls is reflected in the $2.5 billion cost noted under "Air" above. LG&E and

KU are also evaluating the potential for shutdown of certain units for which retrofits would not be cost-effective. The potential economic impact on PPL Energy Supply plants, including plant closures or other actions, cannot be estimated at this time, however, such impact could be significant. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the proposed rule.

Regional Haze and Visibility

The Clean Air Visibility Rule was issued by the EPA in June 2005 to address regional haze or regionally-impaired visibility caused by multiple sources over a wide area. The rule requires Best Available Retrofit Technology (BART) for certain electric generating units. Under the BART rule, PPL submitted to the PADEP its analyses of the visibility impacts of particulate matter emissions from Martins Creek Units 3 and 4, Brunner Island Units 2 and 3 and Montour Units 1 and 2. No analysis was submitted for sulfur dioxide or nitrogen oxides, because the EPA determined that meeting the requirements for the CAIR also satisfies the BART requirements for those pollutants. Although the EPA has not yet expressly stated that a similar approach will be taken under the CSAPR, the EPA has not requested any further studies. PPL's analyses have shown that, because PPL had already upgraded its particulate emissions controls at Montour Units 1 and 2 and Brunner Island Units 2 and 3, further controls are not justified as there would be little corresponding visibility improvement. PPL has not received comments from the PADEP on these submissions.

Also under the BART rule, PPL submitted to the EPA its analyses of the visibility impacts of sulfur dioxide, nitrogen oxides and particulate matter emissions for Colstrip Units 1 and 2 and Corette. PPL's analyses concluded that further reductions are not warranted. The EPA responded to PPL's reports for Colstrip and Corette and requested further information and analysis. PPL completed further analysis and submitted addendums to its initial reports for Colstrip and Corette. In February 2009, PPL received an information request for additional data related to the Colstrip generating plant non-BART-affected emission sources. PPL responded to this request in March 2009.

In November 2010, PPL Montana received a request from the EPA Region 8, under EPA's Reasonable Further Progress goals of the Regional Haze Rules, to provide further analysis with respect to Colstrip Units 3 and 4. Colstrip's Units 3 and 4 are not BART eligible units. PPL completed a high-level analysis of various control options to reduce emissions of sulfur dioxide and particulate matter, and submitted that analysis to the EPA in January 2011. The analysis shows that any incremental reductions would not be cost effective and that further analysis is not warranted. PPL also concluded that further analysis for nitrogen oxides was not justifiable as these units installed controls under a Consent Decree in which the EPA had previously agreed that, when implemented, would satisfy the requirements for installing BART for nitrogen oxides. The EPA has indicated that it does not agree with all of PPL's conclusions and has requested additional information to which PPL is responding. Additionally, the EPA recently informally indicated to PPL Montana that substantially more reductions in both nitrogen oxide and sulfur dioxide emissions may be required.

PPL and PPL Energy Supply cannot predict whether any additional reductions in emissions will be required in Pennsylvania or Montana. If additional reductions are required, the economic impact could be significant depending on what is required.

LG&E and KU also submitted analyses of the visibility impacts of their Kentucky BART-eligible sources to the Kentucky Division for Air Quality (KDAQ). Only LG&E's Mill Creek plant was determined to have a significant regional haze impact. The KDAQ has submitted a regional haze state implementation plan (SIP) to the EPA which requires the Mill Creek plant to reduce its sulfuric acid mist emissions from Units 3 and 4. After approval of the Kentucky SIP by the EPA and revision of the Mill Creek plant's Title V air permit, LG&E intends to install sorbent injection controls at the plant to reduce sulfuric acid mist emissions. In the event that the EPA determines that compliance with CSAPR would be insufficient to meet BART requirements, it would be necessary for LG&E and KU to reassess their planned compliance measures.

New Source Review (NSR)

The EPA has resumed its NSR enforcement efforts targeting coal-fired power plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants. The requests are similar to those that PPL received several years ago for its Colstrip, Corette and Martins Creek plants. PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In addition, in August 2007, LG&E and KU received information requests for their Mill Creek, Trimble County, and Ghent plants, but have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In March 2009, KU received a notice of violation alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing flue gas desulfurization and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request seeking additional information on this matter. KU has exchanged settlement proposals and other information with the EPA regarding imposition of additional permit limits and emission controls and anticipates continued settlement negotiations. In addition, any settlement or future litigation could potentially encompass a September 2007 notice of violation alleging opacity violations at the plant. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. PPL, LKE and KU are currently unable to predict the final outcome of this matter, and cannot estimate a range of reasonably possible losses, if any.

If PPL subsidiaries are found to have violated NSR regulations, PPL would, among other things, be required to meet permit limits reflecting Best Available Control Technology (BACT) for the emissions of any pollutant found to have significantly increased due to a major plant modification. The costs to meet such limits, including installation of technology at certain units, could be significant.

States and environmental groups also have initiated enforcement actions and litigation alleging violations of the NSR regulations by coal-fired plants, and PPL is unable to predict whether such actions will be brought against any of PPL's plants.

Pursuant to the 2007 U.S. Supreme Court decision on global climate change, as discussed below, the EPA issued regulations governing carbon dioxide emissions from new or modified stationary sources under its NSR regulations. The regulations became effective beginning January 2011. The NSR regulations require major new or modified sources of regulated pollutants to receive pre-construction and operating permits with limits that prevent the significant deterioration of air quality in areas that are in attainment of the ambient air quality standards for certain pollutants. In May 2010, the EPA published a final rule establishing thresholds for regulating GHG emissions from major new or modified sources. Combined carbon dioxide emissions or carbon dioxide equivalent emissions of 100,000 tons or more per year will classify a source as major for permitting applicability purposes. The threshold for a major modification of a major source is an increase of carbon dioxide or carbon dioxide equivalent emissions of 75,000 tons per year, although a significant increase in non carbon dioxide regulated pollutants is also required for modifications undertaken prior to July 2011. If a modification results in emissions increases exceeding the threshold, the plant will need to conduct an analysis of BACT for GHG and meet limits based on BACT. To date, the EPA has not provided final guidance on what constitutes BACT for GHG emissions, but has indicated in draft guidance that it may consider efficiency projects and other options as possible best available control technology for carbon dioxide emissions from power plants. In addition, in December 2010, the EPA announced that it intends to promulgate New Source Performance Standards addressing GHG emissions from new and existing power plants, with a proposed rule currently anticipated to be published in September 2011 and a final rule issued in May 2012. The implications of these developments, including the outcome of any litigation challenging these regulations, are uncertain.

Trimble County Unit 2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an Order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which were incorporated into a final revised permit issued by the KDAQ in January 2010. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot currently predict the outcome of this matter or the potential impact on the capital costs of this project.

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

Global Climate Change

There is concern nationally and internationally about global climate change and the possible contribution of GHG emissions including, most significantly, carbon dioxide, from the combustion of fossil fuels. This has resulted in increased demands for carbon dioxide emission reductions from investors, environmental organizations, government agencies and the international community. These demands and concerns have led to federal legislative proposals, actions at regional, state and local levels, litigation relating to GHG emissions and the EPA regulations on GHGs.

Greenhouse Gas Legislation

While climate change legislation was considered during the 111th Congress, the outcome of the 2010 elections has halted the debate on such legislation in the current 112th Congress. The timing and elements of any future legislation addressing GHG emission reductions are uncertain at this time. In the current Congress, legislation barring EPA from regulating GHG emissions under the existing authority of the Clean Air Act has been passed by the U.S. House of Representatives. Various bills providing for barring or delaying the EPA from regulating GHG emissions have been introduced in the U.S. Senate, but the prospects for passage of such legislation remain uncertain. At the state level, the 2010 elections in Pennsylvania have also reduced the likelihood of GHG legislation in the near term, and there are currently no prospects for such legislation in Kentucky or Montana.

Greenhouse Gas Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has the authority to regulate GHG emissions from new motor vehicles under the Clean Air Act, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that will apply beginning with 2012 model year vehicles. The EPA has also clarified that this standard triggers regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act starting in 2011. This means that any new sources or major modifications to existing sources causing a net significant emissions increase requires BACT permit limits for GHGs. The EPA recently proposed guidance for conducting a BACT analysis for projects that trigger such a review. In addition, New Source Performance Standards for new and existing power plants are expected to be proposed in September 2011 and finalized in May 2012.

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 25 MW. The MOU also provides for a 10% reduction in carbon dioxide emissions from base levels by 2019.

Pennsylvania has not stated an intention to join RGGI, but has enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report which identifies specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be technically unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report. In addition, legislation has been introduced and amendments filed to several bills that would, if enacted, significantly increase renewable and solar supply requirements. It is unlikely that this legislation will achieve passage in the 2011 legislative session.

Eleven Western states, including Montana and certain Canadian provinces, are members of the Western Climate Initiative (WCI). The WCI has established a goal of reducing carbon dioxide emissions 15% below 2005 levels by 2020 and is currently developing GHG emission allocations, offsets, and reporting recommendations.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. A final plan is expected in 2011. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities, and the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of AEP v. Connecticut reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the lower court and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In Comer v. Murphy Oil, the U.S. Court of Appeals for the Fifth Circuit recently declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a pending petition to reverse the Court of Appeals' ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a

Mississippi statute that allows the re-filing of an action in certain circumstances. Additional litigation in federal and state courts over these issues is continuing. PPL, LKE and KU cannot predict the outcome of this litigation or estimate a range of reasonably possible losses, if any.

PPL continues to evaluate options for reducing, avoiding, off-setting or sequestering its carbon dioxide emissions. In 2010, PPL's power plants, including PPL's share of jointly owned assets, emitted approximately 37 million tons of carbon dioxide (including 6 million tons of emissions from the LKE plants after their acquisition on November 1, 2010) compared to 29 million tons in 2009 without LG&E and KU emissions. LG&E's and KU's generating fleets, including their share of jointly owned assets, emitted approximately 19 million tons and approximately 18 million tons of carbon dioxide in 2010, compared to approximately 17 million tons and approximately 16 million tons in 2009. All tons are U.S. short tons (2,000 lbs/ton).

Renewable Energy Legislation (PPL and PPL Energy Supply)

There has been interest in renewable energy legislation at both the state and federal levels. At the federal level, House and Senate bills proposed in the 111th Congress would have imposed mandatory renewable energy supply and energy efficiency requirements in the 15% to 20% range by approximately 2020. Earlier in the year, there were discussions regarding a Clean Energy Standard (CES) that addressed not only renewables but also encouraged clean energy requirements (as yet to be defined). At this time, neither the renewable energy debate nor the CES discussion is expected to gain momentum at the federal or state levels (beyond what is otherwise already required in Pennsylvania and Montana) in the near term.

PPL believes there are financial, regulatory and logistical uncertainties related to GHG reductions and the implementation of renewable energy mandates. These will need to be resolved before the impact of such requirements on PPL can be meaningfully estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation oversupply that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their future competitive position, results of operation, cash flows and financial position, of any GHG emissions, renewable energy mandate or other global climate change requirements that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (PPL, PPL Energy Supply, LKE, LG&E and KU)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and scrubber wastes. The first approach would regulate CCRs as a hazardous waste under Subtitle C of the RCRA. This approach would have very significant impacts on any coal-fired plant, and would require plants to retrofit their operations to comply with full hazardous waste requirements from the generation of CCRs and associated waste waters through transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The second approach would regulate CCRs as a solid waste under Subtitle D of the RCRA. This approach would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the requirements of Subtitle D of the RCRA, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations and in July 2011 issued a notice of data availability requesting additional comments on certain information collected as part of the regulatory development process. In addition, the House Energy and Commerce Committee approved a bill to modify Subtitle D of the RCRA to provide for the proper management and disposal of CCRs and that would preclude the EPA from regulating CCRs under Subtitle C of the RCRA.

In June 2009, the EPA's Office of Enforcement and Compliance Assurance issued a much broader information request to Colstrip and 18 other non-affiliated plants, seeking information under the RCRA, the Clean Water Act and the Emergency Planning and Community Right-to-Know Act. PPL responded to the EPA's broader information request. Although the EPA's enforcement office issued the request, the EPA has not necessarily concluded that the plants are in violation of any EPA requirements. The EPA conducted a multi-media inspection at Colstrip in August 2009 and issued a report in December 2010 stating that the EPA did not identify any violations of the applicable compliance standards for the Colstrip facility.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the economic impact could be significant.

Martins Creek Fly Ash Release (PPL and PPL Energy Supply)

In 2005, there was a release of approximately 100 million gallons of water containing fly ash from a disposal basin at the Martins Creek plant used in connection with the operation of the plant's two 150 MW coal-fired generating units. This resulted in ash being deposited onto adjacent roadways and fields, and into a nearby creek and the Delaware River. PPL determined that the release was caused by a failure in the disposal basin's discharge structure. PPL conducted extensive clean-up and completed studies, in conjunction with a group of natural resource trustees and the Delaware River Basin Commission, evaluating the effects of the release on the river's sediment, water quality and ecosystem.

The PADEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL and the PADEP have settled this matter. The settlement also required PPL to submit a report on the completed studies of possible natural resource damages. PPL subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies.

Through June 30, 2011, PPL Energy Supply has spent $28 million for remediation and related costs and an insignificant remediation liability remains on the balance sheet. PPL and PPL Energy Supply cannot be certain of the outcome of the natural resource damage assessment or the associated costs, the outcome of any lawsuit that may be brought by citizens or businesses or the exact nature of any other regulatory or other legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release. However, PPL and PPL Energy Supply currently do not expect such outcomes to result in material losses above the amounts currently recorded.

Basin Seepage – Pennsylvania and Kentucky (PPL, PPL Energy Supply, LKE, LG&E and KU)

Seepages have been detected at active and retired wastewater basins at various PPL plants. PPL has completed or is completing assessments of seepages at various facilities and is working with agencies to implement abatement measures for those seepages, where required. A range of reasonably possible losses cannot currently be estimated.

Basin Seepage - Montana (PPL and PPL Energy Supply)

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage claims from seepage from wastewater ponds at Colstrip. A tentative settlement agreement was reached in July 2010. The settlement is not yet final, and may not be honored by the plaintiffs, but PPL Montana's share is not expected to be significant.

Conemaugh River Discharges (PPL and PPL Energy Supply)

In April 2007, PennEnvironment and the Sierra Club brought a Clean Water Act citizen suit in the U.S. District Court for the Western District of Pennsylvania (the Western District Court) against GenOn Northeast Management Company (then known as Reliant Energy Northeast Management Company) (GenOn), as operator of Conemaugh Generating Station (CGS), seeking civil penalties and injunctive relief for alleged violations of CGS's NPDES water discharge permit. A PPL Energy Supply subsidiary holds a 16.25% undivided, tenant-in-common ownership interest in CGS.

Throughout the relevant time period, the operators of CGS have worked closely with the PADEP to ensure that the facility is operated in a manner that does not cause any adverse environmental impacts to the Conemaugh River, a waterway already significantly impacted by discharges from abandoned coal mines and other historical industrial activity with respect to which neither PPL nor CGS had any involvement. Pursuant to a Consent Order and Agreement between the PADEP and GenOn (the CGS COA), a variety of studies have been conducted, a water treatment facility for cooling tower blowdown has been designed and built, and a second treatment facility for flue gas desulfurization effluent has been designed (and is awaiting final PADEP approval for construction), all in order to comply with the stringent limits set out in CGS's NPDES permit.

In the lawsuit, GenOn has argued that the CGS COA should preclude the plaintiffs from maintaining their lawsuit, but the Western District Court has disagreed and there is no binding precedent on the matter. The Western District Court initially dismissed plaintiffs' lawsuit in December 2009 for lack of standing, but in September 2010 granted plaintiffs' motion for reconsideration and reinstated the lawsuit. In both cases, the Western District Court disagreed that the CGS COA precluded the lawsuit.

In March 2011, the Western District Court entered a partial summary judgment in the plaintiffs' favor, declaring that discharges from CGS violated the NPDES permit. The case was originally scheduled for a non-jury trial starting in June 2011, at which time the Western District Court was expected to determine what, if any, civil penalties and injunctive relief might be appropriate. The non-jury trial was subsequently postponed and the parties are engaged in settlement discussions. In the event of an adverse verdict at trial, an appeal is likely. If the plaintiffs are ultimately successful, PPL Energy Supply could incur its share of any civil penalties and costs to implement additional discharge reductions. PPL and PPL Energy Supply cannot predict the outcome of this matter but do not expect any potential losses to be significant.

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

In 2006, the EPA significantly decreased to 10 parts per billion (ppb) the drinking water standards related to arsenic. In Pennsylvania, Montana and Kentucky, this arsenic standard has been incorporated into the states' water quality standards and could result in more stringent limits in NPDES permits for its Pennsylvania, Montana and Kentucky plants. Subsequently, the EPA developed a draft risk assessment for arsenic that increases the cancer risk exposure by more than 20 times, which would lower the current standard from 10 ppb to 0.1 ppb. If the lower standard becomes effective, costly treatment would be required to attempt to meet the standard and, at this time, there is no assurance that it could be achieved. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the outcome of the draft risk assessment and what impact, if any, they would have on their facilities, but the costs could be significant.

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxics Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

The EPA finalized requirements in 2004 for new or modified cooling water intake structures. These requirements affect where generating facilities are built, establish intake design standards and could lead to requirements for cooling towers at new and modified power plants. Another rule, finalized in 2004, that addressed existing structures was withdrawn following a 2007 decision by the U.S. Court of Appeals for the Second Circuit. In 2009, however, the U.S. Supreme Court ruled that the EPA has discretion to use cost-benefit analysis in determining the best technology available for minimizing adverse environmental impact to aquatic organisms. The EPA published the proposed rule in the Federal Register in April 2011. The comment period ends in August 2011. The final rule is to be issued by July 2012. The industry and PPL are reviewing the proposed rule and will be submitting comments. The proposed rule contains two requirements to reduce impact to aquatic organisms. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens regardless of the levels of mortality actually occurring or the cost of achieving the requirements. A form of cost-benefit analysis is allowed for the second requirement when determining mortality of aquatic organisms that are pulled through the plant's cooling water system. This process involves a site-specific evaluation based on nine factors including impacts to energy delivery reliability and remaining useful life of the plant. Since the rule is written to allow for certain site-specific determinations of the best technology available, state implementation of the rule could impose requirements that could result in significant costs to PPL plants ranging from installation of fine mesh screens on cooling water intakes to construction of cooling towers. PPL, PPL Energy Supply, LKE, LG&E and KU will be unable to determine the exact impact until a final rule is issued and the required studies have been completed.

In October 2009, the EPA released its Final Detailed Study of the Steam Electric Power Generating effluent limitations guidelines and standards. Final regulations are expected to be effective in 2013. PPL expects the revised guidelines and standards to be more stringent than the current standards, which could result in more stringent discharge permit limits.

PPL has signed a Consent Order and Agreement (the Brunner COA) with the PADEP under which it agreed, under certain conditions, to take further actions to minimize the possibility of fish kills at its Brunner Island plant. Fish are attracted to warm water in the power plant discharge channel, especially during cold weather. Debris at intake pumps can result in a unit trip or reduction in load, causing a sudden change in water temperature. PPL has committed to construct a barrier to prevent debris from entering the river water intake area, pending receipt of regulatory permits, at a cost of approximately $4 million.

PPL has also investigated alternatives to exclude fish from the discharge channel and submitted three alternatives to the PADEP. According to the Brunner COA, once the cooling towers at Brunner Island became operational, PPL must implement one of these fish exclusion alternatives if a fish kill occurs in the discharge channel due to thermal impacts from the plant. Following start-up of the cooling towers in April 2010, several hundred dead fish were found in the cooling tower intake basket although there were no sudden changes in water temperature. In the third quarter of 2010, PPL discussed this matter with the PADEP and both parties agreed that this condition was not one anticipated by the Brunner COA, thereby concluding it did not trigger a need to implement a fish exclusion project. At this time, no fish exclusion project is planned.

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County station. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to Trimble Circuit Court. PPL, LKE and LG&E are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

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

Superfund and Other Remediation

PPL is a potentially responsible party at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL. However, should the EPA require different or additional measures in the future, or should PPL's share of costs at multi-party sites increase significantly more than currently expected, the costs to PPL could be significant.

PPL is remediating or has completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL may be liable for remediation. These include a number of former coal gas manufacturing facilities in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL. There are additional sites, formerly owned or operated by PPL predecessors or affiliates, for which PPL lacks information on current site conditions and is therefore unable to predict what, if any, potential liability it may have.

In June 2011, Lepore-Moyers Partnership (LMP) filed a complaint in federal district court against PPL Electric, UGI Corporation and a neighboring property owner relating to contamination allegedly emanating from the former Mount Joy Manufactured Gas Plant (MGP) site located in Lancaster County, Pennsylvania. LMP owns property adjacent to the Mount Joy MGP site and claims that environmental testing done on its property indicates the presence of volatile organic compounds in the soil and/or groundwater. LMP claims that defendants are responsible for, among other things, the reimbursement of costs, future response costs, investigation and remediation of the contamination, and damages caused by the contamination. PPL and PPL Electric cannot estimate a range of reasonably possible losses, if any, or predict the outcome of this matter.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL currently lacks information, the costs of remediation and other liabilities could be substantial. PPL and its subsidiaries also could incur other non-remediation costs at sites included in current consent orders or other contaminated sites which could be significant. PPL is unable to estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing facilities PPL cannot estimate a range of reasonably possible losses, if any, related to these matters.

Under the Pennsylvania Clean Streams Law, subsidiaries of PPL Generation are obligated to remediate acid mine drainage at former mine sites and may be required to take additional steps to prevent potential acid mine drainage at previously capped refuse piles. One PPL Generation subsidiary is pumping mine water at two mine sites and treating water at one of these sites. Another PPL Generation subsidiary has installed a passive wetlands treatment system at a third site. At June 30, 2011, PPL Energy Supply had accrued a discounted liability of $26 million to cover the costs of pumping and treating groundwater at the two mine sites for 50 years and for operating and maintaining passive wetlands treatment at the third site. PPL Energy

Supply discounted this liability based on risk-free rates at the time of the mine closures. The weighted-average rate used was 8.16%. Expected undiscounted payments are estimated at $2 million for 2011, $1 million for each of the years from 2012 through 2014, $2 million for 2015, and $137 million for work after 2015.

From time to time, PPL undertakes remedial action in response to spills or other releases at various on-site and off-site locations, negotiates with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiates with property owners and other third parties alleging impacts from PPL's operations, and undertakes similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these general environmental matters is not expected to have a material adverse impact on PPL's operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional costs for PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

Electric and Magnetic Fields

Concerns have been expressed by some members of the public regarding potential health effects of power frequency EMFs, which are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Government officials in the U.S. and the U.K. have reviewed this issue. The U.S. National Institute of Environmental Health Sciences concluded in 2002 that, for most health outcomes, there is no evidence that EMFs cause adverse effects. The agency further noted that there is some epidemiological evidence of an association with childhood leukemia, but that the evidence is difficult to interpret without supporting laboratory evidence. The U.K. National Radiological Protection Board (part of the U.K. Health Protection Agency) concluded in 2004 that, while the research on EMFs does not provide a basis to find that EMFs cause any illness, there is a basis to consider precautionary measures beyond existing exposure guidelines. The Stakeholder Group on Extremely Low Frequency EMF, set up by the U.K. Government, has issued two reports, one in April 2007 and one in June 2010, describing options for reducing public exposure to EMF. The U.K. Government responded to the first report in 2009, agreeing to some of the proposals, including a proposed voluntary code to optimally phase 132 kilovolt overhead lines to reduce public exposure to EMF where it is cost effective to do so. The U.K. Government is currently considering the second report which concentrates on EMF exposure from distribution systems. PPL and its subsidiaries believe the current efforts to determine whether EMFs cause adverse health effects should continue and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities. PPL and its subsidiaries are unable to predict what effect, if any, the EMF issue might have on their operations and facilities either in the U.S. or the U.K., and the associated cost, or what, if any, liabilities they might incur related to the EMF issue.

Environmental Matters - WPD (PPL)

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

The U.K. Government has implemented a project to alleviate the impact of flooding on the U.K. utility infrastructure, including major electricity substations. WPD has agreed with the Ofgem to spend $46 million on flood prevention, which will be recovered through rates during the five-year period commencing April 2010. WPD is currently liaising on site-specific proposals with local offices of a U.K. Government agency.

U.K. legislation has been passed that imposes a duty on certain companies, including WPD, to report on climate change adaptation. The first information request was received by WPD in March 2010 and submissions for all four distribution network operators were made in June 2011. WPD has worked with other U.K. electricity network operators to undertake research with the internationally recognized U.K. Met Office (the national weather service) and to report using common agreed methodology.

There are no other material legal or administrative proceedings pending against or related to WPD with respect to environmental matters. See "Electric and Magnetic Fields," above, for a discussion of EMFs.

Other

Nuclear Insurance (PPL and PPL Energy Supply)

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating plants. Facilities at the Susquehanna plant are insured against property damage losses up to $2.75 billion under these programs. PPL Susquehanna is also a member of an insurance program that provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At June 30, 2011, this maximum assessment was $44 million.

In the event of a nuclear incident at the Susquehanna plant, PPL Susquehanna's public liability for claims resulting from such incident would be limited to $12.6 billion under provisions of The Price-Anderson Act Amendments under the Energy Policy Act of 2005. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program.

In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act Amendments under the Energy Policy Act of 2005, PPL Susquehanna could be assessed up to $235 million per incident, payable at $35 million per year.

At June 30, 2011, the property, replacement power and nuclear incident insurers maintained an A.M. Best financial strength rating of A ("Excellent").

Employee Relations (PPL, LKE and KU)

In July 2011, KU and its employees represented by the United Steelworkers of America agreed to a six-month extension of their current collective bargaining agreement, previously scheduled to expire in August 2011, which extension includes a 3% wage increase consistent with market conditions through the new expiration date. In July 2011, KU and its employees represented by IBEW Local 2100 completed annual reopener negotiations and agreed to a 3% wage increase consistent with market conditions.

Guarantees and Other Assurances

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

In the normal course of business, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries enter.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(PPL, PPL Energy Supply and LKE)

The table below details guarantees provided as of June 30, 2011. The total recorded liability at June 30, 2011 and December 31, 2010, was $16 million and $14 million for PPL and $11 million for both periods for LKE. Other than as noted in the descriptions for "WPD guarantee of pension and other obligations of unconsolidated entities," the probability of expected payment/performance under each of these guarantees is remote.

	Exposure at June 30, 2011 (a)	Expiration Date
PPL		
Indemnifications for sale of PPL Gas Utilities	$ 300 (b)	
Indemnifications related to the WPD Midlands acquisition	(c)	
WPD indemnifications for entities in liquidation and sales of assets	297 (d)	2013 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities	68 (e)	2015
Tax indemnification related to unconsolidated WPD affiliates	8 (f)	2012

	Exposure at June 30, 2011 (a)	Expiration Date
PPL Energy Supply (g)		
Letters of credit issued on behalf of affiliates	20 (h)	2011 - 2014
Retrospective premiums under nuclear insurance programs	44 (i)	
Nuclear claims assessment under The Price-Anderson Act Amendments under The Energy Policy Act of 2005	235 (j)	
Indemnifications for sales of assets	338 (k)	2012 - 2025
Indemnification to operators of jointly owned facilities	6 (l)	
Guarantee of a portion of a divested unconsolidated entity's debt	22 (m)	2018
LKE (n)		
Indemnification of lease termination and other divestitures	301 (o)	2021 - 2023

(a) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.

(b) PPL has provided indemnification to the purchaser of PPL Gas Utilities and Penn Fuel Propane, LLC for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including certain pre-closing unknown environmental liabilities relating to former manufactured gas plant properties or off-site disposal sites, if any, outside of Pennsylvania. The indemnification provisions for most representations and warranties, including tax and environmental matters, are capped at $45 million, in the aggregate, and are triggered (i) only if the individual claim exceeds $50,000, and (ii) only if, and only to the extent that, in the aggregate, total claims exceed $4.5 million. The indemnification provisions for most representations and warranties expired on September 30, 2009 without any claims having been made. Certain representations and warranties, including those having to do with transaction authorization and title, survive indefinitely, are capped at the purchase price and are not subject to the above threshold or deductible. The indemnification provision for the tax matters representations survives for the duration of the applicable statute of limitations, and the indemnification provision for the environmental matters representations survives for a period of three years after the transaction closing. The indemnification relating to unknown environmental liabilities for manufactured gas plants and disposal sites outside of Pennsylvania could survive more than three years, but only with respect to applicable property or sites identified by the purchaser prior to the third anniversary of the transaction closing. The indemnification for covenants survives until the applicable covenant is performed and is not subject to any cap.

(c) WPD Midlands Holdings Limited (formerly Central Networks Limited) had agreed prior to the acquisition to indemnify certain former directors of a Turkish entity in which WPD Midlands Holdings Limited previously owned an interest for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were or are to be transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped by and there is no expiration date in the transaction documents.

(d) In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters. In addition, in connection with certain of these sales, WPD and its affiliates have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

(e) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At June 30, 2011, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.

(f) Two WPD unconsolidated affiliates were refinanced during 2005. Under the terms of the refinancing, WPD has indemnified the lender against certain tax and other liabilities.

(g) Other than the letters of credit, all guarantees of PPL Energy Supply, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

(h) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.

(i) PPL Susquehanna is contingently obligated to pay this amount related to potential retrospective premiums that could be assessed under its nuclear insurance programs. See "Nuclear Insurance," above for additional information.

(j) This is the maximum amount PPL Susquehanna could be assessed for each incident at any of the nuclear reactors covered by this Act. See "Nuclear Insurance," above for additional information.

(k) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification obligations are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of representations and warranties. The indemnification provisions for certain representations and warranties expired in the second quarter of 2011.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 (see Note 8 for additional information) for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

(l) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating stations. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating stations, based upon their ownership percentages. The maximum obligation among all owners, for each station, is currently $20 million. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to the generation entitlement of the defaulting owner, based upon their ownership percentage. The agreements do not have an expiration date.

(m) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Under the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser in the event PPL Energy Supply is required to make a payment under the guarantee. Exposure noted reflects principal only. See Note 8 for additional information on the sale of this interest.

(n) All guarantees of LKE, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

(o) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of $200 million. Certain items such as non-excluded government fines and penalties fall outside the cumulative cap. Another guarantee with a maximum exposure of $100 million covering other indemnifications expires in 2023. Certain matters are currently under discussion among the parties, including one matter currently in arbitration and a further matter for which LKE is contesting the applicability of the indemnification requirement, the outcomes of which cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum amount limits range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. No additional material loss is anticipated by reason of such indemnification.

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

PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU and their subsidiaries provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, PPL and its subsidiaries have not made any significant payments with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage requires a maximum $4 million deductible per occurrence and provides maximum aggregate coverage of $200 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable (PPL Energy Supply and PPL Electric)

PPL Electric holds competitive solicitations for PLR generation supply. See Note 10 for additional information on the solicitations. PPL EnergyPlus has been awarded a portion of the supply. PPL Electric's purchases from PPL EnergyPlus totaled $4 million and $10 million for the three and six months ended June 30, 2011 and $64 million and $179 million during the same periods in 2010, and are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Supply Master Agreement for the bid solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, this credit limit is $35 million at June 30, 2011.

PPL Electric's customers may elect to procure generation supply from an alternative supplier. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At June 30, 2011, PPL Energy Supply had a net credit exposure of $17 million to PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Wholesale Sales and Purchases (LG&E and KU)

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded by each company as intercompany wholesale sales and purchases in the Statements of Income as 'Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded by each company at a price equal to the seller's fuel cost. Savings realized from such intercompany electricity purchasing, instead of generating from their own higher cost units or purchasing from the market, are shared equally between the two companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

Intercompany electric revenues and energy purchases for the periods ended June 30 were as follows.

	Three Months		Six Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
LG&E sales and KU purchases	$ 17	$ 23	$ 44	$ 48
LG&E purchases and KU sales	7	3	18	10

Allocations of PPL Services Costs (PPL Energy Supply, PPL Electric and LKE)

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. PPL Services charges the respective PPL subsidiaries for the cost of certain services when they can be specifically identified. The cost of services that is not directly charged to PPL subsidiaries is allocated to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees. PPL Services allocated the following amounts, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense for the periods ended June 30.

	Three Months	Six Months

	2011	2010	2011	2010
PPL Energy Supply	$ 44	$ 56	$ 94	$ 115
PPL Electric	35	32	74	65
LKE	4	n/a	9	n/a

Intercompany Billings (LG&E and KU)

LG&E and KU Services Company provides LG&E and KU with a variety of centralized administrative, management and support services. Associated charges include payroll taxes paid by LG&E and KU Services Company on behalf of LG&E and KU, labor and burdens of LG&E and KU Services Company employees performing services for LG&E and KU, coal purchases and other vouchers paid by LG&E and KU Services Company on behalf of LG&E and KU. The cost of these services is directly charged to the company, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and/or other statistical information. These costs are charged on an actual cost basis.

In addition, LG&E and KU provide services to each other and to LG&E and KU Services Company. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LG&E and KU Services Company.

LG&E and KU Services Company allocated these amounts, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense for the periods ended June 30. Intercompany billings for the periods ended June 30 were as follows.

	Three Months		Six Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
LG&E and KU Services Company billing to LG&E	$ 50	$ 59	$ 83	$ 110
LG&E and KU Services Company billing to KU	55	67	104	117
LG&E billings to KU	29	12	56	19
KU billings to LG&E		1		1

Intercompany Borrowings

(PPL Energy Supply and PPL Electric)

A PPL Energy Supply subsidiary holds revolving lines of credit from certain affiliates. At June 30, 2011, $37 million was outstanding and is shown on the Balance Sheet as "Note receivable from affiliate." The corresponding note payable is held by a PPL Electric subsidiary and shown on the Balance Sheet as "Note payable to affiliate." There was no balance outstanding at December 31, 2010. The interest rate on the borrowings was 1.94% at June 30, 2011. Interest on the borrowings was not significant for the three and six months ended June 30, 2011 and 2010.

(LKE)

After PPL's acquisition of LKE in November 2010, LKE held a note receivable from a PPL affiliate. At June 30, 2011, $90 million was outstanding compared with $61 million at December 31, 2010. The interest rate on the outstanding borrowing at June 30, 2011 was 2.19%. During the three and six months ended June 30, 2011, interest income on this note was not significant.

LKE maintains a $300 million revolving line of credit with a PPL Energy Supply subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. There was no balance outstanding at June 30, 2011 or December 31, 2010.

Interest expense incurred on the revolving line of credit with the PPL Energy Supply subsidiary was not significant for the three and six months ended June 30, 2011.

Prior to PPL's acquisition of LKE in November 2010, LKE had revolving credit facilities and several short-term and long-term loans with its former E.ON AG affiliates. During the three and six months ended June 30, 2010, LKE incurred interest expense on these debt arrangements of $39 million and $79 million which is included in the Statements of Income as "Interest Expense with Affiliate." The consolidated debt had a weighted-average interest rate of 2.35% at June 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $400 million at market-based rates (based on highly-rated commercial paper issues). At June 30, 2011, there was no balance outstanding. At December 31, 2010, $12 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

Interest expense incurred on the money pool agreement with LKE and/or KU was not significant for the three and six months ended June 30, 2011 and 2010.

Prior to PPL's acquisition of LKE in November 2010, LG&E had long-term loans from its former E.ON AG affiliates. During the three and six months ended June 30, 2010, LG&E incurred interest expense related to these debt arrangements of $7 million and $14 million. The long-term loans had a weighted-average interest rate of 5.49% at June 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $400 million at market-based rates (based on highly rated commercial paper issues). At June 30, 2011, there was no balance outstanding. At December 31, 2010, $10 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

Interest expense incurred on the money pool agreement with LKE and/or LG&E was not significant for the three and six months ended June 30, 2011 and 2010.

Prior to PPL's acquisition of LKE in November 2010, KU had long-term loans from its former E.ON AG affiliates. During the three and six months ended June 30, 2010, KU incurred interest expense on these debt arrangements of $19 million and $37 million. The long-term loans had a weighted-average interest rate of 5.50% at June 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(PPL Energy Supply)

Trademark Royalties

A PPL subsidiary owns PPL trademarks and bills certain affiliates for their use. PPL Energy Supply was allocated $10 million and $20 million of this license fee for the three and six months ended June 30, 2011 and 2010. These allocations are primarily included in "Other operation and maintenance" on the Statements of Income.

Distribution of Interest in PPL Global to Parent

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 8 for additional information.

Intercompany Insurance (PPL Electric)

PPL Power Insurance Ltd. (PPL Power Insurance) is a subsidiary of PPL that provides insurance coverage to PPL and its subsidiaries for property damage, general/public liability and workers' compensation.

Due to damages resulting primarily from certain storms that occurred in May 2011, PPL Electric has exceeded its deductible for the 2011 policy year. Probable recoveries on insurance claims with PPL Power Insurance of $15 million were recorded during the three and six months ended June 30, 2011, of which $9 million was included in "Other operation and maintenance" on the Statements of Income and the remainder was recorded in PP&E on the Balance Sheet.

12. Other Income (Expense) - net

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

The breakdown of "Other Income (Expense) - net" for the periods ended June 30 was:

	Three Months		Six Months	
	2011	2010	2011	2010
PPL				
Other Income				

Earnings on securities in NDT funds	$ 3	$ 5	$ 18	$ 11
Interest income	2		4	1
AFUDC	2	1	3	2
Net hedge gains associated with the 2011 Bridge Facility	62		55	
Miscellaneous - Domestic	4	3	7	4
Miscellaneous - International	1	1	1	1
Total Other Income	74	10	88	19

	Three Months		Six Months	
	2011	2010	2011	2010
Other Expense				
Economic foreign currency exchange contracts	(2)			(2)
Charitable contributions	2	1	5	2
LKE other acquisition-related costs		7		7
WPD Midlands other acquisition-related costs	26		36	
Foreign currency loss on 2011 Bridge Facility	58		58	
U.K. stamp duty tax	21		21	
Miscellaneous - Domestic	1	1	4	3
Miscellaneous - International	2	1	3	1
Total Other Expense	108	10	127	11
Other Income (Expense) - net	$ (34)	$	$ (39)	$ 8
PPL Energy Supply				
Other Income				
Earnings on securities in NDT funds	$ 3	$ 5	$ 18	$ 11
Miscellaneous	3	2	5	3
Total Other Income	6	7	23	14
Other Expense				
Miscellaneous	2	2	5	3
Total Other Expense	2	2	5	3
Other Income (Expense) - net	$ 4	$ 5	$ 18	$ 11

	Three Months		Six Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Other Income				
Equity in earnings of unconsolidated affiliate			$ 1	$ 2
Miscellaneous	$ 1		2	3
Total Other Income	1		3	