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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2002

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
333-74794	**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
333-50350	**PPL Montana, LLC** (Exact name of Registrant as specified in its charter) (Delaware) 303 North Broadway - Suite 400 Billings, MT 59101 (406) 869-5100	54-1928759

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

Title of each class	Name of each exchange on which registered
Common Stock of PPL Corporation	New York & Philadelphia Stock Exchanges
Preferred Stock of PPL Electric Utilities Corporation	
4-1/2%	New York Stock Exchange
4.40% Series	New York Stock Exchange
Company-Obligated Mandatorily Redeemable Securities of PPL Capital Funding Trust I	
7-3/4% PEPS Units ($25 stated value)(a)	New York Stock Exchange
(a) Guaranteed by PPL Corporation	

Securities registered pursuant to Section 12(g) of the Act: None

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

PPL Corporation	[]
PPL Energy Supply, LLC	[X]
PPL Electric Utilities Corporation	[X]

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PPL Montana, LLC [X]

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 _
PPL Montana, LLC	Yes X	No _

Indicate by check mark whether the Registrants are accelerated filers (as defined in Rule 12b-2 of the Act).

PPL Corporation	Yes X	No _
PPL Energy Supply, LLC	Yes _	No X
PPL Electric Utilities Corporation	Yes _	No X
PPL Montana, LLC	Yes _	No X

As of June 28, 2002, PPL Corporation had 147,165,439 shares of its $.01 par value Common Stock outstanding, excluding 30,993,637 shares held as treasury stock. The aggregate market value of these common shares (based upon the closing price of these shares on the New York Stock Exchange on that date) held by non-affiliates was $4,868,232,722. As of January 31, 2003, PPL Corporation had 167,451,692 shares of its $.01 par value Common Stock outstanding, excluding 30,993,637 shares held as treasury stock.

As of June 28, 2002, PPL Corporation held all 78,029,863 outstanding common shares, no par value, of PPL Electric Utilities Corporation, excluding 79,270,519 shares held as treasury stock. The aggregate market value of the voting preferred stock held by non-affiliates of PPL Electric Utilities Corporation at June 28, 2002 was $67,464,666.

PPL Corporation indirectly holds all of the member interests in PPL Energy Supply, LLC and PPL Montana, LLC.

PPL Energy Supply, LLC and PPL Montana, LLC meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format.

Documents incorporated by reference:

PPL Corporation and PPL Electric Utilities Corporation have incorporated herein by reference certain sections of PPL Corporation's 2003 Notice of Annual Meeting and Proxy Statement, and PPL Electric Utilities Corporation's 2003 Notice of Annual Meeting and Information Statement, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2002. Such Statements will provide the information required by Part III of this Report.

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PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
PPL MONTANA, LLC

FORM 10-K ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2002

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This combined Form 10-K is separately filed by PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation and PPL Montana, LLC. Information contained herein relating to PPL Energy Supply, LLC, PPL Electric Utilities Corporation and PPL Montana, LLC is filed by PPL Corporation and separately by PPL Energy Supply, LLC, PPL Electric Utilities Corporation and PPL Montana, LLC on their own behalf. No registrant makes any representation as to information relating to any other registrant, except that information relating to the three PPL Corporation subsidiaries is also attributed to PPL Corporation.

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GLOSSARY OF TERMS AND ABBREVIATIONS

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

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

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

ANEEL - National Electric Energy Agency, Brazil's agency that regulates the transmission and distribution of electricity.

APA - Asset Purchase Agreement.

APB - Accounting Principles Board.

ARB - Accounting Research Bulletin.

Bangor Hydro - Bangor Hydro-Electric Company.

Bcf - billion cubic feet.

CEMAR - Companhia Energtica do Maranho, a Brazilian electric distribution company in which PPL Global has a majority ownership interest.

CGE - Compaia General Electricidad, S.A., a distributor of electricity and natural gas with other industrial segments in Chile and Argentina in which PPL Global has an 8.5 percent direct and indirect minority ownership interest.

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

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

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

DelSur - Distribuidora de Electricidad Del-Sur, S.A. de C.V., an electric distribution company in El Salvador, a majority of which is owned by EC.

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

Derivative - a financial instrument or other contract with all three of the following characteristics:

1. It has (1) one or more underlyings and (2) one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required.
2. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
3. Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

DIG - Derivatives Implementation Group.

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

DRIP - Dividend Reinvestment Plan.

EC - Electricidad de Centroamerica, S.A. de C.V., an ElSalvadoran holding company and the majority owner of DelSur and El Salvador Telecom, S.A. de C.V. PPL Global has 100% ownership of EC.

EGS - electric generation supplier.

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

Elfec - Empresa de Luz y Fuerza Electrica Cochabamba Sociedad Anonima, a Bolivian electric distribution company in which PPL Global has a majority ownership interest.

Emel - Empresas Emel S.A., a Chilean electric distribution holding company of which PPL Global has majority ownership.

EMF - electric and magnetic fields.

Enrichment - the concentration of fissionable isotopes to produce a fuel suitable for use in a nuclear reactor.

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

EPS - earnings (loss) per share.

ESOP - Employee Stock Ownership Plan.

EWG - exempt wholesale generator.

Fabrication - the process which manufactures nuclear fuel assemblies for insertion into the reactor.

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

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

FIN - FASB Interpretation Number, intended to clarify accounting pronouncements previously issued by the FASB.

GAAP - generally accepted accounting principles.

Griffith Energy - Griffith Energy LLC, which owns and operates a 600 MW gas-fired station in Kingman, Arizona, and which is jointly owned by subsidiaries of PPL Generation and Duke Energy Corporation.

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

Hyder - Hyder Limited, a subsidiary of WPDL and previous owner of South Wales Electricity plc. In March 2001, South Wales Electricity plc was acquired by WPDH Limited and renamed WPD (South Wales).

IBEW - International Brotherhood of Electrical Workers.

ICP - Incentive Compensation Plan.

ICPKE - Incentive Compensation Plan for Key Employees.

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

ISO - Independent System Operator.

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

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

kVA - kilovolt-ampere.

LIBOR - London Interbank Offered Rate.

Mirant - Mirant Corporation, a diversified energy company based in Atlanta. PPL Global and Mirant jointly owned WPD until September 6, 2002.

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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.

MPSC - Montana Public Service Commission.

MW - megawatt, one thousand kilowatts.

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

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.

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

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

OSM - Office of Surface Mining, a U.S. government agency.

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

PEPS Units (Premium Equity Participating Security Units) - securities issued by PPL Capital Funding Trust I, consisting of a Preferred Security and a forward contract to purchase PPL common stock.

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

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

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

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

PPL Capital Funding Trust I - a Delaware statutory business trust created to issue PEPS Units, whose common securities are held by PPL.

PPL Capital Trust - a Delaware statutory business trust created to issue Preferred Securities, whose common securities are held by PPL Electric.

PPL Capital Trust II - a Delaware statutory business trust created to issue Preferred Securities, whose common securities are held by PPL Electric.

PPL Coal Supply - PPL Coal Supply, LLC, a limited liability company owned by PPL Coal Holdings Corporation (a subsidiary of PPL Generation) and Iris Energy, LLC. PPL Coal Supply procures coal, which it sells to PPL Generation power plants, and to Iris Energy for purposes of producing synfuel.

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

PPL Energy Funding - PPL Energy Funding Corporation, which is a subsidiary of PPL and the parent company of PPL Energy Supply.

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

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

PPL Gas Utilities - PPL Gas Utilities Corporation, a regulated utility subsidiary of PPL specializing in natural gas distribution, transmission

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and storage services, and the competitive sale of propane.

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

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

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

PPL Maine - PPL Maine, LLC, a subsidiary of PPL Generation, which owns generating operations in Maine.

PPL Martins Creek - PPL Martins Creek, LLC, a fossil generating subsidiary of PPL Generation.

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

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

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

PPL Telcom - PPL Telcom, LLC, an indirect subsidiary of PPL Energy Funding, which provides telecommunication services to eastern and central Pennsylvania.

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

Preferred Securities - company-obligated mandatorily redeemable preferred securities issued by PPL Capital Trust, PPL Capital Trust II and PPL Capital Funding Trust I, holding solely debentures of PPL Electric, in the case of PPL Capital Trust and PPL Capital Trust II, and solely debentures of PPL Capital Funding in the case of PPL Capital Funding Trust I.

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

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

PUHCA - Public Utility Holding Company Act of 1935, legislation passed by the U.S. Congress.

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

PURTA - the Pennsylvania Public Utility Realty Tax Act.

RMC - Risk Management Committee.

RTO - regional transmission organization.

SCR - selective catalytic reduction, a pollution control process.

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

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

SIUK Capital Trust I - a business trust created to issue preferred securities, whose common securities are held by SIUK Limited.

SIUK Limited - an intermediate holding company within the WPDH Limited group. It owns WPD (South West).

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

Synfuel projects - production facilities that manufacture synthetic fuel from coal or coal byproducts. Favorable federal tax credits are available

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on qualified synfuel products.

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 electric energy for delivery back to the third party.

UF - inflation-indexed peso-denominated unit.

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

Vidivision - Vidivision S.A., a Bolivian company providing construction and engineering services, as well as cable television and internet services, in which PPL Global has a majority ownership interest. Integra S.A., a Bolivian contracting company, merged into Vidivision in 2001.

WPD - refers collectively to Western Power Distribution Holdings Limited and WPD Investment Holdings Limited. PPL Global purchased Mirant's 49 percent ownership interest in these entities on September 6, 2002, thereby achieving 100% ownership and operational control.

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

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

WPDH Limited - Western Power Distribution Holdings Limited, formerly WPD 1953 Limited, a wholly-owned subsidiary of PPL Global. WPDH Limited owns WPD Holdings U.K., which owns WPD (South West) and WPD (South Wales).

WPDL - WPD Investment Holdings Limited, an indirect wholly-owned subsidiary of PPL Global. WPDL owns 100% of the common shares of Hyder.

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FORWARD-LOOKING INFORMATION

Certain statements contained in this Form 10-K concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts are "forward-looking statements" within the meaning of the federal securities laws. Although PPL, PPL Energy Supply, PPL Electric and PPL Montana 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. These forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the forward-looking statements. In addition to the specific factors discussed in the Review of the Financial Condition and Results of Operations sections herein, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements:

- market demand and prices for energy, capacity and fuel;
- weather variations affecting customer energy usage;
- competition in retail and wholesale power markets;
- the effect of any business or industry restructuring;
- the profitability and liquidity of PPL and its subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- operation of existing facilities and operating costs;
- environmental conditions and requirements;
- transmission and distribution system conditions and operating costs;
- development of new projects, markets and technologies;
- performance of new ventures;
- political, regulatory or economic conditions in states, regions or countries where PPL or its subsidiaries conduct business;
- receipt and renewals of necessary governmental permits and approvals;
- impact of state or federal investigations applicable to PPL and its subsidiaries and the energy industry;
- the outcome of litigation against PPL and its subsidiaries;
- capital market conditions and decisions regarding capital structure;
- stock price performance;
- securities and credit ratings;
- foreign exchange rates;
- new state or federal legislation;
- national or regional economic conditions, including any potential effects arising from the September 11, 2001 terrorist attacks in the U.S. and any consequential hostilities or other hostilities; and
- the commitments and liabilities of PPL and its subsidiaries.

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 and PPL Montana 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 or PPL Montana to predict all of such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and PPL, PPL Energy Supply, PPL Electric and PPL Montana undertake no obligations to update the information contained in such statement to reflect subsequent developments or information.

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PART I

ITEM 1. BUSINESS

BACKGROUND

PPL Corporation is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL generates electricity in power plants in the northeastern and western U.S.; markets wholesale or retail energy primarily in the northeastern and western portions of the U.S. and in Canada; delivers electricity to nearly five million customers in the U.S., the U.K. and Latin America; and provides energy services for businesses in the mid-Atlantic and northeastern U.S. PPL's significant operating subsidiaries are shown below:

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

PPL Energy Supply, LLC , an indirect wholly-owned subsidiary of PPL, is an energy company engaged through its subsidiaries in the generation and marketing of power primarily in the northeastern and western U.S. and in the delivery of electricity in the U.K. and Latin America. PPL Energy Supply was formed in 2000, as a subsidiary of PPL Energy Funding, to engage in competitive energy businesses. PPL Energy Supply's major operating subsidiaries are PPL Generation, PPL EnergyPlus and PPL Global. PPL Energy Supply owns or controls 11,488 MW of electric power generation capacity, and is constructing new electric generation projects in Pennsylvania, which would add 690 MW of electric generation capacity.

PPL Electric Utilities Corporation , incorporated in 1920, is a direct subsidiary of PPL and a regulated public utility. PPL Electric provides electricity delivery service in its service territory in Pennsylvania, and provides electricity supply to retail customers in that territory as a PLR under the Customer Choice Act. Prior to July 1, 2000, PPL Electric also generated electricity at its power plants in Pennsylvania, and marketed wholesale electricity (through PPL EnergyPlus) in deregulated markets.

PPL Montana, LLC , an indirect wholly-owned subsidiary of PPL Energy Supply formed in 1998, acquired the Montana generating assets in 1999. PPL Montana operates interests in 13 electric generating facilities, which it owns or leases, with an aggregate capacity of 1,157 MW. PPL Montana's primary regional market for wholesale customers is the northwest U.S. (Montana, Oregon, Washington and Idaho).

Corporate Realignment and Segment Information

In 1996, the Customer Choice Act was enacted to deregulate the generation supply market in Pennsylvania. On July 1, 2000, PPL and PPL Electric completed a corporate realignment in order to effectively separate PPL Electric's regulated transmission and distribution operations from its deregulated generation operations, to better position the companies and their affiliates in the new competitive marketplace. As part of the realignment, PPL Electric's generation assets were transferred to PPL Generation and its wholesale power marketing assets were transferred to PPL EnergyPlus. Also as part of the realignment, PPL Global transferred its domestic generation assets to subsidiaries of PPL Generation. See "Corporate Realignment" in Item 7, "Review of the Financial Condition and Results of Operations" of PPL Energy Supply, for the key features of the corporate realignment. See Exhibit 99(i) in Item 15 for the current corporate organization.

As a result of the corporate realignment, PPL is organized in segments consisting of Supply, Delivery and International. PPL Energy Supply's segments consist of Supply and International. In addition, certain corporate service functions reside in PPL Services. See Note 2 to the Financial Statements for financial information about the segments and geographic financial data.

Supply Segment -

Owns and operates power plants to generate electricity; markets this electricity and other power purchases to deregulated wholesale and retail markets; and develops and acquires domestic generation projects.
Consists of the activities of PPL Generation, PPL EnergyPlus and the domestic operations of PPL Global.

PPL participates across the U.S., and within selected regions in multiple markets. The eastern generation assets are focused on the Northeast/Mid-Atlantic energy markets - including the PJM, the New York ISO, the New England Power Pool and the Mid-American Interconnection Network. PPL's western generating capacity is focused on the markets within the Western Systems Coordinating Council.

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PPL Generation

PPL Generation, with a total generating capacity of 11,488 MW at December 31, 2002, was established in the corporate realignment. Through subsidiaries, PPL Generation owns and operates power plants in Pennsylvania, Montana, Maine, Connecticut, Arizona, Illinois and New York.

The Pennsylvania generation plants, with a total capacity of 8,534 MW, were transferred by PPL Electric to PPL Generation in the corporate realignment. These plants are fueled by nuclear reaction, coal, gas, oil and hydro power. The electricity from these plants is sold to PPL EnergyPlus under FERC-jurisdictional power purchase agreements.

PPL's U.S. generation subsidiaries are EWGs, which sell electricity into the wholesale market. Generally, PPL's EWGs are subject to regulation by the FERC but not subject to regulation under PUHCA. The FERC has authorized these EWGs to sell generation from their facilities at market-based prices.

PPL Susquehanna, a subsidiary of PPL Generation, owns a 90% undivided interest in each of the two nuclear-fueled generating units at its Susquehanna station and Allegheny Electric Cooperative, Inc. owns the remaining 10% undivided interest in each of those units. PPL's 90% share of Susquehanna's capacity was 2,024 MW at December 31, 2002. PPL Susquehanna is currently installing more efficient steam turbines to increase capacity. PPL Susquehanna's share of this new capacity will be 90 MW. These turbines are expected to be in service in 2003 and 2004.

PPL Generation operates its Pennsylvania power plants in conjunction with PJM. PPL Generation's Pennsylvania power plants and PPL EnergyPlus are parties to the Mid-Atlantic Area Coordination Agreement. Refer to "Delivery Segment" for information regarding PJM's operations and functions and the Mid-Atlantic Area Coordination Agreement.

The Montana generating assets were acquired by PPL Montana in December 1999. (PPL Montana was transferred to PPL Generation in the corporate realignment.) These stations are fueled by coal and hydro power, and have a net capacity of 1,157 MW. PPL EnergyPlus, as agent for PPL Montana, supplies 300 MW of around-the-clock electricity and 150 MW of on-peak electricity to NorthWestern under a new five-year agreement that began in July 2002. This contract accounted for 31% of PPL Montana's operating revenue in 2002. PPL Montana also purchases 98 MW of firm capacity during the months of November through April.

The Maine generating assets were acquired from Bangor Hydro in 1998. The oil and hydro powered stations have a total capacity of 96 MW.

The Wallingford, Connecticut generating station was constructed by PPL Generation and began commercial operations in December 2001. This natural gas powered station has a total capacity of 252 MW.

During 2002, PPL began commercial operations in Arizona with two natural gas powered stations. The Griffith project in Kingman began commercial operations in January 2002, with PPL's ownership interest representing 300 MW. The Sundance project near Coolidge began commercial operations in July 2002 and has a total capacity of 450 MW.

In July 2002, PPL began commercial operations in Illinois with a 540 MW natural gas powered station located in University Park.

In July and August, PPL began commercial operations in New York with a natural gas powered station in Edgewood and an oil powered station in Shoreham, both on Long Island. These plants have a combined capacity of 159 MW.

PPL Generation subsidiaries are subject to the jurisdiction of certain federal, regional, state and local regulatory agencies with respect to air and water quality, land use and other environmental matters. PPL Susquehanna is subject to the jurisdiction of the NRC in connection with the operation of the Susquehanna units. Certain of PPL Generation's other subsidiaries, including PPL Montana, are subject to the jurisdiction of the NRC in connection with the operation of their fossil plants with respect to certain level and density monitoring devices.

Certain operations of PPL Generation's subsidiaries are subject to the Occupational Safety and Health Act of 1970 and comparable state statutes.

Refer to the "Power Supply" section for additional information regarding the various power plants operated by PPL Generation. Also refer to "Fuel Supply" for a discussion of fuel requirements and contractual arrangements.

PPL EnergyPlus

PPL EnergyPlus markets or brokers the electricity produced by PPL Generation subsidiaries, along with purchased power, natural gas and oil in competitive wholesale and deregulated retail markets in order to take advantage of opportunities in the competitive energy marketplace. Prior to

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the corporate realignment, PPL EnergyPlus was a subsidiary of PPL Electric.

PPL EnergyPlus buys and sells energy at competitive prices. PPL EnergyPlus purchases electric capacity and energy at the wholesale level, and also sells electric capacity and energy at the wholesale level under FERC market-based tariffs. PPL EnergyPlus enters into these agreements to market available energy and capacity from PPL Generation's assets and to profit from market price fluctuations. PPL EnergyPlus is actively managing its portfolios to maximize the value of PPL's generating assets and to limit exposure to price fluctuations. PPL EnergyPlus also purchases and sells energy forward and futures contracts as well as other commodity-based financial instruments in accordance with PPL's risk management policies, objectives and strategies.

PPL EnergyPlus has executed contracts to provide electricity to PPL Electric sufficient for it to meet its PLR obligation from 2002 through 2009, at the predetermined capped rates PPL Electric is entitled to charge its customers during this period. This arrangement with PPL Electric accounted for 34% of PPL Energy Supply's consolidated revenues in 2002. See Note 15 to the Financial Statements for more information concerning these contracts.

PPL EnergyPlus has a PUC license to act as an EGS in Pennsylvania. This license permits PPL EnergyPlus to offer retail electric and gas supply to customers throughout Pennsylvania. In 2002, PPL EnergyPlus was licensed, and supplied energy to industrial and commercial customers in Pennsylvania, New Jersey, Maryland, Maine and Montana. PPL EnergyPlus is also licensed to provide energy in Delaware and Massachusetts. At this time, PPL EnergyPlus has decided not to pursue residential customers in the competitive marketplace based on economic considerations.

PPL EnergyPlus also provides distributed generation and energy-related products and services to commercial and industrial customers, through its mechanical contracting and engineering subsidiaries operating primarily in Pennsylvania, Massachusetts, Connecticut, New York and New Jersey. The distributed generation business is involved with bringing customers closer to energy generating technologies, such as fuel cells, small turbines, microturbines and reciprocating engines.

PPL Synfuel Investments, LLC, a subsidiary of PPL EnergyPlus, indirectly owns, through its subsidiaries, two production facilities in Pennsylvania. These facilities manufacture synthetic fuel from coal or coal byproducts. PPL receives federal tax credits from these qualified manufactured synfuel products.

PPL Global (domestic operations)

PPL Global acquires and develops domestic generation projects for PPL Generation. At December 31, 2002, PPL Generation was in the process of developing approximately 690 MW of electric generating capacity in Pennsylvania, including the Lower Mt. Bethel gas-fired facility. This facility is expected to be operational in late 2003. This project had been initiated by PPL Global. See Item 2, "Properties," for additional information.

PPL Telcom

PPL Telcom, an unregulated subsidiary of PPL Energy Funding, has launched a fiber optic network and markets available capacity on PPL Electric's fiber optic cables in eastern and central Pennsylvania. The fiber optic services include point-to-point data transport, high-speed connections among multiple sites and access to national and global fiber networks. PPL Telcom markets its services to customers such as other telecommunications companies, internet service providers and large enterprises that need high-speed data connections between multiple locations.

Delivery Segment -

Includes the regulated electric and gas delivery operations of PPL Electric and PPL Gas Utilities.

PPL Electric provides electricity delivery service to approximately 1.3 million customers in a 10,000-square mile territory in 29 counties of eastern and central Pennsylvania. The largest cities in this territory are Allentown, Bethlehem, Harrisburg, Hazleton, Lancaster, Scranton, Wilkes-Barre and Williamsport. In addition to delivery of purchased power as a PLR, PPL Electric is delivering power supplied by PUC-licensed EGSs pursuant to the Customer Choice Act.

PPL Electric has executed two contracts to purchase electricity from PPL EnergyPlus sufficient for it to meet its PLR obligation from 2002 through 2009, at the pre-determined capped rates it is entitled to charge its customers during this period. PPL Electric's PLR obligation after 2009 will be determined by the PUC pursuant to rules that have not yet been promulgated.

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During 2002, about 91% of PPL Electric's operating revenues were derived from regulated electricity deliveries and supply as a PLR. About 7% of 2002 operating revenues was from wholesale sales, including the sale of power purchased from NUGs to PPL EnergyPlus. The remaining 2% of operating revenues in 2002 was derived from energy related products and services and miscellaneous revenues. During 2002, about 42% of electricity delivery and PLR revenues were from residential customers, 36% from commercial customers, 21% from industrial customers and 1% from other customer classes.

PPL Electric is subject to regulation as a public utility by the PUC, and certain of its activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric is not a holding company under PUHCA, and PPL has been exempted by the SEC from the provisions of PUHCA applicable to it as a holding company.

PPL Electric is also subject to the jurisdiction of certain federal, regional, state and local regulatory agencies with respect to land use and other environmental matters. Certain operations of PPL Electric are subject to the Occupational Safety and Health Act of 1970 and comparable state statutes.

PPL Electric operates its transmission facilities as part of PJM. PJM operates the electric transmission network and electric energy market in the mid-Atlantic region of the U.S. Bulk electricity is transmitted to wholesale users throughout a geographic area including all or part of Pennsylvania, New Jersey, Maryland, Delaware, Virginia and the District of Columbia. PPL Electric is also a party to the Mid-Atlantic Area Coordination Agreement, which provides for the coordinated planning of generation and transmission facilities by the companies included in PJM.

PJM serves as an ISO in order to accommodate greater competition and broader participation in the power pool. The purpose of the ISO is to separate operation of, and access to, the transmission grid from PJM electric utilities' generation interests. The electric utilities continue to own the transmission assets, but the ISO directs the control and operation of the transmission facilities.

PPL Gas Utilities provides natural gas and propane delivery to approximately 103,000 customers in Pennsylvania and Maryland.

International Segment -

Includes the acquiring and holding of international energy projects, through PPL Global, that are primarily focused on the distribution of energy.

In September 2002, PPL Global acquired the remaining 49% equity interest in WPDH Limited and WPDL from Mirant, for approximately $236 million. The acquisition of Mirant's 49% interest provides PPL Global with a controlling interest in WPD. WPD, through indirect wholly-owned subsidiaries, operates two electric distribution companies in the U.K., which together serve approximately 2.5 million end-users and have about 2,500 employees. WPD delivered 28,074 million kWh of electricity in 2002. See Note 9 to the Financial Statements for additional information on this acquisition.

PPL Global also has controlling interests in electricity transmission and distribution companies serving customers in Chile, El Salvador and Bolivia. Emel, of which PPL Global owns 95.4%, serves approximately 508,000 customers with its distribution companies in northern Chile and just south of its headquarters in Santiago, Chile. DelSur, of which PPL Global owns 80.5%, is an electric distribution company headquartered in San Salvador, which serves approximately 250,000 customers in the central and southern regions of El Salvador, including a portion of the city of San Salvador. Elfec, of which PPL Global owns 92.1%, is the second largest electric distribution company in Bolivia, and serves approximately 240,000 customers in Cochabamba.

PPL Global also has minority investments in generating facilities in Peru and Spain and has a majority ownership interest in a telecommunications company in El Salvador with approximately 5,000 customers.

During 2002, PPL Global deconsolidated its 90% equity interest in its Brazilian investment in CEMAR when ANEEL authorized an administrative intervention and fully assumed operational and financial control of the company. See Note 9 to the Financial Statements for additional information on the deconsolidation of CEMAR.

PPL Services

Various corporate service functions reside in PPL Services, an unregulated subsidiary of PPL. PPL Services provides shared services for PPL and its subsidiaries. These services include financial, legal, human resources and information services. These services are directly charged or allocated, as appropriate, to the Supply, Delivery and International segments.

Seasonality

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Electrical power supply may be seasonal. For example, in some parts of the country, demand for, and market prices of, electricity are higher during the hot summer months, while in other parts of the country such peaks may occur in the cold winter months. As a result, PPL's overall operating results in the future may fluctuate substantially on a seasonal basis. The pattern of this fluctuation may change depending on the nature and location of the facilities PPL acquires and the terms of the contracts to sell electricity.

FINANCIAL CONDITION

See PPL's and PPL Electric's Review of the Financial Condition and Results of Operations for this information.

CAPITAL EXPENDITURE REQUIREMENTS

See "Financial Condition - Capital Expenditure Requirements" in PPL's, PPL Energy Supply's and PPL Electric's Review of the Financial Condition and Results of Operations for information concerning estimated capital expenditure requirements for the years 2003-2007. See Note 14 to the Financial Statements for information concerning estimates of the costs to comply with various environmental regulations.

COMPETITION

The unregulated businesses of PPL and its subsidiaries are highly competitive. The electric industry has experienced a significant increase in the level of competition in the energy markets in response to federal and state deregulation initiatives.

In 1992, the Energy Act amended the PUHCA to create a new class of independent power producers, and amended the Federal Power Act to provide open access to electric transmission systems for wholesale transactions. In 1996, the Customer Choice Act was enacted in Pennsylvania to restructure the state's electric utility industry in order to create retail access to a competitive market for the generation of electricity. Certain other states in which PPL's subsidiaries operate have also adopted a "customer choice" plan to allow customers to choose their electricity supplier. Competitive factors affecting PPL's results of operations include new market entrants, construction by others of generating assets, the actions of regulatory authorities and other factors. PPL cannot predict the impact of these and other competitive factors on its future results of operations or financial condition.

PPL and its subsidiaries believe that, assuming deregulation of the energy industry continues on both the federal and state levels and retail energy markets are opened to new participants and new services, competition will continue to be intense. In addition to deregulation, competitive pressures have resulted from technological advances in power generation and electronic communications, and the greater efficiency of energy markets.

The wholesale power markets in which PPL Generation subsidiaries and PPL EnergyPlus operate are highly competitive. Competitors include regulated utilities, industrial companies, non-utility generators and unregulated subsidiaries of regulated utilities. Although PPL EnergyPlus has long-term supply agreements, (see "Background - Supply Segment") a substantial portion of PPL's future sales will be made into the competitive wholesale markets. Competition will occur principally on the basis of the price of products, and to a lesser extent on the basis of reliability and availability.

PPL EnergyPlus also faces competition in the wholesale markets for energy capacity and ancillary services. As pricing information becomes increasingly available in the energy trading and marketing business and assuming deregulation in the electricity markets continues, PPL EnergyPlus anticipates that trading, marketing and risk management operations will experience greater competition. PPL EnergyPlus primarily competes with other energy merchants based on the ability to aggregate supplies at competitive prices from different sources and locations and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities. Competitors may employ widely differing strategies in their fuel supply and power sales contracts with respect to pricing, terms and conditions. PPL EnergyPlus also competes against other energy marketers on the basis of relative financial condition and access to credit sources.

Some restructured markets have recently experienced supply problems and price volatility. In a number of these markets, government agencies and other interested parties have made proposals to delay market restructuring or even re-regulate certain areas of these markets that have previously been deregulated. In California, legislation has been passed placing a moratorium on the sale of generation plants by public utilities regulated by the California Public Utilities Commission. In June 2001, the FERC instituted a series of price controls designed to mitigate (or cap) prices in the entire western U.S. as a result of the California energy crisis. These price controls have contributed to the lowering of spot and forward energy prices in the western market. Other proposals to institute price controls or to re-regulate the energy industry may be made, and legislative or other actions may cause the electric power restructuring process to be delayed, discontinued or reversed in the states in which PPL currently, or may in the future, operate. If the competitive restructuring of the wholesale and retail power markets is delayed, discontinued or reversed, PPL's business prospects and financial condition could be materially adversely affected.

In July 2001, the FERC issued orders calling for the formation of one RTO throughout the Mid-Atlantic region (PJM), New York and New England. In response, PPL Electric and PPL EnergyPlus are taking the position that a single northeastern RTO is a significant step forward in establishing a reliable and properly functioning wholesale electricity market in the region. PPL Electric and PPL EnergyPlus strongly support

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the most comprehensive amalgamation of the existing and proposed northeast power pools, including the establishment of a single RTO as well as the elimination of marketplace distinctions and control area boundaries. The FERC's northeastern RTO proceeding is continuing. PPL Electric and PPL EnergyPlus cannot predict when or whether a northeastern RTO will be formed.

See Note 14 to the Financial Statements for information on the FERC Notice of Proposed Rulemaking entitled "Remedying Undue Discrimination through Open Access Transmission Service and Standard Electricity Market Design."

POWER SUPPLY

PPL Generation's system capacity (winter rating) at December 31, 2002 was as follows:

Plant	Net MW Capacity
Pennsylvania	
Nuclear-fueled steam station	
Susquehanna	2,024 (a)
Coal-fired steam stations	
Montour	1,540 (b)
Brunner Island	1,473
Martins Creek	300
Keystone	211 (c)
Conemaugh	278 (d)
Total coal-fired	3,802
Gas and oil-fired steam station	
Martins Creek	1,670
Combustion turbines and diesels	451
Hydroelectric	153
Total generating capacity	8,100
Firm purchases	
Hydroelectric	140 (e)
Qualifying facilities	294
Total firm purchases	434
Total system capacity - Pennsylvania	8,534
Arizona	
Natural gas powered stations	
Griffith	300 (f)
Sundance	450 (g)
Total system capacity - Arizona	750
Connecticut	
Natural gas powered station	
Wallingford	252
Illinois	
Natural gas powered station	
University Park	540 (g)
New York	
Natural gas and oil powered stations	
Edgewood and Shoreham	159 (g) (h)
Montana	
Coal-fired stations	
Colstrip Units 1 & 2	307 (i)
Colstrip Unit 3	222 (j)
Corette	154
Total coal-fired	683
Hydroelectric	474
Total system capacity - Montana	1,157

Plant	Net MW Capacity
Maine	
Oil-fired generating station	

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Wyman Unit 4	52 (k)
Hydroelectric	44 (l)
Total system capacity - Maine	96
Total system capacity - PPL Generation	11,488

(a) PPL's 90% undivided interest.
(b) Includes 15 MW auxiliary turbine generator.
(c) PPL's 12.34% undivided interest.
(d) PPL's 16.25% undivided interest, 4.86% of which represents half of the 9.72% interest jointly held with Allegheny Energy.
(e) From Safe Harbor Water Power Corporation.
(f) Began commercial operations in January 2002. PPL's 50% undivided interest.
(g) Began commercial operations in July 2002.
(h) Shoreham began commercial operations in August 2002.
(i) PPL's 50% undivided leasehold interest.
(j) PPL's 30% undivided leasehold interest.
(k) PPL's 8.33% undivided interest.
(l) Includes PPL's 50% interest in the West Enfield Station.

The capacity of generating units is based upon a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances.

The system capacity shown in the preceding table does not reflect installed capacity credit sales and purchases with other utilities. During 2002, the net aggregate of the installed capacity credit sales and purchases totaled 945 MW.

The net effect of Maine sales committed to Bangor Hydro is to reduce Maine's system capacity by 31 MW, to 65 MW. The West Enfield facility's output will be sold to Bangor Hydro through the year 2024. The Wyman Unit 4 output will be sold to Constellation Energy Group through 2004.

In 2002, PPL also entered into multi-year tolling agreements with the Long Island Power Authority for about 159 MW of generation PPL constructed at two New York sites. Under these tolling agreements, PPL will convert fuel supplied by the Long Island Power Authority to electricity and will receive payments for use of its facilities.

PPL Montana had two transition agreements to supply wholesale electricity to Montana Power. One agreement to provide 200 MW from PPL Montana's leasehold interest in Colstrip Unit 3 expired in December 2001. The other agreement covered Montana Power's remaining native load commitments, which ended June 2002. PPL Montana currently has agreements effective since July 2002, to supply NorthWestern with 450 MW of energy for five years.

As part of the purchase of generation assets from Montana Power, PPL Montana agreed to supply electricity to the U.S. government on behalf of the Flathead Irrigation Project. Under the agreement, which expires in December 2010, PPL Montana is required to supply approximately 7.5 MW of capacity year round, with an additional 3.7 MW from April through October during the term of the agreement.

During 2002, PPL Generation produced about 42 billion kWh in its Pennsylvania plants, with 58% of the energy generated by coal-fired stations, 37% from nuclear operations at the Susquehanna station, 3% from the Martins Creek gas and oil-fired station and 2% from hydroelectric stations.

During 2002, PPL Montana generated 7.8 billion kWh. Of this total, 4.7 billion kWh was from fossil generation, with the balance from PPL Montana's hydroelectric plants.

During 2002, PPL Maine generated about 301 million kWh. Of this total, about 272 million kWh was from hydroelectric generation, with the balance from PPL Maine's interest in the oil-fired Wyman Unit 4.

PPL EnergyPlus purchases energy from, and sells energy to, other utilities and FERC-certified power marketers at market-based rates under power purchase and sales agreements. PPL EnergyPlus enters into these transactions on an hourly, daily, weekly, monthly or longer-term basis.

PPL EnergyPlus has FERC authorization to sell electric energy, capacity and ancillary services at market-based rates to wholesale customers located both inside and outside of the PJM control area. As of December 31, 2002, 136 utilities and power marketers had signed power sales agreements under this tariff. Under the market-based tariff, PPL EnergyPlus may also sell power purchased from third parties.

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PPL Energy Supply depends on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver the electricity and natural gas it sells to the wholesale and retail markets, as well as the natural gas it purchases for use in its electric generation facilities. If transmission is disrupted, or if capacity is inadequate, PPL Energy Supply's ability to sell and deliver products and satisfy contractual obligations may be hindered.

During 2002, PPL EnergyPlus purchased 19.2 billion kWh and had 22.4 billion kWh in non-system energy sales.

PPL EnergyPlus also has an export license to sell capacity and/or energy to electric utilities in Canada. This export license allows PPL EnergyPlus to sell either its own capacity and energy not required to serve domestic obligations or power purchased from other utilities.

FUEL SUPPLY

Coal - Pennsylvania

In February 2001, a subsidiary of PPL Generation entered into a partnership, PPL Coal Supply, with Iris Energy, LLC, an unrelated third party, to procure coal and facilitate the production of synthetic fuel. PPL Coal Supply began operations in June 2001 and provides coal to PPL Generation power plants and to Iris Energy for the production of synthetic fuel. In 2002, synthetic fuel from Iris Energy provided 61% of the fuel requirements of PPL Generation's Pennsylvania stations. The balance of the coal was provided by PPL Coal Supply. PPL Coal Supply actively manages its supply base in three principal areas; central Appalachia and western and central Pennsylvania.

During 2002, about 81% of the coal delivered to PPL Generation's Pennsylvania stations was purchased under long-term contracts and 19% was obtained through open market purchases. These contracts provided PPL Generation with about 6.1 million tons of coal in 2002 and are expected to provide approximately 6 million tons in 2003. At December 31, 2002, Pennsylvania plants had sufficient supply for about 44 days of operations. The amount of coal in inventory varies from time-to-time depending on market conditions and plant operations.

The coal burned at the Pennsylvania power plants contains sulfur. Mechanical cleaning processes are utilized to reduce the sulfur content of the coal. The reduction of the sulfur content by either mechanical cleaning or blending has lowered the total sulfur content of the coal burned to levels which permit compliance with current sulfur dioxide emission regulations established by the Pennsylvania DEP.

At December 31, 2002, a PPL Generation subsidiary owned a 12.34% undivided interest in the Keystone station and a 16.25% undivided interest in the Keystone Conemaugh station. The owners of the Keystone station have a long-term contract with a coal supplier that provides approximately 2.6 million tons per year until the contract expires at the end of 2004, and a long-term contract with a synthetic fuel supplier that provides approximately 4 million tons per year until the contract expires at the end of 2007. The balance of the Keystone station requirements are purchased in the open market. The owners of the Conemaugh station have a long-term contract with a synthetic fuel supplier that provides approximately 2 million tons per year until the contract expires at the end of 2007. The balance of the Conemaugh station requirements are purchased in the open market.

Coal - Montana

PPL Montana has a 50% leasehold interest in Colstrip Units 1 and 2, and a 30% leasehold interest in Unit 3. PPL Montana is party to contracts to purchase coal from a neighboring mine with defined quality characteristics and specifications. The coal purchase contract for Units 1 and 2 is in effect through December 31, 2009. The coal purchase contract for Unit 3 is in effect through December 31, 2019.

PPL Montana owns the Corette power plant. The plant has a coal purchase contract to purchase low sulfur coal with defined quality characteristics and specifications. The contract expires at the end of 2003.

Oil and Natural Gas

PPL Generation's Martins Creek Units 3 and 4 burn both oil and natural gas. PPL EnergyPlus, the marketing and trading subsidiary of PPL, is responsible for procuring the oil and natural gas supply for all PPL Generation assets. During 2002, 100% of the oil requirements for the Martins Creek units were purchased on the spot market. As of December 31, 2002, PPL EnergyPlus had no long-term agreements for these requirements.

In 2002, PPL EnergyPlus began supplying fuel to the Sundance and University Park natural gas-fired stations that began commercial operation in July 2002. PPL EnergyPlus has a long-term pipeline capacity contract representing approximately 10% of the maximum requirements of the Sundance facility, but has no long-term agreement to purchase natural gas. As of December 31, 2002, there were no agreements to purchase natural gas for University Park.

PPL EnergyPlus has a long-term contract for approximately 40% of the expected pipeline transportation requirements of the Wallingford facility, but has no long-term agreement to purchase natural gas. Likewise, PPL EnergyPlus has long-term pipeline transportation contracts in

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place for the Griffith Energy facility equaling 70% of the expected requirements.

PPL EnergyPlus generally employs a strategy of procuring natural gas in conjunction with electricity sales commitments.

Nuclear

PPL Susquehanna has executed uranium supply and conversion agreements that satisfy 100% of its uranium requirements in 2003 and, including options, an additional 25% of its requirements for the period 2004-2007. Deliveries under these agreements are expected to provide sufficient uranium to permit Unit 1 to operate into the first quarter of 2006 and Unit 2 to operate into the first quarter of 2005.

PPL Susquehanna has executed an agreement that satisfies all of its enrichment requirements through 2008. Assuming that the other uranium components of the nuclear fuel cycle are satisfied, deliveries under this agreement are expected to provide sufficient enrichment to permit Unit 1 to operate into the first quarter of 2010 and Unit 2 to operate into the first quarter of 2011.

PPL Susquehanna has entered into an agreement that, including options, satisfies all of its fabrication requirements through 2006. Assuming that the uranium and other components of the nuclear fuel cycle are satisfied, deliveries under this agreement can provide sufficient fabrication to permit Unit 1 to operate into the first quarter of 2008 and Unit 2 to operate into the first quarter of 2007.

Federal law requires the federal government to provide for the permanent disposal of commercial spent nuclear fuel. Under the Nuclear Waste Policy Act, the DOE initiated an analysis of a site in Nevada for a permanent nuclear waste repository. The repository is not expected to be operational before 2010. 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 October 1999. PPL Susquehanna estimates that there is sufficient storage capacity in the spent nuclear fuel pools and the on-site spent fuel storage facility at Susquehanna to accommodate spent fuel discharged through approximately 2017, under current operating conditions. If necessary, the on-site spent fuel storage facility can be expanded, assuming appropriate regulatory approvals are obtained, such that, together, the spent fuel pools and the expanded dry fuel storage facility will accommodate all of the spent fuel expected to be discharged through the current life of the plant.

In July2002, President Bush approved the Congressional override of a veto by the State of Nevada, designating Yucca Mountain, Nevada as the site for development of a long-term repository for high-level radioactive waste. The next step is for the DOE to submit a license application to the NRC to build and then operate the Yucca Mountain repository.

Federal law also provides that generators of spent fuel are responsible for certain costs of disposal. In January 1997, PPL Electric joined over 30 other utilities in a lawsuit in the U.S. Court of Appeals for the District of Columbia Circuit seeking assurance of the DOE's performance of its contractual obligation to accept spent nuclear fuel and suspension of payment to that agency pending such performance. In November 1997, the Court denied the utilities' requested relief and held that the contracts between the utilities and the DOE provide a potentially adequate remedy if the DOE failed to begin disposal of spent nuclear fuel by January 31, 1998. The DOE did not, in fact, begin to dispose of spent nuclear fuel on that date and has acknowledged that it violated its contractual obligations. The DOE continues, however, to vigorously contest claims that its failures resulted in recoverable damages. PPL cannot predict the outcome of this dispute.

ENVIRONMENTAL MATTERS

Certain PPL subsidiaries, including PPL Electric and PPL Generation subsidiaries, are subject to certain present and developing federal, regional, state and local laws and regulations with respect to air and water quality, land use and other environmental matters. See PPL's and PPL Energy Supply's "Financial Condition - Capital Expenditure Requirements" in the Review of the Financial Condition and Results of Operations for information concerning environmental expenditures during 2002 and their estimate of those expenditures during the years 2003-2007. PPL believes that its subsidiaries are in substantial compliance with applicable environmental laws and regulations.

See "Environmental Matters" in Note 14 to the Financial Statements for information concerning federal clean air legislation, groundwater degradation and waste water control at facilities owned by PPL's subsidiaries and PPL Electric's and PPL Gas Utilities' agreements with the Pennsylvania DEP concerning remediation at certain sites. Other environmental laws, regulations and developments that may have a substantial impact on PPL's subsidiaries are discussed below.

Air

The Clean Air Act includes, among other things, provisions that: (a) restrict the construction of, and revise the performance standards for, new and substantially modified coal-fired and oil-fired generating stations; and (b) authorize the EPA to impose substantial noncompliance penalties of up to $27,500 per day of violation for each facility found to be in violation of the requirements of an applicable state implementation plan. The state agencies administer the EPA's air quality regulations through the state implementation plans and have concurrent authority to impose penalties for non-compliance. In December 1997, international negotiators reached agreement in Kyoto, Japan to strengthen the 1992 United Nations Global Climate Change Treaty by adding legally-binding greenhouse gas emission limits. This agreement - the Kyoto Protocol - would

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require the U.S. to reduce its greenhouse gas emissions to 7% below 1990 levels by 2008 - 2012. Although the Kyoto Protocol is unlikely to be ratified by the U.S., the electricity generating industry has committed to certain voluntary reductions in carbon dioxide. Some form of carbon dioxide reductions will likely be required in the future. Such requirements could result in increased capital and operating expenses which are not now determinable, but which could be significant.

Water

To implement the requirements of the Federal Water Pollution Control Act of 1972, as amended by the Clean Water Act of 1977 and the Water Quality Act of 1987, the EPA has adopted regulations on effluent standards for steam electric stations. The states administer the EPA's effluent standards through state laws and regulations relating to, among other things, effluent discharges and water quality. The standards adopted by the EPA pursuant to the Clean Water Act may have a significant impact on existing facilities of certain PPL subsidiaries depending on the states' interpretation and future amendments to regulations.

Pursuant to the Surface Mining and Reclamation Act of 1977, the OSM has adopted effluent guidelines which are applicable to PPL subsidiaries as a result of their past coal mining and coal processing activities. The EPA and the OSM limitations, guidelines and standards also are enforced through the issuance of NPDES permits. In accordance with the provisions of the Clean Water Act and the Reclamation Act of 1977, the EPA and the OSM have authorized the states to implement the NPDES program. Compliance with applicable water quality standards is assured by state review of NPDES permit conditions.

Solid and Hazardous Waste

The provisions of Superfund authorize the EPA to require past and present owners of contaminated sites and generators of any hazardous substance found at a site to clean-up the site or pay the EPA or the state for the costs of clean-up. The generators and past owners can be liable even if the generator contributed only a minute portion of the hazardous substances at the site. Present owners can be liable even if they contributed no hazardous substances to the site.

State laws such as the Pennsylvania and Montana Superfund statutes also give state agencies broad authority to identify hazardous or contaminated sites and to order owners or responsible parties to clean-up the sites. If responsible parties cannot or will not perform the clean-up, the agency can hire contractors to clean-up the sites and then require reimbursement from the responsible parties after the clean-up is completed. Another Pennsylvania statute, the Industrial Sites Recycling Act, encourages voluntary clean-ups by allowing responsible parties to choose from a menu of clean-up standards and providing liability protection commensurate with the clean-up standard chosen.

Certain federal and state statutes, including federal and state Superfund statutes, also impose liability on the responsible parties for the lost value of damaged natural resources.

Low-Level Radioactive Waste

Under federal law, each state is responsible for the disposal of low-level radioactive waste generated in that state. States may join in regional compacts to jointly fulfill their responsibilities. The states of Pennsylvania, Maryland, Delaware and West Virginia are members of the Appalachian States Low-Level Radioactive Waste Compact. Efforts to develop a regional disposal facility in Pennsylvania were suspended by the Pennsylvania DEP in 1998. The Commonwealth retains the legal authority and may be required to resume the siting process should it be necessary. Low-level radioactive waste resulting from the operation of the Susquehanna facility is currently being sent to Barnwell, South Carolina and Clive, Utah for disposal. In the event this or other emergent disposal options become unavailable or no longer cost-effective, the low-level radioactive waste will be stored on-site at Susquehanna. PPL Susquehanna cannot predict the future availability of low-level waste disposal facilities or the cost of such disposal.

Asbestos

There have been increasing litigation claims throughout the U.S. based on exposure to asbestos against companies that manufacture or distribute asbestos products or that have these products on their premises. Certain of PPL's generation subsidiaries and certain of its energy services subsidiaries, such as those that have supplied, may have supplied or installed asbestos material in connection with the repair or installation of heating, ventilating and air conditioning systems, have been named as defendants in asbestos-related lawsuits. PPL cannot predict the outcome of these lawsuits or whether additional claims may be asserted against its subsidiaries in the future. PPL does not expect that the ultimate resolution of the current lawsuits will have a material adverse effect on its financial condition.

Electric and Magnetic Fields

Concerns have been expressed by some members of the public regarding the potential health effects of EMFs. These fields 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 focused attention on this issue. PPL and its subsidiaries support the current efforts to determine whether EMFs cause any human health problems and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities. PPL

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is unable to predict what effect, if any, the EMF issue might have on its operations and facilities either in the U.S. or abroad, and the associated cost, or what, if any, liabilities it might incur related to the EMF issue.

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

FRANCHISES AND LICENSES

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

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

PPL Susquehanna operates Units 1 and 2 pursuant to NRC operating licenses which expire in 2022 and 2024, respectively. In November 2001, PPL Susquehanna notified the NRC that it intends to seek renewal of its operating licenses. The application for this extension will most likely be made in 2006 or 2007, in accordance with NRC guidelines. If the NRC approves PPL Susquehanna's application, the operating licenses for Units 1 and 2 would each be extended for an additional 20 years, to 2042 and 2044, respectively.

PPL Holtwood operates the Wallenpaupack and Holtwood hydroelectric projects pursuant to licenses renewed by the FERC in 1980. The Wallenpaupack license expires in 2004 and the Holtwood license expires in 2014. PPL Holtwood also owns one-third of the capital stock of Safe Harbor Water Power Corporation (Safe Harbor), which holds a project license which extends the operation of its hydroelectric plant until 2030. The total capacity of the Safe Harbor plant is 418 MW, and PPL Holtwood is entitled by contract to one-third of the total capacity.

The 11 hydroelectric facilities and one storage reservoir purchased from Montana Power in 1999 are licensed by the FERC. These licenses expire periodically, and the generating facilities must be relicensed at such times. The FERC license for the Mystic facility expires in 2009; the Thompson Falls and Kerr licenses expire in 2025 and 2035, respectively, and the license for the nine Missouri-Madison facilities expire in 2040.

PPL Holtwood is working to have the Wallenpaupack facility relicensed, and PPL Montana is working to have the Mystic facility relicensed. Under applicable law, FERC may relicense the original licensee or may license a new licensee, or the U.S government may take over the project. If the original licensee is not relicensed, it is compensated for its net investment in the project, not to exceed the fair value of the property taken, plus reasonable damages to other property affected by the lack of relicensing.

PPL Global's international electricity transmission and distribution companies are authorized by the governments of their respective countries to provide electric distribution services within their concession areas, subject to certain conditions and obligations.

EMPLOYEE RELATIONS

As of December 31, 2002, PPL and its subsidiaries had the following full-time employees:

PPL Energy Supply		
PPL Generation	2,241	(a)
PPL EnergyPlus	2,029	
PPL Global		
Domestic	32	
International	3,860	(b)
Total PPL Energy Supply	8,162	
PPL Electric	2,966	
PPL Gas Utilities	376	
PPL Services & Other	1,151	
Total PPL	12,655	

(a) Includes 470 PPL Montana employees.
(b) Includes employees of WPD and PPL Global's consolidated subsidiaries in Latin America.

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Approximately 62%, or 5,463, of PPL's domestic workforce are members of labor unions, with four IBEW locals representing nearly 3,600 employees. The other unions primarily represent employees of the mechanical contractors and small locals of gas utility employees in Pennsylvania. The bargaining agreement with the largest union was negotiated in May 2002 and expires in May 2006. Eight three-year contracts with smaller gas utility locals in Pennsylvania were negotiated in 2000, and five additional agreements with two-year terms were negotiated in 2001. Also in 2001, contracts were concluded with two IBEW locals in Montana. PPL Montana negotiated a new five-year agreement with the Teamsters Union in 2002.

Approximately 81%, or 3,130, of PPL's international workforce are members of labor unions, with WPD representing the majority. WPD has two employment agreements which are negotiated with the unions. The Electricity Business Agreement covers 2,350 employees; it may be amended by agreement between WPD and the unions and is terminable with 12 months notice by either side. The other employment agreement, called the Meter Reading Services Handbook of Agreements, covers 49 employees; it may be amended by agreement between WPD and the unions and is terminable by written notice by either side. WPD recognizes five unions, the largest of which represents 38% of union members.

AVAILABLE INFORMATION

PPL's Internet website is www.pplweb.com. On the Investor Center page of that website, PPL provides access to all SEC filings of PPL registrants free of charge, as soon as reasonably practicable after filing with the SEC. Additionally, PPL registrants' filings are available at the SEC's website (www.sec.gov) and at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549, or by calling 1-800-SEC-0330.

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ITEM 2. PROPERTIES

Domestic Generation

For a description of PPL's domestic generation portfolio, see Item 1, "Business - Power Supply."

Domestic Generation Under Development

PPL Generation had the following domestic generation development projects in progress at December 31, 2002:

Plant	Type	Total MW Capacity *(a)*	PPL Ownership or Lease Interest in MW		Expected In-Service Date *(b)*
Pennsylvania					
Lower Mt. Bethel *(c)*	Gas-fired	600	600	(100%)	Late 2003
Susquehanna *(d)*	Nuclear	100	90	(90%)	2003-04
Total		700	690		

(a) The capacity of generation units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances.
(b) The expected in-service dates are subject to receipt of required approvals and permits and to other contingencies.
(c) The Lower Mt. Bethel project is a gas-fired combined cycle combustion turbine facility.
(d) The Susquehanna project involves the installation of more efficient steam turbines to increase capacity.
See Note 9 to the Financial Statements for a discussion of the termination of the Kings Park project in New York.

PPL continually reexamines development projects based on market conditions and other factors to determine whether to proceed with these projects, sell them, expand them, execute tolling agreements or pursue other opportunities.

Domestic Electricity Delivery

For a description of PPL's Electric's service territory, see Item 1, "Business - Background." At December 31, 2002, PPL Electric had electric transmission and distribution lines in public streets and highways pursuant to franchises and rights-of-way secured from property owners. PPL Electric's system included 377 substations with a total capacity of 25.5 million kVA, 32,709 circuit miles of overhead lines and 6,157 cable miles of underground conductors. All of PPL Electric's facilities are located in Pennsylvania. Substantially all of PPL Electric's transmission and distribution properties are subject to the lien of PPL Electric's 1945 First Mortgage Bond Indenture and its 2001 Senior Secured Bond Indenture.

Domestic Gas Delivery

PPL Gas Utilities has two natural gas distribution subsidiaries - PFG Gas, Inc., which distributes gas to customers in southeastern and central Pennsylvania and parts of Maryland, and North Penn Gas Company, which serves customers in the northern part of Pennsylvania. North Penn Gas also has natural gas storage facilities in Pennsylvania. As of December 31, 2002, PFG Gas had approximately 39,900 customers and 1,181 miles of pipeline mains, with 14 miles in Maryland and the remainder in Pennsylvania. North Penn Gas had approximately 35,500 customers and 2,706 miles of pipeline mains in Pennsylvania.

International Electric Delivery

PPL Global has consolidated investments in electricity distribution companies, serving approximately 3.5 million customers in Chile, El Salvador, Bolivia and the U.K., as follows:

International Investments *(a)*

Company	Location	Primary Business	PPL Ownership Interest	2002 Electricity Sales GWh *(b)*

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LATIN AMERICA				
Empresas Emel S.A. (Emel)	Santiago, Chile	Distribution	95.4%	2,101
Empresa de Luz y Fuerza Electrica Cochabamba (Elfec)	Cochabamba, Bolivia	Distribution	92.1%	574
Distribuidora de Electricidad Del-Sur S.A.de C.V. (DelSur)	San Salvador, El Salvador	Distribution	80.5%	874
UNITED KINGDOM				
Western Power Distribution Holdings Limited (WPDH Limited)	Bristol, England	Distribution	100%	28,074
Total				31,623

(a) PPL Global no longer controls CEMAR and has deconsolidated this investment in its financial statements. PPL Global stopped recording operating results of CEMAR after August 21, 2002, the day ANEEL assumed control. CEMAR's one million customers have not been included in the year-end customer count above. See Note 9 to the Financial Statements for additional information.

(b) Sales corresponding to revenues recorded by PPL Global in 2002.

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ITEM 3. LEGAL PROCEEDINGS

See Item 1, "Business - Fuel Supply," for information concerning a lawsuit against the DOE for failure of that agency to perform certain contractual obligations. See "Environmental Matters" in Note 14 to the Financial Statements for information concerning certain environmental matters.

Tax Assessment Appeals

Pursuant to changes in PURTA enacted in 1999, PPL subsidiaries have filed a number of tax assessment appeals in various Pennsylvania counties where PPL facilities are located. These appeals challenge existing local tax assessments, which now comprise the basis for payment of the PURTA tax on PPL's properties. Also, as of January1, 2000, generation facilities are no longer taxed under PURTA, and these local assessments will be used directly to determine local real estate tax liability for PPL's power plants. In July 1999, PPL filed retroactive appeals for tax years 1998 and 1999, as permitted by the new law. In addition, PPL has filed appeals for 2000 and beyond, as permitted under normal assessment procedures. It is anticipated that assessment appeals may now be an annual occurrence.

Hearings on the pending appeals were held by the boards of assessment appeals in each county, and decisions have now been rendered by all counties. To the extent the appeals were denied or PPL was not otherwise satisfied with the results, PPL filed further appeals from the board decisions with the appropriate county Courts of Common Pleas.

Of the three pending proceedings in Pennsylvania, only the appeal concerning the assessed value of the Susquehanna nuclear station will result in annual local taxes exceeding $1 million. The county assessment of the Susquehanna station indicated a market value of $3.9billion. Based on this value, the annual local taxes for the Susquehanna station would have been about $70million. However, PPL was able to reach a settlement with the local taxing authorities in December 2000, for tax years 2000 and beyond. This settlement will result in the payment of annual local taxes of about $3 million. PPL and the local taxing authorities also reached a settlement concerning the 1998 and 1999 tax years which, if effectuated, would not result in any additional PURTA tax liability for PPL. This portion of the settlement with the local tax authorities is subject, however, to the outcome of claims asserted by certain intervenors which are described below.

In August 2000, over PPL's objections, the court permitted Philadelphia City and County, the Philadelphia School District and the Southeastern Pennsylvania Transportation Authority (SEPTA) (collectively, the "Philadelphia parties") to intervene in the case. The Philadelphia parties have intervened because they believe a change in the assessment of the plant will affect the amount they would collect under PURTA for the tax years 1998 and 1999. As part of the change in the law, the local real estate assessment determines what the 1998 and 1999 PURTA payments by PPL will be. In November 2000, the Philadelphia parties submitted their own appraisal report, which indicates that the taxable fair market value of the Susquehanna station under PURTA for 1998 and 1999 is approximately $2.3 billion. Based on this appraisal, PPL would have to pay up to an extra $213 million in PURTA taxes for tax years 1998 and 1999.

PPL's appeal of the Susquehanna station assessment for 1998 and 1999 was decided in its favor by the Luzerne County Court of Common Pleas. The Philadelphia parties appealed this decision to the Commonwealth Court, and PPL cross-appealed on the issue of the right of the Philadelphia parties to intervene. As a result of these proceedings and appeals, it is possible that a final determination of market value and the associated tax liability for 1998 and 1999 may not occur for several years.

See "Review of the Financial Condition and Results of Operation" for a description of the July 1, 2000 corporate realignment in which PPL Electric's generating plants in Pennsylvania were transferred to various PPL affiliates.

PPL Montana is currently protesting certain property tax assessments by the Montana Department of Revenue (MDOR) on its generation facilities. The tax liabilities in dispute are approximately $1.7 million for 2000, $1.8 million for 2001 and $8.6 million for 2002. PPL Montana's dispute with respect to most of the 2002 tax liability is based on the assessed value used by the MDOR for PPL Montana's hydroelectric facilities versus the assessed value used for the facilities of another hydroelectric generator in the state. The state tax appeals board is scheduled to hear the 2000 and 2001 disputes in early 2004, while the hearing for the 2002 dispute is expected to be later in 2004. In response to these tax disputes, the 2003 Montana legislature has either introduced or proposed several bills to further tax PPL Montana, including, but not limited to, bills that would increase the portion of the current wholesale electrical transaction tax paid by the company and increase PPL Montana's annual property taxes from approximately $15 million per year to an amount approaching $30 million per year. PPL Montana cannot predict the outcome of the tax assessment disputes or the likelihood that any such proposed legislation would ultimately become law.

MPSC Order

In June 2001, the MPSC issued an order (MPSC Order) in which it found that Montana Power must continue to provide electric service to its customers at tariffed rates until its transition plan under the Montana Electricity Utility Industry Restructuring and Customer Choice Act is finally approved, and that purchasers of generating assets from Montana Power must provide electricity to meet Montana Power's full load requirements at prices to Montana Power that reflect costs calculated as if the generating assets had not been sold. PPL Montana purchased Montana Power's interests in two coal-fired plants and 11 hydroelectric units in 1999, and NorthWestern purchased Montana Power's electricity delivery business in the first quarter of 2002.

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In July 2001, PPL Montana filed a complaint against the MPSC with the U.S. District Court in Helena, Montana, challenging the MPSC Order. In its complaint, PPL Montana asserted, among other things, that the Federal Power Act preempts states from exercising regulatory authority over the sale of electricity in wholesale markets, and requested the court to declare the MPSC action preempted, unconstitutional and void. In addition, the complaint requested that the MPSC be enjoined from seeking to exercise any authority, control or regulation of wholesale sales from PPL Montana's generating assets. In March 2002, the District Court dismissed PPL Montana's lawsuit on procedural grounds, ruling that the Eleventh Amendment to the U.S. Constitution prevented PPL Montana from bringing the action in federal court. The District Court noted that the action could be filed in a state court in Montana. PPL Montana appealed the District Court's ruling to the United States Court of Appeals for the Ninth Circuit. In July 2002, the MPSC filed an unopposed motion for summary disposition of the appeal, requesting the Ninth Circuit to reverse the District Court's ruling and send the case back to the District Court in light of a recent Eleventh Amendment decision by the U.S. Supreme Court. In October 2002, the Ninth Circuit granted the MPSC's unopposed motion, vacated the District Court's ruling and sent the case back to the District Court.

In January 2003, the MPSC voted 5-0 to rescind the MPSC Order in its entirety, without prejudice to future MPSC actions. At such time as the MPSC Order is no longer subject to appellate review, PPL Montana and the MPSC will file a stipulation providing for withdrawal of PPL's complaint, without prejudice to refile such complaint in the future.

Energy West Litigation

In July 2001, PPL Montana filed an action in state court and a responsive pleading in federal court, both related to a breach of contract by Energy West Resources, Inc. (Energy West), a Great Falls, Montana-based energy aggregator. PPL Montana is seeking a judgment that Energy West violated the terms of the contract under which it supplied energy to Energy West during the period July 1, 2000 through June 30, 2002. PPL Montana is claiming damages of approximately $18 million. All litigation in this matter has been consolidated in the U.S. District Court for the District of Montana, Great Falls Division, and the liability phase of the trial concluded in December 2002. In the event that the federal court rules in PPL Montana's favor, the trial will then move into a damages phase. PPL, PPL Energy Supply and PPL Montana cannot predict the ultimate outcome of these proceedings.

NorthWestern Corporation Litigation

In connection with the acquisition of the Montana generation assets, the Montana Power APA, which was previously assigned to PPL Montana by PPL Global, includes a provision concerning the proposed purchase by PPL Montana of a portion of NorthWestern's interest in the 500-kilovolt Colstrip Transmission System (CTS) for $97 million. During 2002, PPL Montana had been in discussions with NorthWestern regarding the proposed purchase of the CTS and the claims that PPL Montana believes it has against NorthWestern arising from the Montana Power APA and related agreements. Notwithstanding such discussions, in September 2002, NorthWestern filed a lawsuit against PPL Montana in Montana state court seeking specific performance of PPL Montana's purchase of the CTS or, alternatively, damages for breach of contract. Pursuant to PPL Montana's application, the matter was removed to the U.S. District Court for the District of Montana, Butte Division. Following the removal of the matter to the federal court, PPL Montana moved to dismiss NorthWestern's claim for specific performance of PPL Montana's purchase of the CTS. NorthWestern subsequently asserted additional claims against PPL Montana arising under the Montana Power APA. In December 2002, NorthWestern filed a motion seeking summary judgment as to certain of its claims against PPL Montana. PPL Montana has opposed this summary judgment motion. The U.S. District Court has not yet ruled on either PPL Montana's motion to dismiss or NorthWestern's motion for summary judgment. PPL, PPL Energy Supply and PPL Montana cannot predict the outcome of this litigation.

Montana Hydroelectric Initiative

On November 5, 2002, a proposed Montana Hydroelectric Security Act initiative was defeated on a statewide ballot by a better than 2 to 1 margin. Among the stated purposes of the initiative was to create an elected Montana public power commission to determine whether purchasing hydroelectric dams in Montana would be in the public interest. Such a commission could have decided to acquire any or all of the hydroelectric dams owned by PPL Montana, either pursuant to a negotiated purchase or an acquisition at fair market value through the power of condemnation. PPL Montana had vigorously opposed the initiative along with several other Montana groups and individuals.

California ISO and Pacific Northwest

Litigation arising out of the California electricity supply situation has been filed at the FERC and in California courts against sellers of energy to the California ISO. The plaintiffs and intervenors in these proceedings allege abuses of market power, manipulation of market prices, unfair trade practices and violations of state antitrust laws, among other things, and seek price caps on wholesale sales in California and other western power markets, refunds of excess profits allegedly earned on these sales of energy, and other relief, including treble damages and attorneys' fees. Certain of PPL's subsidiaries have intervened in the FERC proceedings in order to protect their interests, but have not been named by any plaintiffs in any of the court actions alleging abuses of market power, manipulation of market prices, unfair trade practices and violations of state antitrust laws. However, in April 2002, PPL Montana was named by a defendant in a consolidated court proceeding, which combined into one master proceeding several of the lawsuits alleging antitrust violations and unfair trade practices. Specifically, one of the original generators being sued by the various plaintiffs in the consolidated court proceeding filed a cross-complaint against 30 other generators and power

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marketers, including PPL Montana. This generator denies that any unlawful, unfair or fraudulent conduct occurred or caused any harm to the plaintiffs, and explains that the plaintiffs' claims are completely barred by federal law. Nonetheless, this generator alleges that it filed its complaint against the other generators and power marketers in order to assist the court in resolving the proceeding and asserts that if it is found liable, the other generators and power marketers, including PPL Montana, caused, contributed to and/or participated in the plaintiffs' alleged losses. This litigation, originally brought in state court in California, has been removed to federal court in California.

In addition, PPL Montana has been named as a defendant in a declaratory judgment action initiated by the State of California to prevent certain members of the California Power Exchange from seeking compensation for the state's seizure of certain energy contracts. PPL Montana is a member of the California Power Exchange, but it has no energy contracts with or through the California Power Exchange and has not sought compensation in connection with the state's seizure.

Attorneys general in several western states, including California, have begun investigations related to the electricity supply situation in California and other western states. The FERC has determined that all sellers of energy into markets operated by the California ISO and the California Power Exchange, including PPL Montana, should be subject to refund liability for the period beginning October 2, 2000 through June 20, 2001 and has initiated an evidentiary hearing concerning refund amounts. The FERC also is considering 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. The FERC Administrative Law Judge assigned to the Pacific Northwest proceeding has recommended that no refunds be ordered for such sales into the Pacific Northwest. The FERC presently is considering this recommendation. The FERC has been conducting an additional investigation of alleged price manipulation in power markets in California and the western U.S. In connection with this investigation, the FERC has served several sets of data requests on sellers of energy in those markets, including PPL Montana. PPL Montana sold only a small amount of electricity into the California market during 2000 and 2001, and it did not sell any electricity into the California market during 2002. In its response to a FERC data request concerning PPL Montana's California trading strategies, PPL Montana explained that it did not engage in the type of California trading strategies that have been attributed to Enron. In responses to FERC data requests concerning whether PPL Montana and PPL EnergyPlus engaged in so-called "wash trades" in the western U.S., PPL Montana and PPL EnergyPlus explained that they have not, and do not, engage in such trades.

While PPL believes that it has not engaged in any improper trading practices, PPL cannot predict whether, or the extent to which, any of its subsidiaries will be the target of any additional governmental investigations or named in other lawsuits or refund proceedings, the outcome of any such lawsuits or proceedings or whether the ultimate impact on PPL of the electricity supply situation in California and other western states will be material.

Montana Power Shareholders' Litigation

In August 2001, a purported class-action lawsuit was filed by a group of shareholders of Montana Power against Montana Power, the directors of Montana Power, certain advisors and consultants of Montana Power and PPL Montana. The plaintiffs allege, among other things, that Montana Power was required to, and did not, obtain shareholder approval of the sale of Montana Power's generation assets to PPL Montana in 1999. Although most of the claims in the complaint are against Montana Power, its board of directors, and its consultants and advisors, two claims are asserted against PPL Montana. In the first claim, plaintiffs seek a declaration that because Montana Power shareholders did not vote on the 1999 sale of generating assets to PPL Montana, that sale "was null and void ab initio." The second claim alleges that PPL Montana was privy to and participated in a strategy whereby Montana Power would sell its generation assets to PPL Montana without first obtaining Montana Power shareholder approval, and that PPL Montana has made net profits in excess of $100 million as the result of this alleged illegal sale. In the second claim, plaintiffs request that the court impose a "resulting and/or constructive trust" on both the generation assets themselves and all profits, plus interest on the amounts subject to the trust. In November 2001, PPL Montana and the other defendants filed a motion to dismiss the plaintiffs' complaint on the basis that it fails to state a claim upon which relief may be granted, and the plaintiffs filed a motion for the lawsuit to be certified by the court as a class-action. In August 2002, the court denied this motion to dismiss, except as to certain matters not relating to PPL Montana, and granted the plaintiffs' motion for the certification of the lawsuit. In January 2003, the case was removed to the U.S. District Court in Montana. PPL, PPL Energy Supply and PPL Montana cannot predict the outcome of this matter.

PJM Capacity Transactions

In November 2001, the PJM Market Monitor publicly released a report prepared for the PUC entitled "Capacity Market Questions" relating to the pricing of installed capacity in the PJM daily market during the first quarter of 2001. The report concludes that PPL EnergyPlus (identified in the report as "Entity 1") was able to exercise market power to raise the market-clearing price above the competitive level during that period. PPL EnergyPlus does not agree with the Market Monitor's conclusions that it exercised market power; in addition, the Market Monitor acknowledged in his report that PJM's standards and rules did not prohibit PPL EnergyPlus' conduct. In November 2001, the PUC issued an Investigation Order directing its Law Bureau to conduct an investigation into the PJM capacity market and the allegations in the Market Monitor's report. In June 2002, the PUC issued an investigation report alleging, among other things, that PPL had "unfairly manipulated electricity markets in early 2001," and that "there was an unlawful exercise of market power and market rules gaming by PPL" that was damaging to wholesale and retail electricity markets in Pennsylvania. The PUC stated that it was not authorized to, and was not attempting to, adjudicate the merits of PPL's defenses to these charges, but has referred the matter to the U.S. Department of Justice -- Antitrust Division, or DOJ, the FERC and the Pennsylvania Attorney General. PPL had previously responded to certain information requests of the DOJ in

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connection with a civil investigative demand regarding capacity transactions in the PJM, and PPL has agreed to provide the Office of the Pennsylvania Attorney General with any information that it provided to the DOJ. In addition, in July 2002, PPL appealed the PUC order to the Commonwealth Court of Pennsylvania. Since the PUC clarified that its report has no precedential value and should be given no weight in any future proceedings, PPL consented to having its appeal dismissed by the Commonwealth Court. Accordingly, the Commonwealth Court dismissed the appeal in September 2002. Although PPL believes that the PUC's report is inaccurate, that its conclusions are groundless, and that PPL acted ethically and legally, in compliance with all applicable laws and regulations, PPL cannot predict the outcome or extent of any investigations, litigation or other proceedings related to this matter.

In September 2002, PPL was served with a complaint filed by Utilimax.com, Inc., which was a member of PJM, in the U.S. District Court for the Eastern District of Pennsylvania against PPL and PPL EnergyPlus alleging, among other things, violations of the federal antitrust laws in connection with the capacity transactions described in the PJM Market Monitor report. In addition, in December 2002, PPL was served with a complaint against PPL, PPL EnergyPlus and PPL Electric filed in the same court by a group of 14 Pennsylvania boroughs that apparently alleges, in broad terms, similar violations of the federal antitrust laws. These boroughs are wholesale customers of PPL Electric. Although PPL, PPL EnergyPlus and PPL Electric believe the claims under both complaints are without merit and intend to defend the actions vigorously, they cannot predict the outcome of these matters.

FERC Market-Based Rate Authority

In December 1998, the FERC issued an order authorizing 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 of the date of the order, and every three years thereafter. PPL EnergyPlus filed its initial updated market analysis in December 2001. Several parties thereafter filed interventions and protests requesting that, in light of the PJM Market Monitor's report described above, PPL EnergyPlus be required to provide additional information demonstrating that it has met the FERC's market power tests necessary for PPL EnergyPlus to continue its market-based rate authority. PPL EnergyPlus has responded that the FERC does not require the economic test suggested by the intervenors and that, in any event, it would meet such economic test if required by the FERC. PPL EnergyPlus cannot predict the outcome of this matter.

Lower Mt. Bethel

In December 2001, a PPL Global subsidiary entered into a $455 million operating lease arrangement, as lessee, for the development, construction and operation of a 600 MW gas-fired combined-cycle generation facility located in Lower Mt. Bethel Township, Northampton County, Pennsylvania. See Note 10 to the Financial Statements for further discussion of the Lower Mt. Bethel project. The Air Quality Plan Approval issued by the Pennsylvania DEP for construction of the Lower Mt. Bethel facility has been appealed by the New Jersey DEP to the Pennsylvania DEP Environmental Hearing Board. The PPL Global subsidiary involved in the Lower Mt. Bethel lease financing has joined with the Pennsylvania DEP in opposing this appeal. In addition, in August 2002, the Northampton County Court of Common Pleas issued a decision concerning the permissible noise levels from the Lower Mt. Bethel facility when it becomes operational. Specifically, the court's decision addressed the noise measurement criteria and the point at which the noise levels are to be measured. PPL has appealed the court's decision to the Commonwealth Court and an intervenor in the lawsuit has cross-appealed the court's decision. The Lower Mt. Bethel facility is expected to be operational in late 2003. PPL cannot predict the outcome of these matters or their ultimate impact on the Lower Mt. Bethel facility or on PPL Energy Supply, but such impact may be material.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of 2002.

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EXECUTIVE OFFICERS OF THE REGISTRANTS

Officers of PPL, PPL Energy Supply, PPL Electric and PPL Montana are elected annually by their Boards of Directors (or Boards of Managers, as applicable) to serve at the pleasure of the respective Boards. There are no family relationships among any of the executive officers, nor is there any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Listed below are the executive officers as of December 31, 2002:

PPL Corporation

Name	Age	Positions Held During the Past Five Years	Dates
William F. Hecht	59	Chairman, President and Chief Executive Officer	February 1995 - present
John R. Biggar	58	Executive Vice President and Chief Financial Officer	January 2001 - present
		Senior Vice President and Chief Financial Officer	November 1998 - January 2001
		Senior Vice President - Financial	January 1998 - November 1998
		Vice President - Finance - PPL Electric	August 1996 - January 1998
Lawrence E. De Simone	55	Executive Vice President - Supply	October 2001 - present
		President - PPL EnergyPlus	November 1998 - October 2001
		Senior Vice President - Energy Services - Virginia Power Company	July 1996 - June 1998
Robert J. Grey	52	Senior Vice President, General Counsel and Secretary	March 1996 - present
Michael E. Bray*	55	Vice Chair and President - PPL Electric	July 2000 - present
		Senior Vice President - PPL Electric	April 2000 - July 2000
		President and Chief Executive Officer - Consolidated Edison Development, Inc.	February 1999 - April 2000
		Senior Vice President - Electric Business Unit - Long Island Lighting Company	March 1997 - February 1999
Paul T. Champagne*	44	President - PPL EnergyPlus	October 2001 - present
		President - PPL Global	May 1999 - October 2001
		Vice President and Senior Business Development Officer - PPL Global	October 1998 - May 1999
		Vice President - PPL Global	January 1995 - October 1998
James H. Miller*	54	President - PPL Generation	February 2001 - present
		Executive Vice President - USEC, Inc.	January 1999 - February 2001
		Vice President, Production - USEC, Inc.	September 1995 - January 1999
Roger L. Petersen*	51	President - PPL Global	October 2001 - present
		President and Chief Executive Officer - PPL Montana	May 1999 - October 2001
		President - PPL Montana	January 1999 - May 1999
		Vice President and Chief Operating Officer - PPL Global	October 1998 - January 1999
		Vice President - PPL Global	January 1995 - October 1998
Joseph J. McCabe	52	Vice President and Controller	August 1995 - present
James E. Abel	51	Vice President - Finance and Treasurer	June 1999 - present
		Treasurer	August 1996 - June 1999

* Messrs. Bray, Champagne, Miller and Petersen have been designated executive officers of PPL by virtue of their respective positions at PPL subsidiaries.

PPL Electric Utilities Corporation

Name	Age	Positions Held During the Past Five Years	Dates
Michael E. Bray	55	Vice Chair and President	July 2000 - present
		Senior Vice President	April 2000 - July 2000

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		President and Chief Executive Officer - Consolidated Edison Development, Inc.	February 1999 - April 2000
		Senior Vice President - Electric Business Unit - Long Island Lighting Company	March 1997 - February 1999
Joseph J. McCabe	52	Vice President and Controller	August 1995 - present
James E. Abel	51	Treasurer	July 2000 - present
		Vice President - Finance and Treasurer	June 1999 - July 2000
		Treasurer	August 1996 - June 1999

PPL Energy Supply, LLC

Item 4 is omitted as PPL Energy Supply meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

PPL Montana, LLC

Item 4 is omitted as PPL Montana meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PPL Corporation

Additional information for this item is set forth in the sections entitled "Quarterly Financial, Common Stock Price and Dividend Data" and "Shareowner and Investor Information" of this report. The number of common shareowners is set forth in the section entitled "Selected Financial and Operating Data" in Item 6.

PPL Energy Supply, LLC

There is no established public trading market for PPL Energy Supply's membership interests. PPL Energy Funding, a direct wholly-owned subsidiary of PPL, owns all of PPL Energy Supply's outstanding membership interests. Distributions on the membership interests will be paid as determined by PPL Energy Supply's Board of Managers. PPL Energy Supply made cash distributions to PPL Energy Funding of $710 million in 2002 and $463 million in 2001.

PPL Electric Utilities Corporation

Additional information for this item is set forth in the sections entitled "Quarterly Financial Data" and "Shareowner and Investor Information" of this report.

PPL Montana, LLC

There is no established public trading market for PPL Montana's membership interests. PPL indirectly owns all of PPL Montana's outstanding membership interests. Distributions on the membership interests will be paid as determined by PPL Montana's Board of Managers. PPL Montana made cash distributions indirectly to PPL of $167 million in 2001. There were no such distributions in 2002.

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ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Energy Supply, LLC

Item 6 is omitted as PPL Energy Supply meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

PPL Montana, LLC

Item 6 is omitted as PPL Montana meets the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

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ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Corporation (a)	2002	2001	2000	1999	1998
Income Items -- millions					
Operating revenues (b) (c)	**$ 5,429**	$ 5,077	$ 4,545	$ 3,697	$ 3,786
Operating income (b)	**1,240**	849	1,194	821	827
Net income (loss)	**208**	179	498	432	(569)
Balance Sheet Items -- millions (d)					
Property, plant and equipment, net	**9,566**	5,947	5,948	5,624	4,480
Recoverable transition costs	**1,946**	2,172	2,425	2,647	2,819
Total assets	**15,569**	12,562	12,360	11,174	9,607
Long-term debt	**6,267**	5,579	4,784	4,157	2,984
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures	**661**	825	250	250	250
Preferred stock					
With sinking fund requirements	**31**	31	46	46	46
Without sinking fund requirements	**51**	51	51	51	51
Common equity	**2,224**	1,857	2,012	1,613	1,790
Short-term debt	**943**	118	1,037	857	636
Total capital provided by investors	**10,177**	8,461	8,180	6,974	5,757
Capital lease obligations (e)				125	168
Financial Ratios					
Return on average common equity -- %	**10.27**	8.41	27.49	24.70	(24.60)
Embedded cost rates (d)					
Long-term debt -- %	**7.04**	6.84	6.98	6.95	7.40
Preferred stock -- %	**5.81**	5.81	5.87	5.87	5.87
Preferred securities -- %	**8.02**	8.13	8.44	8.44	8.44
Times interest earned before income taxes	**1.97**	2.19	3.05	3.37	3.69
Ratio of earnings to fixed charges - total enterprise basis (f)	**1.9**	1.7	2.5	2.7	3.1
Common Stock Data					
Number of shares outstanding -- thousands					
Year-end	**165,736**	146,580	145,041	143,697	157,412
Average	**152,492**	145,974	144,350	152,287	164,651
Number of record shareowners (d)	**85,002**	87,796	91,777	91,553	100,458
Basic EPS (loss)	**$ 1.37**	$ 1.23	$ 3.45	$ 2.84	$ (3.46)
Diluted EPS (loss)	**$ 1.36**	$ 1.22	$ 3.44	$ 2.84	$ (3.46)
Dividends declared per share	**$ 1.44**	$ 1.06	$ 1.06	$ 1.00	$ 1.335
Book value per share (d)	**$ 13.42**	$ 12.67	$ 13.87	$ 11.23	$ 11.37
Market price per share (d)	**$ 34.68**	$ 34.85	$ 45.188	$ 22.875	$ 27.875
Dividend payout rate -- % (g)	**106**	87	31	35	(39)
Dividend yield -- % (h)	**4.15**	3.04	2.35	4.37	4.79
Price earnings ratio (g)	**25.50**	28.57	13.14	8.05	(8.06)
Sales Data - millions of kWh					
Electric energy supplied -- retail	**42,065**	43,470	41,493	36,637	31,651
Electric energy supplied -- wholesale	**37,060**	27,683	40,925	32,045	36,708
Electric energy delivered (i)	**69,105**	41,453	37,642	35,987	32,144

(a) The earnings for each year were affected by unusual items. These adjustments affected net income. See "Earnings" in Review of the Financial Condition and Results of Operations for a description of unusual items in 2002, 2001 and 2000.

(b) Operating revenues and operating income of certain years are restated to conform to the current presentation.

(c) Operating revenues for 1998 have not been adjusted to report revenues from energy trading on a net basis because 1998 precedes the application of mark-to-market accounting for energy trading activities.

(d) At year-end.

(e) PPL Electric terminated its capital lease in 2000. See Note 10 to the Financial Statements for additional information.

(f) Computed using earnings and fixed charges of PPL and its subsidiaries. Fixed charges consist of interest on short- and long-term debt, other interest charges, interest on capital lease obligations and the estimated interest component of other rentals.

(g) Based on diluted EPS.

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(h) Based on year-end market prices.

(i) Deliveries for 2002 include the electricity deliveries of WPD for the full year and of CEMAR prior to deconsolidation.

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ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Electric Utilities Corporation (a)	2002	2001	2000	1999 (f)	1998 (f)
Income Items -- millions					
Operating revenues	**$ 2,748**	$ 2,694	$ 3,336	$ 3,952	$ 3,643
Operating income	**275**	419	669	749	801
Net income (loss)	**39**	119	261	398	(587)
Balance Sheet Items -- millions (b)					
Property, plant and equipment, net	**2,456**	2,319	2,401	4,345	4,331
Recoverable transition costs	**1,946**	2,172	2,425	2,647	2,819
Total assets	**5,583**	5,921	6,023	9,092	8,838
Long-term debt	**3,175**	3,459	3,126	3,505	2,569
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures		250	250	250	250
Preferred stock					
With sinking fund requirements	**31**	31	46	46	295
Without sinking fund requirements	**51**	51	51	51	171
Common equity	**1,147**	931	1,160	1,296	1,730
Short-term debt	**15**		59	183	91
Total capital provided by investors	**4,419**	4,722	4,692	5,331	5,106
Capital lease obligations (c)				125	168
Financial Ratios					
Return on average common equity -- %	**3.87**	11.09	19.40	25.59	(28.21)
Embedded cost rates (b)					
Long-term debt -- %	**6.83**	6.81	6.88	6.97	7.56
Preferred stock -- %	**5.81**	5.81	5.87	5.87	6.09
Preferred securities -- %		8.44	8.44	8.44	8.44
Times interest earned before income taxes	**1.33**	1.92	2.81	3.75	4.22
Ratio of earnings to fixed charges (d)	**1.2**	1.7	2.5	3.2	3.6
Sales Data					
Customers (thousands) (b)	**1,308**	1,298	1,270	1,270	1,257
Electric energy sales delivered - millions of kWh					
Residential	**12,640**	12,269	11,924	11,704	11,156
Commercial	**12,451**	12,130	11,565	11,002	10,597
Industrial	**9,853**	10,000	10,224	10,179	10,227
Other	**169**	211	194	160	164
Service area sales	**35,113**	34,610	33,907	33,045	32,144
Wholesale energy sales (e)	**679**	924	17,548	31,715	36,708
Total electric energy sales delivered	**35,792**	35,534	51,455	64,760	68,852

(a) The earnings for each year were affected by unusual items. These adjustments affected net income. See "Earnings" in Review of the Financial Condition and Results of Operations for a description of unusual items in 2002, 2001 and 2000.

(b) At year-end.

(c) PPL Electric terminated its capital lease in 2000. See Note 10 to the Financial Statements for additional information.

(d) Computed using earnings and fixed charges of PPL Electric and its subsidiaries. Fixed charges consist of interest on short- and long-term debt, other interest charges, interest on capital lease obligations and the estimated interest component of other rentals.

(e) After the July 1, 2000 corporate realignment, PPL Electric only has wholesale sales to municipalities and NUG purchases that are resold to PPL EnergyPlus.

(f) Comparability of Selected Financial and Operating Data for 1998 and 1999 to subsequent years is affected by the corporate realignment on July 1, 2000, in which PPL Electric transferred its electric generation and related assets to PPL and its affiliates. (See Note 19 to the Financial Statements for additional discussion.)

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PPL CORPORATION
ITEM 7. REVIEW OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PPL is an energy and utility holding company with headquarters in Allentown, PA. See Item 1, "Business - Background," for descriptions of PPL's major segments. See Exhibit 99(i) in Item 15 for the current corporate organization structure.

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

Results of Operations

Earnings in 2002 were impacted by the acquisition of a controlling interest in WPD on September 6, 2002, and the resulting consolidation, as described in Note 9 to the Financial Statements. Therefore, the comparison of reported income statement line items is not meaningful without eliminating the impact of the WPD consolidation. The following table shows the 2002 Statement of Income as reported, the adjustments to eliminate the impact of the WPD consolidation (by reflecting WPD on the equity method), and as adjusted to exclude the WPD consolidation. The following discussion, that explains significant annual changes in principal items on the Statement of Income, compares 2002, as adjusted, to 2001.

PPL Corporation and Subsidiaries
Consolidated Statement of Income
Adjusted to Eliminate WPD Consolidation

		2002	
	As Reported	**Adjustment**	**As Adjusted**
Operating Revenues			
Utility	$ 3,676	$ 579	$ 3,097
Unregulated retail electric and gas	182		182
Wholesale energy marketing	993		993
Net energy trading margins	19		19
Energy related businesses	559	(60)	619
Total	5,429	519	4,910
Operating Expenses			
Operation			
Fuel	584		584
Energy purchases	873		873
Other	818	6	812
Amortization of recoverable transition costs	226		226
Maintenance	314	36	278
Depreciation	367	112	255
Taxes, other than income	232	42	190
Energy related businesses	543	29	514
Other charges			
Write-down of international energy projects	113		113
Workforce reduction	75		75
Write-down of generation assets	44		44
Total	4,189	225	3,964

	As Reported	**Adjustment**	**As Adjusted**
Operating Income	1,240	294	946
Other Income - net	33	20	13
Interest Expense	560	127	433
Income Taxes	210	105	105
Minority Interest	78	73	5
Cumulative Effect of a Change in Accounting Principle	(150)		(150)
Dividends and Distributions - Preferred Securities	67	9	58
Net Income	$ 208	$	$ 208

The comparability of certain items on the Statement of Income has also been impacted by PPL Global's investment in CEMAR in 2000. The

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consolidated results of CEMAR are included for periods during which PPL had a controlling interest, from June 2000 to August 2002. See Note 9 to the Financial Statements for more information.

Earnings

Net income, and the related EPS, were as follows:

	2002	2001	2000
Net income	$ 208	$ 179	$ 498
EPS - basic	$ 1.37	$ 1.23	$ 3.45
EPS - diluted	$ 1.36	$ 1.22	$ 3.44

Income from core operations, and the related EPS, were as follows:

	2002	2001	2000
Income from core operations	$ 541	$ 620	$ 474
EPS - basic	$ 3.55	$ 4.24	$ 3.29
EPS - diluted	$ 3.54	$ 4.22	$ 3.28

The changes in net income from year to year were, in part, attributable to several unusual items with significant earnings impacts as shown below. The table below reconciles net income to income from core operations in dollars and EPS, after eliminating the impact of unusual items. Income from core operations should not be considered as an alternative to net income, which is an indicator of operating performance determined in accordance with GAAP. PPL believes that income from core operations, although a non-GAAP measure, is also useful and meaningful to investors because it provides them with PPL's underlying earnings performance as another criterion in making their investment decisions. PPL's management also uses income from core operations in measuring certain corporate performance goals. Other companies may use different measures to present financial performance.

	Net Income			EPS - Diluted		
	2002	2001	2000	2002	2001	2000
Net income - actual	$ 208	$ 179	$ 498	$ 1.36	$ 1.22	$ 3.44
Unusual items (net of tax):						
Goodwill impairment (Note 18)	(150)			(0.99)		
CEMAR impairment (Note 9)	(98)	(217)		(0.64)	(1.48)	
CEMAR operating losses (Note 9)	(23)			(0.15)		
Write-down of generation assets (Note 9)	(26)			(0.17)		
Workforce reduction (Note 21)	(44)			(0.29)		
Tax benefit - Teesside (Note 9)	8			0.06		
Cancellation of generation projects (Note 9)		(88)			(0.60)	
WPD impairment (Note 9)		(117)			(0.80)	
Enron impact on trading (Note 17)		(8)			(0.05)	
Enron impact - write-down investment in Teesside (Note 9)		(21)			(0.14)	
Accounting method change - pensions (Note 12)		10			0.07	
Environmental insurance recoveries			24			0.16
Income from core operations	$ 541	$ 620	$ 474	$ 3.54	$ 4.22	$ 3.28

The after-tax changes in core earnings were primarily due to:

	2002 vs. 2001	2001 vs. 2000
Wholesale energy margins	$ (81)	$ 96
Lower net energy trading margins	(11)	(6)
Lower unregulated retail energy margins	(33)	(66)
Higher regulated retail energy margins	59	46
Delivery revenues (net of CTC/ITC amortization and interest expense on transition bonds)	(10)	(2)

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PPL Global earnings (a)	50	(4)
Higher synfuel tax credits	10	34
Operating and maintenance costs	(34)	4
Higher financing costs	(29)	(4)
Mechanical contractors earnings	(4)	5
Lower taxes other than income (excluding gross receipts tax)	5	6
Lower depreciation	4	10
Other - net	(5)	27
	$ (79)	$ 146

(a) The increase in 2002 compared with 2001 was primarily due to higher earnings of WPD and also from PPL's complete ownership of WPD, lower spending on development projects and the discontinuance of goodwill amortization, offset by lower earnings from Latin America.

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

PPL expects that the low level of wholesale energy prices will adversely impact margins in 2003 and beyond. Based upon current energy price levels, there is a risk that PPL may be unable to recover its investment in new gas-fired generation facilities. Under GAAP, PPL does not believe that there is an impairment charge to be recorded at this time. PPL is unable to predict the ultimate earnings impact of this issue, based upon energy price levels, applicable accounting rules and other factors, but such impact may be material. See "Asset Impairment" in Application of Critical Accounting Policies for additional information.

Future earnings will also be impacted by the consolidation of variable interest entities and the implementation of accounting for asset retirement obligations (as discussed in Note 22 to the Financial Statements).

Domestic Energy Margins

The following tables provide summary data regarding changes in the components of domestic gross margins of wholesale and retail energy for 2002 compared to 2001 and 2001 compared to 2000:

	2002 vs. 2001	**2001 vs. 2000**
Utility revenues	$ 63	$ (638)
Unregulated retail electric and gas revenues	(174)	77
Wholesale energy marketing revenues	4	879
Net energy trading margins	(18)	(10)
Other revenue adjustments (a)	42	(102)
Total revenues	(83)	206
Fuel	(18)	63
Purchased power		90
Other cost adjustments (a)	32	(53)
Total cost of sales	14	100
Domestic gross energy margins	$ (97)	$ 106

(a) Adjusted to exclude the impact of any revenues and costs not associated with domestic energy margins, in particular, revenues and energy costs related to the international operations of PPL Global and the domestic delivery operations of PPL Electric and PPL Gas Utilities.

Changes in Gross Domestic Energy Margins By Activity

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Gross margin calculations are dependent on the allocation of fuel and purchased power costs to the activities. That allocation is based on monthly MWh consumption levels compared to monthly MWh supply costs. Any costs specific to an activity are charged to that activity.

	2002 vs. 2001	2001 vs. 2000
Wholesale - Eastern U.S.	$ (53)	$ 155
Wholesale - Western U.S.	(71)	(4)
Net energy trading	(18)	(10)
Unregulated retail	(56)	(113)
Regulated retail	101	78
Domestic gross energy margins	$ (97)	$ 106

Wholesale - Eastern U.S.

Generally, Eastern wholesale margins were lower in 2002 compared to 2001, despite a buyout of a NUG contract in February 2002 that reduced purchased power costs by $25 million. The decline in margins was primarily attributable to the decline in wholesale prices for energy and capacity. In PJM, where the majority of PPL's Eastern wholesale activity occurs, on-peak prices averaged $6/MWh less, a decline of 14%, for 2002 compared to 2001. Additionally, because new generating capability has come on-line within PJM in 2002, the prices for the PJM monthly auctions for unforced capacity credits have also fallen from an average of $100/MW-month in 2001 to an average of $38/MW-month in 2002. However, higher volumes of energy sales partially offset the decline in prices, as wholesale transactions in 2002 increased by about 33% over 2001 due to better generation availability.

Eastern wholesale margins were higher in 2001 compared to 2000 primarily due to an increase in wholesale prices for energy and capacity. In PJM, on-peak prices averaged $6/MWh more in 2001, an increase of 13% from 2000. Additionally, prices for the PJM monthly auctions for unforced capacity credits increased from an average of $53/MW-month in 2000 to an average of $100/MW-month in 2001.

Wholesale - Western U.S.

Western wholesale margins consist of margins in the Northwest and in the Southwest.

In the Northwest, margins were $74 million lower in 2002 compared to 2001, primarily due to a decrease in average realized wholesale prices by $45/MWh, partially offset by a 9% increase in volumes. Margins were $19 million lower in 2001 compared to 2000, primarily due to a 16% decline in volumes caused by the energy supply shortage in the western U.S. primarily due to the impact of a drought on hydro availability. Partially offsetting this decrease were higher average prices in 2001 compared to 2000.

In the Southwest region, margins were $9 million lower in 2002 compared to 2001, primarily due to a decrease in average wholesale prices by $40/MWh. These lower prices were offset by increased sales, which were three times higher than the prior period, as a result of the Griffith Energy and Sundance facilities coming on-line in 2002. Margins were $27 million higher in 2001 compared to 2000, primarily due to purchasing power in late 2001 to satisfy the sales commitments entered into earlier in the year at higher prices. These sales were originally expected to be supplied by the generation output from Griffith.

The above explanation is exclusive of the 2001 charge for the Enron bankruptcy which is discussed in further detail in Note 17 to the Financial Statements.

Net Energy Trading

PPL enters into certain contractual arrangements that meet the criteria of energy trading derivatives as defined by EITF 02-3. These physical and financial contracts cover trading activity associated with electricity, gas and oil. The $18 million decrease in 2002 compared to 2001 was primarily due to unrealized, mark-to-market gains in 2001 and lower energy margins in 2002. The $10 million decrease in 2001 compared to 2000 was primarily due to lower energy margins partially offset by unrealized, mark-to-market losses in 2000. The physical volumes associated with energy trading were 10,500 GWh and 12.4 Bcf in 2002; 7,700 GWh and 22.4 Bcf in 2001; and 19,900 GWh and 2.9 Bcf in 2000.

Unregulated Retail

Unregulated retail margins declined in 2002 compared to 2001 primarily due to lower revenues resulting from the expiration of contracts which were not renewed in the East and due to significantly lower retail prices in the West, somewhat offset by an increase in the number of customers in the West. The decline in 2001 from 2000 was also primarily due to the expiration of contracts which were not renewed in the East, somewhat offset by higher sales in the West.

Regulated Retail

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Regulated retail margins in the East for 2002 were 15% higher than in 2001. Higher sales volumes and higher average prices, caused by changes in usage among customer classes, provided the improved margins. In addition, lower supply costs in 2002, due to lower fuel costs and increased generating unit availability, further improved margins. Regulated retail margins in the East for 2001 were 13% higher than 2000. Sales volumes increased 21% primarily due to the return of customers who previously had an alternative electric power supplier.

Utility Revenues

The increase (decrease) in utility revenues was attributable to the following:

	2002 vs. 2001	2001 vs. 2000
Retail electric revenue		
PPL Electric:		
Electric delivery	$ (3)	$ 12
PLR electric generation supply (a)	102	284
Other	(9)	(11)
PPL EnergyPlus:		
Electric generation supply		(261)
PPL Global:		
Electric delivery	(7)	88
	83	112
Wholesale electric revenue		
PPL Electric	(5)	(772)
Gas revenue		
PPL Gas Utilities	(15)	22
	$ 63	$ (638)

(a) See the "Regulated Retail" section in "Domestic Energy Margins" for a discussion of PPL Electric generation supply revenues as a PLR.

The increase in utility revenues in 2002 compared with 2001 was primarily due to:

- higher revenues of $102 million from providing electric generation supply as a PLR, see "Regulated Retail" for additional information; partially offset by
- lower PPL Global international electric delivery revenues, primarily due to the deconsolidation of CEMAR. PPL Global stopped recording operating results of CEMAR upon relinquishing control to ANEEL. As a result, revenues from electricity deliveries in Brazil were $17 million lower in 2002 compared with 2001. This decrease was partially offset by higher sales volumes in Chile and El Salvador, which resulted in increased revenues of $9 million compared with 2001; and
- lower PPL Gas Utilities' revenues of $15 million, primarily due to lower sales volumes, due in part to milder winter weather experienced in the first quarter of 2002, and a decrease in the fuel cost component of customer rates.

Prior to the July 2000 corporate realignment, wholesale revenues were recorded by PPL Electric. Subsequent to the realignment, these revenues were recorded by PPL EnergyPlus. As such, wholesale revenues were included in utility revenues for the first half of 2000. Also, prior to the July 2000 corporate realignment, PPL EnergyPlus was a subsidiary of PPL Electric and recorded unregulated retail electric revenues on PPL Electric's books that are included in utility revenues for the first half of 2000. After eliminating these revenues transferred in the corporate realignment from the results for the first half of 2000, utility revenues increased by $395 million in 2001 compared with 2000. The increase in utility revenues was primarily due to:

- higher PLR revenues of $284 million from providing electric generation supply, primarily due to fewer retail customers shopping for electricity under Pennsylvania's Customer Choice Act;
- higher PPL Global international electric delivery revenues of $88 million, primarily due to a full year of CEMAR revenues in 2001, compared with three months of revenues in 2000;
- higher PPL Gas Utilities revenues of $22 million due to a base rate increase effective January 1, 2001, and higher gas commodity prices; and
- higher PPL Electric delivery revenues of $12 million, reflecting a 2% increase in deliveries of electricity.

Energy Related Businesses

Energy related businesses (when adjusted to include WPD on an equity basis) contributed $21 million less to operating income in 2002

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compared with 2001. This was primarily due to:

- a $28 million increase in PPL Southwest Generation Holdings, LLC's expenses of Griffith Energy due to a full year of operations in 2002. Also, 2001 benefited from margins on forward electricity contracts executed prior to commercial operation;
- a $9 million decline from the mechanical contracting and engineering subsidiaries, primarily due to cost overruns experienced at two major projects;
- an $8 million operating loss on start-up telecommunications operations; and
- $4 million of pre-tax operating losses from synfuel projects; partially offset by
- a $23 million decrease in PPL Global's expenses due to lower spending on development projects, including a favorable settlement on the cancellation of a generation project in Washington state.

Although operating income from synfuel operations declined in 2002 compared to 2001, the synfuel projects contributed $7 million more to net income after recording tax credits.

Energy related businesses contributed $126 million to the 2001 operating income of PPL, an increase of $62 million from 2000. The increase reflects PPL Global's higher equity earnings of $83 million from its U.K. investments, and higher pre-tax operating income of $8 million from the mechanical contracting and engineering subsidiaries (as a result of additional acquisitions in the northeastern U.S.) These gains were partially offset by a $13 million increase in PPL Global's domestic project development expenses and by $19 million of pre-tax operating losses from synfuel projects. However, after the recording of tax credits associated with synfuel operations, the synfuel projects contributed approximately $19 million to net income in 2001.

Other Operation Expenses

Other operation expenses increased by $15 million in 2002 compared to 2001. In conjunction with the workforce reduction (see Note 21 to the Financial Statements), PPL increased its estimated vacation liability by $15 million. The increase in operating expense also includes a $17 million decrease in pension income. Additionally, there were $9 million of expenses relating to the operating lease on the University Park and Sundance facilities, which began commercial operation in July 2002. These increases were offset by a decrease of $19 million in PPL Global's operating costs due to $10 million of lower administrative and general expenses, and a $9 million decrease in CEMAR operating expenses. CEMAR is no longer consolidated as of August 21, 2002.

The $17 million decrease in pension income was attributable to PPL's primary domestic pension plan. During the second quarter of 2002, the workforce reduction and union-negotiated benefit enhancements had a significant impact on PPL's primary domestic pension plan requiring remeasurement of the benefit obligation and decreasing the net pension income recorded for that plan. In addition, pension income was also decreased due to the recognition of significant asset losses caused by weakened financial markets. Through December 31, 2002, PPL recorded approximately $31 million of pension income. As a result of the events and remeasurements previously discussed, PPL expects to continue to record pension income in 2003, but at lower levels due to the above events and continued weakness in the financial markets. See Note 12 for details of the funded status of PPL's domestic pension plans.

Other operation expenses increased by $80 million in 2001 compared to 2000. This increase was primarily due to a $45 million gain on the sale of emission allowances and a $40 million insurance settlement for environmental liability coverage (both recorded in 2000 as reductions of expense). The increase also reflects $29 million of additional operating expenses due to the CEMAR acquisition. These increases were offset by $41 million of additional net pension income credited to expense in 2001. The increase in pension income was primarily due to pension investment performance, a higher discount rate and a change in accounting principle that accelerates recognition of gains and losses.

Amortization of Recoverable Transition Costs

Amortization of recoverable transition costs decreased by $25 million in 2002 compared to 2001. This decrease was primarily due to $19 million of lower ITC amortization in 2002 as a result of lower billed ITC revenues. Billed ITC revenues were lower as a result of lower ITC rates, reflecting the decrease in interest expense on the transition bonds.

Amortization of recoverable transition costs increased by $24 million in 2001 compared to 2000. This increase was primarily due to the collection of $33 million of CTC revenues related to prior year CTC deferrals of amounts in excess of the Pennsylvania rate cap.

Maintenance Expenses

Maintenance expenses increased by $15 million in 2002 compared to 2001. This was primarily due to a $5 million increase in maintenance costs for customers' lighting and power service problems and $4 million in additional costs to restore service to customers during a winter storm.

Taxes, Other Than Income

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Taxes, other than income, increased by $35 million in 2002 compared with 2001, primarily due to a $42 million increase in gross receipts tax, partially offset by a $12 million decrease in capital stock tax.

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

Taxes, other than income, decreased by $21 million in 2001 compared with 2000 primarly due to lower gross receipts tax. The gross receipts tax change was primarily the result of the decrease in the RNR tax component effective in January 2001.

Changes in taxes, other than income taxes, do not significantly affect earnings as they are substantially recovered or returned through customer rate revenues.

Other Charges

Other charges of $232 million in 2002 consisted of the write-down of PPL Global's investment in CEMAR and several smaller impairment charges on other international investments (see Note 9 to the Financial Statements), the write-down of generation assets (see Note 9) and a charge for a workforce reduction program (see Note 21).

Other charges of $486 million in 2001 consisted of the write-down of international energy projects and the cancellation of generation development projects (see Note 9).

Other Income - net

See Note 16 to the Financial Statements for details of other income and deductions.

Financing Costs

Interest expense increased by $47 million in 2002 compared with 2001 primarily due to:

- a $24 million charge to cancel the remarketing agreement on the 7.7% Reset Put Securities (see Note 8 to the Financial Statements);
- a $19 million net increase in long-term debt interest related to a full year of interest in 2002 from the issuances in 2001 of $800 million of senior secured bonds by PPL Electric, $500 million of senior unsecured notes by PPL Energy Supply and debt by PPL Global's consolidated subsidiaries, partially offset by bond retirements;
- a $23 million charge due to interest rate hedge contract termination associated with changes in debt issuance plans; and
- a $7 million decrease in capitalized interest; offset by
- a $24 million decrease in short-term debt interest as a portion of the proceeds from the issuance of long-term debt was used to pay down commercial paper.

Interest expense increased by $10 million in 2001 compared with 2000. This increase was the net effect of a $28 million increase in interest on long-term debt, offset by a $19 million decrease in interest on short-term debt. The increase in interest on long-term debt reflects the issuance in 2001 of $800 million of senior secured bonds by PPL Electric, $500 million of senior unsecured notes by PPL Energy Supply and debt by PPL Global's consolidated affiliates. A portion of these proceeds was used to pay down commercial paper balances, which decreased short-term debt interest expense.

Dividends and distributions on preferred securities increased by $6 million in 2002 compared with 2001. This increase was due to:

- a $15 million increase related to a full year of distributions in 2002 on the PEPS Units, which were issued in the second quarter of 2001; offset by
- a $10 million decrease in dividends and distributions due to retirements and redemptions of other preferred securities and preferred stock.

Dividends on preferred securities increased by $26 million in 2001 compared with 2000 due to the issuance of the PEPS Units in the second quarter of 2001.

Income Taxes

Income tax expense decreased by $156 million in 2002 compared with 2001. This decrease was due to:

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lower pre-tax domestic book income, resulting in a $75 million reduction in income taxes;
lower impairment charges on PPL's investment in Brazil resulting in a $30 million decrease in the amount of deferred income tax valuation allowances recorded;
a $27 million reduction in income taxes due to losses recognized on foreign investments; and
a $10 million decrease related to additional federal synfuel tax credits recognized.

Income tax expense decreased by $33 million in 2001 compared with 2000. This decrease was primarily due to decreases related to a change in pre-tax domestic book income, resulting in a $63 million reduction in income taxes, and $34 million of additional federal synfuel tax credits recognized. These decreases were offset by $61 million of deferred income tax valuation allowances recorded on PPL's investment in Brazil and the U.K. (see Note 9 to the Financial Statements).

Change in Accounting Principle

PPL adopted SFAS 142, "Goodwill and Other Intangible Assets," on January 1, 2002. SFAS 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. PPL conducted a transition impairment analysis in the first quarter of 2002 and recorded a transition goodwill impairment charge of $150 million. See Note 18 to the Financial Statements for additional information.

In 2001, PPL changed its method of amortizing unrecognized gains or losses in the annual pension expense or income determined under SFAS 87, "Employers' Accounting for Pensions." This change resulted in a cumulative-effect credit of $10 million. Under the old method, the net unrecognized gain or loss in excess of 10% of the greater of the plan's projected benefit obligation or market-related value of plan assets was amortized on a straight-line basis over the estimated average future service period of plan participants. Under the new method, a second corridor is utilized for the net unrecognized gain or loss in excess of 30% of the plan's projected benefit obligation. The net unrecognized gain or loss outside the second corridor is amortized on a straight-line basis over a period equal to one-half of the average future service period of the plan participants. See Note 12 to the Financial Statements for additional information.

These items are reported as "Cumulative Effect of a Change in Accounting Principle" on the Statement of Income.

During 2002, PPL also adopted SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," and EITF 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." See Note 22 to the Financial Statements for a discussion of the adoption of SFAS 144 and SFAS 145 and see Note 17 for a discussion of the adoption of EITF 02-3.

New Accounting Standards

See Note 22 to the Financial Statements for information on new accounting standards.

Financial Condition

Liquidity

At December 31, 2002, PPL had $245 million in cash and cash equivalents and $943 million of short-term debt. The $825 million increase in short-term debt from December 31, 2001 to December 31, 2002 resulted primarily from the consolidation of WPD's short-term debt as a result of the acquisition of the controlling interest in WPD and the issuance of PPL Energy Supply commercial paper in the fourth quarter (see Note 8 to the Financial Statements for additional information). PPL plans to refinance $389 million of short-term debt at a WPD entity during the first half of 2003 with a debt offering in the U.K.

PPL believes that its cash and cash equivalents, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken as a whole, provide sufficient resources to fund ongoing operating requirements and estimated future capital expenditures. PPL's operating cash flow and access to the capital markets can be impacted by economic factors outside of its control. In addition, PPL's borrowing costs can be impacted by short-term and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on PPL's performance as measured by certain credit measures such as interest coverage and leverage ratios. In May 2002, Standard & Poor's (S&P) lowered its corporate credit rating on PPL from BBB+ to BBB, lowered the senior unsecured debt rating on PPL Capital Funding from BBB+ to BBB and lowered the rating on the trust preferred securities issued by PPL Capital Funding Trust I as part of the PEPS Units from BBB- to BB+. The BBB corporate credit rating of PPL Energy Supply and the BBB senior secured debt rating of PPL Montana were affirmed. The A-2 short-term credit ratings on PPL Energy Supply and PPL Electric remained unchanged. The outlook on all ratings was stable.

S&P indicated that the rating action was based on the consolidated credit profile of PPL after PPL's strategic initiative designed to confirm the legal separation of PPL Electric from PPL and reflected a weakening in PPL's credit profile due to setbacks faced in international operations. S&P noted that PPL Electric, which has a senior secured debt rating at A-, is structurally insulated from the rest of PPL (see Note 20 for additional information) and that PPL ratings reflect only the amount of dividend distributions expected to be made by PPL Electric to PPL.

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In September 2002, S&P revised its outlook on PPL and all of its rated subsidiaries, except PPL Electric, from a stable outlook to a negative outlook. PPL Electric's outlook remains at stable. S&P stated that this action reflects its view of a weakened credit profile that has resulted primarily from declining wholesale electricity prices and also from setbacks in PPL's international operations, particularly in Brazil. As part of its September 2002 review, S&P affirmed its ratings on PPL and PPL Energy Supply following the acquisition of a controlling interest in WPD.

In February 2003, Moody's confirmed the ratings of WPDH Limited and WPD (South Wales) at Baa2 and Baa1, and downgraded WPD LLP from Baa1 to Baa2 and SIUK Capital Trust I from Baa2 to Baa3. The outlook on all ratings was stable. Also in January, S&P completed a review of WPD and affirmed its BBB+ long-term and A-2 short-term corporate credit ratings on WPD Holdings U.K. and related entities, SIUK Limited, WPD (South West) and WPD (South Wales). The outlook remains negative.

PPL expects to access both the capital and commercial paper markets during 2003. PPL cannot provide assurances that any of these funding sources will be available to PPL on acceptable terms.

Cash and cash equivalents are derived from cash from operations, cash from financing activities and cash from investing activities. Net cash from operations in 2002 was $796 million, compared to $891 million in 2001. The $95 million decrease in cash provided by operating activities was primarily due to $152 million of turbine cancellation payments, and an $89 million decrease in dividends from unconsolidated affiliates, partially offset by increases in net income adjusted to a cash basis. As an asset-backed provider of electricity, the stability of PPL's cash from operations as it relates to the supply of electricity is influenced by the market prices of electricity, the cost of fuel used in the production of electricity and the operational availability of generating units, among other factors.

An important element supporting the stability of PPL's cash from operations is its continuing effort to secure long-term commitments from wholesale and retail customers and long-term fuel supply contracts. Two significant long-term wholesale contracts maintained by PPL EnergyPlus are: a full requirements, eight-year agreement to supply PPL Electric with estimated peak demand between 6,700 and 7,000 MW for PPL Electric's PLR load and a five-year contract with NorthWestern for 300 MW of around-the-clock electricity supply and 150 MW of on-peak supply. Over 85% of PPL's projected energy margins in 2003 and about 70% of margins through 2007 are expected to come from these long-term contracts.

In 2002, PPL also entered into multi-year tolling agreements with the Long Island Power Authority for about 159 MW of generation PPL constructed at two Long Island sites. Under these tolling agreements, PPL will convert fuel supplied by the Long Island Power Authority to electricity and will receive payments for use of its facilities. PPL also continues to provide up to 200 MW of supply, for various terms, to large industrial customers in Montana.

PPL EnergyPlus enters into contracts under which it agrees to sell and purchase electricity, natural gas, oil and coal. PPL also enters into contracts designed to lock-in interest rates for future financings or effect changes in PPL's exposure to fixed or floating interest rates. These contracts often provide for cash collateral or other credit enhancement, or reductions or terminations of a portion or the entire contract through cash settlement in the event of a downgrade of PPL or the respective subsidiary's credit ratings or adverse changes in market prices. For example, in addition to limiting its trading ability, if PPL or its respective subsidiary's ratings were lowered to below "investment grade" and energy prices increased by more than 10%, PPL estimates that, based on its December 31, 2002 position, it would have to post collateral of approximately $121 million as compared to $150 million at December 31, 2001. PPL has in place risk management programs that, among other things, are designed to monitor and manage its exposure to volatility of cash flows related to changes in energy prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operational performance of its generating units.

Net cash used in financing activities was $357 million in 2002, compared to net cash provided by financing activities of $267 million in 2001. In 2001, PPL had net issuances of $563 million of debt, preferred securities and equity, compared to net retirements of $70 million in 2002. PPL has $352 million of securities registered for issuance under a "universal" shelf registration statement with the SEC as of January 31, 2003. Additionally, commercial paper programs at PPL Energy Supply and PPL Electric, providing for the issuance of up to $1.1 billion and $400 million, respectively, are maintained to meet short-term cash needs. If the existing credit ratings on these commercial paper programs of each company were lowered, it is unlikely that there would be sufficient investor demand for the commercial paper. In addition, the amount of commercial paper that could be outstanding under either PPL Energy Supply's or PPL Electric's program is generally limited to the amount of their respective unused credit lines.

PPL Energy Supply and PPL Electric maintain unsecured credit lines of $1.1 billion and $400 million that are available as backstops for their respective commercial paper programs or for direct borrowings. PPL Energy Supply's and PPL Electric's credit lines are also available to issue up to $800 million and $300 million, respectively, in letters of credit that may be needed for general corporate purposes, including margin requirements resulting from energy contracts. PPL Electric had $15 million of commercial paper outstanding and no borrowings under its credit line at December 31, 2002, as compared to no commercial paper outstanding or borrowings under its credit line at December 31, 2001. PPL Energy Supply had $374 million of commercial paper outstanding and no borrowings outstanding under its credit line at December 31, 2002, as compared to no commercial paper outstanding or borrowings under its credit line at December 31, 2001. At December 31, 2002, the lenders under the credit lines had issued $40 million of letters of credit on behalf of PPL Electric and $47 million of letters of credit on behalf of PPL Energy Supply or its subsidiaries and affiliates.

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Under its credit lines, PPL Energy Supply must maintain a consolidated debt to capitalization percentage not greater than 65%, and an interest coverage ratio of not less than 2.0 times consolidated earnings before income taxes, depreciation and amortization, in each case as calculated in accordance with the credit lines. At December 31, 2002 and December 31, 2001, PPL Energy Supply's consolidated debt to capitalization percentages, as calculated in accordance with its credit lines, were 35% and 28%. At December 31, 2002 and December 31, 2001, PPL Energy Supply's interest coverage ratios, as calculated in accordance with its credit lines, were 7.4 and 13.9. Under its credit line, PPL Electric must maintain a consolidated debt to capitalization percentage not greater than 70%. At December 31, 2002 and December 31, 2001, PPL Electric's consolidated debt to capitalization percentages, as calculated in accordance with its credit line, were 58% and 57%. At this time, PPL believes that these covenants and other borrowing conditions will not limit access to these funding sources.

In October 2002, WPD (South West)'s 416 million British pounds sterling short-term facilities were replaced by a 250 million British pounds sterling bridge facility and two revolving credit facilities: a one-year 100 million British pounds sterling credit facility and a five-year 150 million British pounds sterling credit facility. At December 31, 2002, WPD (South West) had outstanding borrowings of $389 million under its bridge facility and $55 million under its credit facilities based on year-end currency exchange rates. The bridge facility is expected to be refinanced with long-term bonds in the first half of 2003.

Under its credit lines, WPD (South West) must maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization, and the regulatory asset base must be 150 million British pounds sterling greater than total gross debt, in each case as calculated in accordance with the credit lines. At December 31, 2002, WPD (South West)'s interest coverage ratio, as calculated in accordance with its credit lines, was 10.3 and its regulatory asset base exceeded its total gross debt by 491 million British pounds sterling. At this time, PPL believes that these covenants and other borrowing conditions will not limit access to these funding sources.

PPL, PPL Energy Supply and their subsidiaries also have available funding sources that are provided through operating leases that are not recorded on the balance sheet. These operating leases provide funds for developing, constructing and operating generation facilities and equipment. Failure to meet the financial and other covenants contained in these operating leases could limit or restrict access to these funds or require early payment of obligations. At this time, PPL and PPL Energy Supply believe that these covenants will not limit access to these funding sources.

Under the operating leases entered into to manufacture and construct the natural gas-fired simple-cycle generation facilities, PPL Energy Supply's subsidiaries act as construction agents for the lessor to manufacture the equipment and for construction of the facilities. Upon commercial operation, PPL Energy Supply subsidiaries will operate the facilities, be responsible for all of the costs associated with the operation and maintenance of the facilities and will make rental payments to the lessor trusts.

In May 2006, under the terms of the $660 million operating lease for University Park and Sundance which terminates in April 2008, one of PPL Energy Supply's subsidiaries is required to deposit in a cash collateral account an amount equal in cash to approximately 83% of all funded asset costs. Also, PPL Energy Supply guarantees the payment obligations under this operating lease. Accordingly, as guarantor, PPL Energy Supply must meet similar covenant tests as those applied to its credit lines. At December 31, 2002 and December 31, 2001, the outstanding lease balance was $657 million and $454 million.

Under the terms of the $455 million Lower Mt. Bethel operating lease, which terminates no later than September 30, 2014, the PPL Energy Supply subsidiary lessee could be obligated to make payments equal to up to 100% of the lessor's investment and other obligations associated with the facility if the financing is terminated early as a result of a loss, destruction or condemnation of the project, or upon an event of default. In addition, during the lease term, the PPL Energy Supply subsidiary could, subject to certain conditions, purchase the facility from the lessor, offer to assume the outstanding lessor debt associated with the lease or purchase such debt at a premium. Also, PPL Energy Supply guarantees the payment obligations under this operating lease. Accordingly, as guarantor, PPL Energy Supply must meet similar covenant tests as those applied to its credit lines. At December 31, 2002 and December 31, 2001, the outstanding lease balance was $345 million and $116 million.

The PPL Montana Colstrip leases provide two renewal options based on the economic useful life of the generation assets at the end of the 36-year lease term that terminates in 2036. In addition, the lease places certain restriction on PPL Montana's ability to incur additional debt, sell assets and declare dividends. At December 31, 2002 and December 31, 2001, the outstanding debt balance within the lease was $314 million and $334 million.

In addition to the leasing arrangements discussed above, PPL and its subsidiaries lease vehicles, office space, land, buildings, personal computers and other equipment under separate lease arrangements. See Note 10 to the Financial Statements for a further discussion of the operating leases.

At December 31, 2002, the estimated contractual cash obligations of PPL were as follows:

Contractual Cash Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**

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Long-term Debt (a)	$ 6,252	$ 366	$ 1,306	$ 1,921	$ 2,659
Capital Lease Obligations					
Operating Leases (b)	1,420	99	266	260	795
Purchase Obligations (c)	2,797	448	877	567	905
Other Long-term Obligations (d)	694	21	12	575	86
Total Contractual Cash Obligations	$ 11,163	$ 934	$ 2,461	$ 3,323	$ 4,445

(a) Includes principal maturities only.
(b) Includes current amounts for operating leases in effect and projected amounts for projects under construction.
(c) The payments reflected herein are subject to change as certain purchase obligations included are estimates based on projected obligated quantities and/or projected pricing under the contracts.
(d) Includes redemptions of preferred securities.

PPL, PPL Energy Supply and PPL Electric provide guarantees for certain affiliate financing arrangements that enable certain transactions. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the affiliates' access to funds under these financing arrangements, require early maturity of such arrangements or limit PPL's ability to enter into certain transactions. At this time, PPL believes that these covenants will not limit access to the relevant funding sources. At December 31, 2002, the estimated commercial commitments of PPL were as follows:

		Amount of Commitment Expiration Per Period			
Other Commercial Commitments	**Total Amounts Committed**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**Over 5 Years**
Lines of Credit					
Standby Letters of Credit	$ 89	$ 85	$ 4		
Draws Under Lines of Credit	55	55			
Guarantees					
Debt (a)	1,028	112	36	$ 550	$ 330
Performance					
Standby Repurchase Obligations					
Other Commercial Commitments					
Total Commercial Commitments	$ 1,172	$ 252	$ 40	$ 550	$ 330

(a) Includes guarantees on certain operating lease obligations.

The terms governing the securities, guarantees, lease obligations and other commitments issued by PPL and its subsidiaries contain financial and other covenants that require compliance in order to avoid defaults and accelerations of payments. Further, a change in control under certain of these arrangements would constitute a default and could result in early maturity of such arrangements. In addition, certain of these arrangements restrict the ability of PPL's subsidiaries to pay or declare dividends, issue additional debt, sell assets, or take other actions if certain conditions are not met. At this time, PPL believes that it and its subsidiaries will be able to meet these covenant requirements. In order to meet its maturing obligations in future years, PPL expects that it and its subsidiaries will have to continue to access both the bank and capital markets. The long-term debt and similar securities of PPL and its subsidiaries and their maturities are set forth in the table of Contractual Cash Obligations above.

Net cash used in investing activities in 2002 was $1.1 billion, compared to $702 million in 2001. The primary reasons for the $427 million increase in cash used in investing activities was due to the acquisition of the controlling interest in WPD for $211 million, net of cash acquired, and no repayments of loans by non-consolidated affiliated companies in 2002. Capital expenditures have historically been for acquisitions and to support both existing and construction of new generation, transmission and distribution facilities. PPL's capital investment needs are currently expected to decrease significantly in 2003 due to the substantial completion of its generation construction program. The majority of PPL's 2003 capital requirements will be funded from cash and cash equivalents on hand at December 31, 2002, cash from operations in 2003 and lease commitments previously funded. Any additional capital requirements will be obtained either in the capital or commercial paper markets. (See "Capital Expenditure Requirements" for additional information.)

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Subsequent Matters

In February 2003, on behalf of PPL Electric, the Lehigh County Industrial Development Authority (LCIDA) issued $90 million aggregate principal amount of 3.125% Pollution Control Revenue Refunding Bonds due 2008. These tax-exempt bonds were issued to refund the outstanding $90 million aggregate principal amount of the 6.40% Pollution Control Revenue Refunding Bonds issued by the LCIDA on PPL Electric's behalf in 1992. The bonds are insured by a financial guaranty insurance policy issued by Ambac Assurance Corporation and have the highest investment grade ratings, Aaa by Moody's and AAA by Standard & Poor's. In connection with the issuance of the bonds, PPL Electric issued to the LCIDA a promissory note with principal, interest and prepayment provisions corresponding to the bonds. In addition, PPL Electric issued a like amount of Senior Secured Bonds under the 2001 Senior Secured Bond Indenture to secure its obligations under the promissory note.

In February 2003, PPL announced an increase to its quarterly common stock dividend, payable April 1, 2003, from 36 cents per share to 38.5 cents per share (equivalent to $1.54 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, financial requirements and other factors.

Risk Management - Energy Marketing & Trading and Other

Market Risk

Background

Market risk is the potential loss PPL may incur as a result of price changes associated with a particular financial or commodity instrument. PPL is exposed to market risk from:

- commodity price risk for energy and energy-related products associated with the sale of electricity from generating assets, the purchase of fuel for the generating assets, and energy trading activities;
- interest rate risk associated with variable-rate debt and the fair value of fixed-rate debt used to finance operations, as well as the fair value of debt securities invested in by PPL's nuclear decommissioning fund;
- foreign currency exchange rate risk associated with investments in affiliates in Latin America and Europe, as well as purchases of equipment in currencies other than U.S. dollars; and
- equity securities price risk associated with the fair value of equity securities invested in by PPL's nuclear decommissioning fund.

PPL has a comprehensive risk management policy approved by the Board of Directors to manage the market risk described above and counterparty credit risk. (Credit risk is discussed below.) The RMC, comprised of senior management and chaired by the Vice President-Risk Management, oversees the risk management function. Key risk control activities designed to monitor compliance with risk policies and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, sensitivity analyses, and daily portfolio reporting, including open positions, mark-to-market valuations and other risk measurement metrics. In addition, efforts are on-going to develop systems to improve the timeliness, quality and breadth of market and credit risk information.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions, due to reliance on model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses.

Contract Valuation

PPL utilizes forwards contracts, futures contracts, options, swaps and tolling agreements as part of its risk management strategy to minimize unanticipated fluctuations in earnings caused by price, interest rate and foreign currency volatility. When available, quoted market prices are used to determine the fair value of a commodity or financial instrument. This may include exchange prices, the average mid-point bid/ask spreads obtained from brokers, or an independent valuation by an external source, such as a bank. However, market prices for energy or energy-related contracts may not be readily determinable because of market illiquidity. If no active trading market exists, contracts are valued using internally developed models. If the contracts are not accounted for under the accrual method of accounting, the valuations are reviewed by an independent, internal group. Although PPL believes that its valuation methods are reasonable, changes in the underlying assumptions could result in significantly different values and realization in future periods.

To record derivatives at their fair value, PPL discounts the forward values using LIBOR. Additionally, PPL reduces derivative assets' carrying value to recognize differences in counterparty credit quality and potential illiquidity in the market:

- The credit adjustment takes into account the bond ratings (and the implied default rates) of the counterparties that have an out-of-the-money position with PPL. The more counterparties that have, for example, a BBB rating instead of an A rating, the larger the adjustment.

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The liquidity adjustment takes into account the fact that it may not be appropriate to value contracts at the midpoint of the bid/ask spread. PPL might have to accept the "bid" price if PPL wanted to close an open sales position or PPL might have to accept the "ask" price if PPL wanted to close an open purchase position.

Accounting and Reporting

PPL follows the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and interpreted by DIG issues (together, "SFAS 133") and EITF 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," to account for contracts entered into to manage market risk. SFAS 133 requires that all derivative instruments be recorded at fair value on the balance sheet as an asset or liability (unless they meet SFAS 133's criteria for exclusion) and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

PPL's short-term derivative contracts are recorded as "Price risk management assets" and "Price risk management liabilities" on the Balance Sheet. Long-term derivative contracts are included in "Regulatory and Other Noncurrent Assets - Other" and "Deferred Credits and Other Noncurrent Liabilities - Other."

PPL adopted the final provisions of EITF 02-3 during the fourth quarter of 2002. As such, PPL now reflects its net realized and unrealized gains and losses associated with all derivatives that are held for trading purposes in the "Net energy trading margins" line on the Statement of Income. Non-derivative contracts that met the definition of energy trading activities as defined by EITF 98-10, "Accounting for Energy Trading and Risk Management Activities" are reflected in the financial statements using the accrual method of accounting. Under the accrual method of accounting, unrealized gains and losses are not reflected in the financial statements. Prior periods have been reclassified. PPL did not need to record a cumulative effect of this change in accounting principle, because all non-derivative energy-related trading contracts had been shown in the financial statements at their amortized cost. This reflected modeling reserves that incorporated the lack of independence in valuing contracts for which there were no external market prices.

Accounting Designation

Energy contracts that do not qualify as derivatives receive accrual accounting. For energy contracts that meet the definition of a derivative, the circumstances and intent existing at the time that energy transactions are entered into determine their accounting designation. These designations are verified by PPL's risk control group on a daily basis. The following is a summary of the guidelines that have been provided to the traders who are responsible for contract designation for derivative energy contracts:

Any wholesale and retail contracts to sell electricity that are expected to be delivered from PPL's generation are considered "normal." These transactions are not recorded in the financial statements and have no earnings impact until delivery. Most wholesale electricity sales contracts in the eastern and western U.S. markets receive "normal" treatment. The methodology utilized in determining the amount of sales that can be delivered from PPL's generation has been reviewed by the RMC. This calculation predicts the probability that generating units will run based on current market prices, expected price volatilities and dispatch rates, as well as planned and forced outage rates by plant by month. See discussion below about the assumptions used to calculate how much energy is expected from, or required for, generation assets.

"Trading around the assets" means that PPL EnergyPlus matches a contract to sell electricity, previously to be delivered from PPL's generation, with a physical or financial contract to purchase electricity. These contracts can qualify for fair value hedge treatment. When the contracts' terms are identical, there is no earnings impact until delivery. The realized revenues and expenses associated with these contracts are currently recorded gross on the Statement of Income. EITF 02-L, "Reporting Gains and Losses on Derivative Instruments That are Subject to FASB Statement No. 133 and Not Held for Trading Purposes," may, in the future, require that hedges that result in physical delivery be recorded on a net basis.

Physical electricity purchases needed to meet obligations due to a change in the physical load or generation forecasts are considered "normal."

Physical electricity purchases that increase PPL's long position and any energy sale or purchase considered a "market call" are speculative, with unrealized gains or losses recorded immediately through earnings.

Financial electricity transactions, which can be settled in cash, cannot be considered "normal" because they do not require physical delivery. These transactions receive cash flow hedge treatment if they lock in the price PPL will receive or pay for energy expected to be generated or purchased in the spot market. Any unrealized gains or losses on transactions that receive cash flow hedge treatment are recorded in other comprehensive income.

Physical and financial transactions for gas and oil to meet fuel and retail requirements can receive cash flow hedge treatment if they lock

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in the price PPL will pay in the spot market. Any unrealized gains or losses on transactions receiving cash flow hedge treatment are recorded in other comprehensive income.

Option contracts that do not meet the requirements of DIG Issue C15, "Scope Exceptions: Interpreting the Normal Purchases and Normal Sales Exception as an Election," do not receive hedge accounting treatment and are marked to market through earnings.

In addition to energy-related transactions, PPL enters into financial interest rate and foreign currency swap contracts to hedge interest expense associated with both existing and anticipated debt issuances. PPL also enters into foreign currency swap contracts to hedge the fair value of firm commitments denominated in foreign currency and net investments in foreign operations. As with energy transactions, the circumstances and intent existing at the time of the transaction determine a contract's accounting designation, which is subsequently verified by PPL's risk control group on a daily basis. The following is a summary of certain guidelines that have been provided to the treasury department, which is responsible for contract designation:

Transactions to lock in an interest rate prior to a debt issuance are considered cash flow hedges. Any unrealized gains or losses on transactions receiving cash flow hedge treatment are recorded in other comprehensive income and are amortized as a component of interest expense over the life of the debt.

Transactions entered into to hedge fluctuations in the value of existing debt are considered fair value hedges with no earnings impact until the debt is terminated because the hedged debt is also marked to market.

Transactions which do not qualify for hedge accounting treatment are marked to market through earnings.

Commodity Price Risk

Commodity price risk is one of PPL's most significant risks due to the level of investment that PPL maintains in its generation assets, coupled with the volatility of prices for energy and energy-related products. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations. To hedge the impact of market price fluctuations on PPL's energy-related assets, liabilities and other contractual arrangements, PPL EnergyPlus sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. Because of the generating assets PPL owns or controls, the majority of PPL's energy transactions qualify for accrual or hedge accounting.

Within PPL's hedge portfolio, the decision to enter into energy contracts hinges on the expected value of PPL's generation. To address this risk, PPL takes a conservative approach in determining the number of MWhs that are available to be sold forward. In this regard, PPL reduces the maximum potential output that a plant may produce by three factors - planned maintenance, forced outage and economic conditions. The potential output of a plant is first reduced by the amount of unavailable generation due to planned maintenance on a particular unit. Another reduction, representing the unforced outage rate, is the amount of MWhs that historically is not produced by a plant due to such factors as equipment breakage. Finally, the potential output of certain plants (like peaking units) are reduced because their higher cost of production will not allow them to economically run during all hours.

PPL's non-trading portfolio also includes full requirements energy contracts. The obligation to serve these contracts changes minute by minute. PPL analyzes historical on-peak and off-peak usage patterns, as well as spot prices and weather patterns, to determine a monthly level of block electricity that best fits the usage patterns in order to minimize earnings volatility. On a forward basis, PPL reserves a block amount of generation for full requirements energy contracts that is expected to be the best match with their anticipated usage patterns and energy peaks. Anticipated usage patterns and peaks are affected by expected load growth, regional economic drivers and seasonality.

Because of PPL's efforts to hedge the value of the energy from its generation assets, PPL has open contractual positions. If PPL were unable to deliver firm capacity and energy under its agreements, under certain circumstances it would be required to pay damages. These damages would be based on the difference between the market price to acquire replacement capacity or energy and the contract price of the undelivered capacity or energy. Depending on price volatility in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, non-performance by counterparties (or their counterparties) with which it has power contracts and other factors could affect PPL's ability to meet its firm capacity or energy obligations, or cause significant increases in the market price of replacement capacity and energy. Although PPL attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty non-performance in the future.

As of December 31, 2002, PPL estimated that a 10% adverse movement in market prices across all geographic areas and time periods would have decreased the value of the commodity contracts in its non-trading portfolio by approximately $146 million, as compared to an $84 million decrease at December 31, 2001. However, the change in the value of the non-trading portfolio would have been substantially offset by an increase in the value of the underlying commodity, the electricity generated, because these contracts serve to reduce the market risk inherent in

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the generation of electricity. Additionally, the value of PPL's unsold generation would be improved. Because PPL's electricity portfolio is generally in a net sales position, the adverse movement in prices is usually an increase in prices. Conversely, because PPL's commodity fuels portfolio is generally in a net purchase position, the adverse movement in prices is usually a decrease in prices. If both of these scenarios happened, the implied margins for the unsold generation would increase.

PPL also executes energy contracts to take advantage of market opportunities. As a result, PPL may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. The margins from these trading activities are shown in the Statement of Income as "Net energy trading margins."

PPL's trading contracts mature at various times through 2006. The following chart sets forth PPL's net fair market value of trading contracts as of December 31, 2002.

	Gains/(Losses)
Fair value of contracts outstanding at the beginning of the year	$ (5)
Contracts realized or otherwise settled during the year	5
Fair value of new contracts at inception	(13)
Other changes in fair values	7
Fair value of contracts outstanding at the end of the year	$ (6)

During 2002, PPL reversed net losses of approximately $5 million related to contracts entered into prior to January 1, 2002. This amount does not reflect intra-year contracts that were entered into and settled during the period.

The fair value of new contracts at inception is usually zero, because they are entered into at current market prices. However, when PPL enters into an option contract, a premium is paid or received. PPL paid $13 million during 2002 for these option contracts.

"Other changes in fair values," a gain of approximately $7 million, represent changes in the market value of contracts outstanding at the end of 2002.

As of December 31, 2002, the net loss on PPL's trading activities expected to be recognized in earnings during the next three months is approximately $2 million.

The following chart segregates estimated fair values of PPL's trading portfolio at December 31, 2002 based on whether the fair values are determined by quoted market prices or other more subjective means.

	Fair Value of Contracts at Period-End Gains/(Losses)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices actively quoted	$ 1				$ 1
Prices provided by other external sources	3				3
Prices based on models and other valuation methods	(10)				(10)
Fair value of contracts outstanding at the end of the period	$ (6)				$ (6)

The "Prices actively quoted" category includes the fair value of exchange-traded natural gas futures contracts quoted on the New York Mercantile Exchange (NYMEX). The NYMEX has currently quoted prices through February 2009.

The "Prices provided by other external sources" category includes PPL's forward positions and options in natural gas and power and natural gas basis swaps at points for which over-the-counter (OTC) broker quotes are available. The fair value of electricity positions recorded above use the midpoint of the bid/ask spreads obtained through OTC brokers. On average, OTC quotes for forwards and swaps of natural gas and power extend one and two years into the future.

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The "Prices based on models and other valuation methods" category includes the value of transactions for which an internally developed price curve was constructed as a result of the long-dated nature of the transaction or the illiquidity of the market point, or the value of options not quoted by an exchange or OTC broker. Additionally, this category includes "strip" transactions whose prices are obtained from external sources and then modeled to monthly prices as appropriate.

As of December 31, 2002, PPL estimated that a 10% adverse movement in market prices across all geographic areas and time periods would have decreased the value of the commodity contracts in its trading portfolio by $7 million, compared to an insignificant amount at December 31, 2001.

Interest Rate Risk

PPL and its subsidiaries have issued debt to finance their operations. PPL utilizes various financial derivative products to adjust the mix of fixed and floating-rate interest rates in its debt portfolios, adjusting the duration of its debt portfolios and locking in U.S. Treasury rates (and interest rate spreads over treasuries) in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and losses in the fair value of PPL's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2002, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was estimated at $3 million, compared to a $6 million increase at December 31, 2001.

PPL is also exposed to changes in the fair value of its debt portfolio. At December 31, 2002, PPL estimated that its potential exposure to a change in the fair value of its debt portfolio, through a 10% adverse movement in interest rates, was $219 million, compared to $111 million at December 31, 2001.

PPL utilizes various risk management instruments to reduce its exposure to adverse interest rate movements for future anticipated financings. While PPL is exposed to changes in the fair value of these instruments, they are designed such that an economic loss in value should generally be offset by interest rate savings at the time the future anticipated financing is completed. At December 31, 2002, PPL estimated that its potential exposure to a change in the fair value of these instruments, through a 10% adverse movement in interest rates, was approximately $18 million, compared to a $13 million exposure at December 31, 2001.

Foreign Currency Risk

PPL is exposed to foreign currency risk, primarily through investments in affiliates in Latin America and Europe. In addition, PPL may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities and net investments.

During the first quarter of 2001, PPL entered into contracts for the forward purchase of 51 million euros to pay for certain equipment in 2002 and 2003. The estimated value of these forward purchases as of December 31, 2002, being the amount PPL would receive to terminate them, was $4 million.

During the second and third quarters of 2002, PPL executed forward sale transactions, maturing in March 2003, for 50 million British pounds sterling to hedge a portion of its net investment in WPDH Limited. The estimated value of these agreements as of December 31, 2002, being the amount PPL would have to pay to terminate them, was $1 million.

Nuclear Decommissioning Fund - Securities Price Risk

In connection with certain Nuclear Regulatory Commission requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna station. As of December 31, 2002, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL's Balance Sheet. The mix of securities is designed to provide returns to be used to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are exposed to changes in interest rates. PPL Susquehanna actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At December 31, 2002, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $16 million reduction in the fair value of the trust assets, as compared to a $17 million reduction at December 31, 2001.

PPL Electric's 1998 restructuring settlement agreement provides for the collection of authorized nuclear decommissioning costs through the CTC. Additionally, PPL Electric is permitted to seek recovery from customers of up to 96% of certain increases in these costs. Under the power

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supply agreements between PPL Electric and PPL EnergyPlus, these revenues are passed on to PPL EnergyPlus. Similarly, these revenues are passed on to PPL Susquehanna under a power supply agreement between PPL EnergyPlus and PPL Susquehanna. These revenues are used to fund the trusts.

Credit Risk

Credit risk relates to the risk of loss that PPL would incur as a result of non-performance by counterparties of their contractual obligations. PPL maintains credit policies and procedures with respect to counterparties (including requirements that counterparties maintain certain credit ratings criteria) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL has concentrations of suppliers and customers among electric utilities, natural gas distribution companies and other energy marketing and trading companies. These concentrations of counterparties may impact PPL's overall exposure to credit risk, either positively or negatively, in that counterparties may be similarly affected by changes in economic, regulatory or other conditions. As discussed above under "Accounting and Reporting," PPL records certain non-performance reserves to reflect the probability that a counterparty with contracts that are out of the money (from the counterparty's standpoint) will default in its performance, in which case PPL would have to sell into a lower-priced market or purchase from a higher-priced market. These reserves are reflected in the fair value of assets recorded in "Price risk management assets" on the Balance Sheet. PPL has also established a reserve with respect to certain sales to the California ISO for which PPL has not yet been paid, as well as a reserve related to PPL's exposure as a result of the Enron bankruptcy, which is reflected in "Accounts receivable" on the Balance Sheet. See Notes 14 and 17 to the Financial Statements.

Related Party Transactions

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

Capital Expenditure Requirements

The schedule below shows PPL's current capital expenditure projections for the years 2003-2007 and actual spending for the year 2002:

	Actual		----------Projected----------			
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Construction expenditures (a) (b)						
Generating facilities (c)	$ 897	$ 311	$ 175	$ 251	$ 128	$ 142
Transmission and distribution facilities	333	423	361	357	353	367
Environmental	20	5	5	12	50	96
Other	89	96	76	70	69	65
Total Construction Expenditures	1,339	835	617	690	600	670
Nuclear fuel	52	54	56	58	60	60
Total Capital Expenditures	$ 1,391	$ 889	$ 673	$ 748	$ 660	$ 730

(a) Construction expenditures include AFUDC and capitalized interest, which are expected to be less than $10 million in each of the years 2003-2007.
(b) This information excludes any equity investments by PPL Global for new projects.
(c) Generating facilities include assets financed through off-balance sheet synthetic leases as follows: 2002, $494 million; 2003, $109 million; and 2004, $7 million. Financing for these facilities is already secured.

PPL's capital expenditure projections for the years 2003-2007 total about $3.7 billion. Capital expenditure plans are revised periodically to reflect changes in conditions.

Acquisitions and Development

From time-to-time, PPL and its subsidiaries are involved in negotiations with third parties regarding acquisitions, joint ventures and other arrangements which may or may not result in definitive agreements. See Note 9 to the Financial Statements for information regarding recent acquisitions and development activities.

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At December 31, 2002, PPL Global had investments in foreign facilities, including consolidated investments in WPD, Emel, EC and others. See Note 3 to the Financial Statements for information on unconsolidated investments accounted for under the equity method.

At December 31, 2002, PPL had domestic generation projects under development which would provide 690 MW of additional generation.

PPL is continuously reexamining development projects based on market conditions and other factors to determine whether to proceed with these projects, sell them, cancel them, expand them, execute tolling agreements or pursue other opportunities.

Environmental Matters

See Note 14 to the Financial Statements for a discussion of environmental matters.

Competition

The electric utility industry has experienced, and may continue to experience, an increase in the level of competition in the energy supply market at both the state and federal levels. PPL Electric's PLR supply business will be affected by customers who select alternate suppliers under the Customer Choice Act.

In July 2001, the FERC issued orders calling for the formation of one RTO throughout the Mid-Atlantic region (PJM), New York and New England. In response, PPL Electric is taking the position that a single northeastern RTO is a significant step forward in establishing a reliable and properly functioning wholesale electricity market in the region. PPL Electric strongly supports the most comprehensive amalgamation of the existing and proposed northeast power pools, including the establishment of a single RTO as well as the elimination of marketplace distinctions and control area boundaries. The FERC's northeastern RTO proceeding is continuing.

See Note 14 to the Financial Statements for information on the FERC Notice of Proposed Rulemaking entitled "Remedying Undue Discrimination through Open Access Transmission Service and Standard Electricity Market Design."

Application of Critical Accounting Policies

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

1. **Price Risk Management**

See "Risk Management - Energy Marketing & Trading and Other" in Financial Condition.

2. **Pension and Other Postretirement Benefits**

PPL follows the guidance of SFAS 87, "Employers' Accounting for Pensions," and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," when accounting for these benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and the performance of plan assets. Delayed recognition of differences between actual results and expected or estimated results is a guiding principle of these standards. This delayed recognition of actual results allows for a smoothed recognition of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the plans. The primary assumptions are as follows:

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

Expected Return on Plan Assets - Management projects the future return on plan assets based principally on prior performance. These projected returns reduce the net benefit costs the company will record currently.

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

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

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During 2002, PPL made changes to its assumptions related to the discount rate, the expected return on plan assets, the rate of compensation increase and the health care cost trend rate. Management consults with its actuaries when selecting each of these assumptions.

In selecting discount rates, PPL considers fixed-income security yield rates. At December 31, 2002, PPL decreased the discount rate for its domestic plans from 7.25% to 6.75% as a result of decreased fixed-income security returns. For its international plans, PPL used a discount rate of 5.75% at December 31, 2002.

In selecting an expected return on plan assets, PPL considers past performance and economic forecasts for the types of investments held by the plan. At December 31, 2002, PPL decreased the expected return on plan assets for its domestic pension plans from 9.2% to 9.0% as a result of continued declines in equity and fixed-income security returns. For its international plans, PPL used a weighted average of 8.31% as the expected return on plan assets at December 31, 2002.

In selecting a rate of compensation increase, PPL considers past experience in light of movements in inflation rates. At December 31, 2002, PPL decreased the rate of compensation increase from 4.25% to 4.0% for its domestic plans. For its international plans, PPL used 3.75% as the rate of compensation increase at December 31, 2002.

In selecting health care cost trend rates, PPL considers past performance and forecasts of health care costs. At December 31, 2002, PPL increased its previous health care cost trend rates. The previous rates were 7.0% for 2002, gradually declining to 6% in 2006. The new rates are 12% for 2003, gradually declining to 5.0% for 2010. These changes are based upon continued increases in health care costs.

A variance in the assumptions listed above could have a significant impact on projected benefit obligations, accrued pension and other postretirement benefit liabilities, reported annual net periodic pension and other postretirement benefit cost and other comprehensive income (OCI). The following chart reflects the sensitivities associated with a change in certain assumptions. While the chart below reflects either an increase or decrease in each assumption, PPL and its actuaries expect that the inverse of this change would impact the projected benefit obligation, accrued pension and other postretirement benefit liabilities, reported annual net periodic pension and other postretirement benefit cost and OCI by a similar amount in the opposite direction. Each sensitivity below reflects an evaluation of the change based solely on a change in that assumption.

		Increase/(Decrease)			
Actuarial Assumption	**Change in Assumption**	**Impact on Obligation**	**Impact on Liabilities (a)**	**Impact on Cost**	**Impact on OCI**
Discount Rate	(0.25)%	$ 125	$ 8	$ 8	$ 63
Expected Return on Plan Assets	(0.25)%	N/A	10	10	
Rate of Compensation Increase	0.25%	22	4	4	
Health Care Cost Trend Rate (b)	1.0%	19	2	2	N/A

(a) Excludes the impact of additional minimum liability
(b) Only impacts other postretirement benefits

At December 31, 2002, PPL had recognized accrued pension and other postretirement benefit liabilities totaling $484 million, included in "Deferred Credits and Other Noncurrent Liabilities - Other" on the Balance Sheet. The $484 million liability represented a $289 million increase over the $195 million liability that was recorded at December 31, 2001. The increased liability was primarily due to the liabilities recorded for the WPD pension plans acquired in 2002. PPL's total projected obligation for these benefits was approximately $4.1 billion, which was offset by $3.3 billion of assets held in various trusts. However, these amounts are not fully reflected in the current financial statements due to the deferred recognition criteria.

In 2002, PPL recognized net periodic pension and other postretirement income credited to operating expenses of $61 million. This amount represents a $36 million increase over the credit recognized during 2001. This increase was primarily due to pension income recognized from the WPD pension plans, partially offset by the reduction of pension earnings associated with the remeasurement of the projected benefit obligation and recognition of a decline in asset value for PPL's primary domestic pension plan during 2002.

As a result of the plans' asset return experience and decreases in the assumed discount rate at December 31, 2002, PPL was required to recognize additional minimum pension liabilities totaling $482 million, as prescribed by SFAS 87. Recording these liabilities resulted in a reduction in common equity through charges to OCI, net of taxes and unrecognized prior service costs, of $306 million, with no effect on net income. The charges to OCI will reverse in future periods if the fair value of trust assets exceeds the accumulated benefit obligation.

Refer to Note 12 to the Financial Statements for additional information regarding pension and other postretirement benefits.

3. **Asset Impairment**

PPL and its subsidiaries review long-lived assets for impairment when events or circumstances indicate carrying amounts may not be

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recoverable. Assets subject to this review, for which impairments have been recorded in 2002 or prior years, include international equity investments, new generation assets, consolidated international energy projects and goodwill.

PPL performs impairment analyses for tangible long-lived assets in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." For long-lived assets to be held and used, SFAS 144 requires companies to (a) recognize an impairment loss only if the carrying amount is not recoverable from undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset. Refer to Note 22 to the Financial Statements for additional information on SFAS 144.

In determining asset impairments, management must make significant judgments and estimates to calculate the fair value of an investment. Fair value is developed through consideration of several valuation methods including comparison to market multiples, comparison of similar recent sales transactions, comparison to replacement cost and discounted cash flow. Discounted cash flow is calculated by estimating future cash flow streams, applying appropriate discount rates to determine the present value of the cash flow streams, and then assessing the probability of the various cash flow scenarios. The impairment is then recorded based on the excess of the carrying value of the investment over fair value. Changes in assumptions and estimates included within the impairment reviews could result in significantly different results than those identified and recorded in the financial statements.

During 2002, PPL and its subsidiaries evaluated certain international investments and gas-fired generation assets for impairment, as events and circumstances indicated that the carrying value of these investments may not be recoverable. The events that led to these impairment reviews were as follows:

CEMAR: A prolonged drought that caused electricity rationing, an unfavorable regulatory environment and disruption of Brazil's electricity markets all indicated that the future cash flow stream would be adversely impacted. In addition, CEMAR failed to pay certain of its creditors for obligations when due, and ANEEL denied CEMAR's request for a rate-increase review and denied the request for transfer of PPL's equity interest in CEMAR to Franklin Park Energy.

New gas-fired generation assets: Current wholesale energy prices have adversely impacted margins for 2002 and could continue to do so beyond 2002. Based upon current energy price levels, there is a risk that PPL may be unable to recover its investment in new gas-fired generation facilities.

PPL recorded an impairment charge of $100 million in 2002, for the remaining value of its investment in CEMAR. PPL had already recorded an impairment charge of $179 million for its investment in CEMAR in 2001. The most significant assumption used in assessing the CEMAR impairment was the estimated future cash flow. Due to the significant financial and political difficulties facing CEMAR and PPL's commitment to exit the business, the determination was made that there was no value remaining in the investment. Based on the circumstances surrounding this investment, PPL does not believe there is any variability in this assumption.

PPL did not record an impairment of its new gas-fired generation assets that were in-service in 2002. For these impairment analyses, the most significant assumption was the estimate of future cash flows. For the impairment analyses of its in-service gas-fired generation assets, PPL estimates future cash flow using information from its corporate business plan adjusted for any recent sales or purchase commitments. Key factors that impact cash flows include projected prices for electricity and gas as well as firm sales and purchase commitments. A 10% change in estimated future cash flow for any of PPL's in-service gas-fired generation assets would not result in an impairment charge.

In November 2002, due to low energy price curves, the absence of a tolling agreement for the site, and delays in obtaining permits, the completion of the Kings Park project became uncertain. Due to this uncertainty and the absence of other viable projects, the costs of the turbines and SCRs that were planned for deployment at Kings Park were determined to not be recoverable from expected undiscounted cash flows. To determine the amount of the impairment, PPL estimated the fair value of the turbines and SCRs based upon replacement costs of similar assets. This resulted in the recognition of a $26 million, after-tax, impairment charge. The most significant assumption related to the asset impairment was the estimate of replacement costs. A 10% change in the estimate of replacement costs would have increased or decreased the impairment charge by $3 million after-tax.

In January 2003, PPL decided to seek a buyer and not proceed with the development of the Kings Park project.

In 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets," which eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. PPL adopted SFAS 142 on January 1, 2002.

A transition impairment test was completed in the first quarter of 2002. As a result of this impairment test, PPL recognized a goodwill impairment charge of $150 million related to the Latin American reporting unit, which is reported as a "Cumulative Effect of a Change in Accounting Principle" on the Statement of Income. PPL completed its annual goodwill impairment test in the fourth quarter of 2002. This test did not result in an additional impairment. PPL's most significant assumptions surrounding the goodwill impairment relate to the determination of fair value. PPL determined fair value based upon discounted cash flow. A variance in the forecasted cash flow or discount rate could have a significant impact on the amount of the impairment charge recorded. The following chart reflects the sensitivities associated with a change in

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these assumptions. Each sensitivity below reflects an evaluation of the change based solely on a change in that assumption.

	Change in Assumption	Increase / (Decrease) Impact on Transition Impairment	Impact on Annual Impairment
Forecasted Cash Flow	10/(10)%	$ (48)/48	$ 0/15
Discount Rate	1/(1)%	$ 33/(36)	No Impact

4. **Leasing**

PPL applies the provisions of SFAS 13, "Accounting for Leases," to all leasing transactions. In addition, PPL applies the provisions of numerous other accounting pronouncements issued by the FASB and the EITF that provide specific guidance and additional requirements related to accounting for various leasing arrangements. In general, there are two types of leases from a lessee's perspective: operating leases - leases accounted for off-balance sheet and capital leases - leases capitalized on the balance sheet.

In accounting for leases, management makes various assumptions, including the discount rate, the fair market value of the leased assets and the estimated useful life, in determining whether a lease should be classified as operating or capital. Changes in these assumptions could result in the difference between whether a lease is determined to be an operating lease or a capital lease, thus significantly impacting the amounts to be recognized in the financial statements.

In addition to uncertainty inherent in management's assumptions, leasing transactions and the related accounting rules become increasingly complex when they involve: sale/leaseback accounting (leasing transactions where the lessee previously owned the leased assets), synthetic leases (leases that qualify for operating lease treatment for book accounting purposes and financing treatment for tax accounting purposes), lessee involvement in the construction of leased assets and/or special purpose entities (SPEs) (entities created for the specific purpose of owning the property, plant and equipment and incurring the related financing obligation). Current GAAP requires that SPEs be consolidated if several conditions exist, including if the owners of the SPEs have not made an initial substantive residual equity capital investment that is at risk during the entire lease term. The consolidation of an SPE lessor by the lessee has a very similar financial result as a lease that is accounted for as a capital lease, that is, the leased assets and the related financing obligations are recorded on the lessee's balance sheet.

At December 31, 2002, PPL subsidiaries participated in one significant sale/leaseback transaction involving unconsolidated SPEs and two significant synthetic lease transactions involving unconsolidated SPEs. Each of these transactions has been accounted for as an operating lease. In accordance with current GAAP, these SPEs were not consolidated by PPL because the equity owners (entities unrelated to PPL and its subsidiaries) contributed and maintain a minimum of 3% equity interest throughout the life of the SPEs.

Sale/Leaseback

In July 2000, PPL Montana sold its interest in the Colstrip generating plant to owner lessors who are leasing the assets back to PPL Montana under four 36-year operating leases. This transaction is accounted for as an operating lease in accordance with current rules related to sale/leaseback arrangements. If for any reason this transaction did not meet the requirements for off-balance sheet operating lease treatment as a sale/leaseback, PPL would have approximately $343 million of additional assets and liabilities recorded on its balance sheet at December 31, 2002 and would have recorded additional expenses currently estimated at $10 million, after-tax, in 2002.

Synthetic Leases

In May 2001, a PPL Global subsidiary entered into a lease arrangement, as lessee, for the development, construction and operation of commercial power generation facilities. This arrangement covers the 540 MW gas-powered University Park project near University Park, Illinois, and the 450 MW gas-powered Sundance project near Coolidge, Arizona. In July 2002, these facilities were substantially complete and the initial lease term commenced.

In December 2001, a PPL Global subsidiary entered into a lease arrangement, as lessee, for the development, construction and operation of a 600 MW gas-fired combined-cycle generation facility located in Lower Mt. Bethel Township, Northampton County, Pennsylvania. The initial lease term is approximately 10 years, beginning on the date of commercial operation, which is expected to occur in late 2003.

Both of these leases are accounted for as operating leases in accordance with current accounting requirements. If for any reason these transactions did not meet the requirements for off-balance sheet operating lease treatment, PPL would have approximately $1.1 billion of additional assets and liabilities recorded on its balance sheet at December 31, 2002 and would have recorded additional expenses currently estimated at $5 million, after-tax, in 2002.

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In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." FIN 46 clarifies that variable interest entities (VIEs), as defined therein, that do not disperse risks among the parties involved should be consolidated by the entity that is determined to be the primary beneficiary. PPL currently believes that the lessors involved in its leases for the Sundance, University Park and Lower Mt. Bethel generating facilities, discussed above, will be considered VIEs under FIN 46 and that PPL would be the primary beneficiary. PPL is currently evaluating whether these leasing arrangements can be restructured such that they would still qualify as off-balance sheet operating leases under the new rules. If PPL does not restructure these leases, PPL believes that it will be required to consolidate the financial statements of the lessors. The principal impact from such consolidation would be the inclusion of the generating facilities as assets and the lease financing as liabilities in the consolidated balance sheet of PPL. PPL does not currently believe that the lessors in the PPL Montana sale/leaseback will be determined to be VIEs in which PPL will be the primary beneficiary. Therefore, PPL does not expect to consolidate the financial statements of these lessors. PPL must adopt FIN 46 for all of these leases no later than the first interim period beginning after June 15, 2003.

See Note 10 to the Financial Statements for additional information related to operating leases and Note 22 for additional information related to FIN 46.

5. **Loss Accruals**

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

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

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

Initial Identification and Recording of the Loss Accrual

PPL uses its internal expertise and outside experts (such as lawyers, tax specialists and engineers), as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

Throughout 2002, PPL assessed potential loss accruals for environmental remediation, litigation claims, regulatory penalties and other events. There were no material events identified for which a loss was probable and for which the loss could be reasonably estimated. Therefore, there were no material loss accruals recorded in 2002 using the SFAS 5 criteria.

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

See Note 14 to the Financial Statements for disclosure of potential loss accruals, most of which have not met the criteria for accrual under SFAS 5. Such disclosures include, among others, the Montana Power shareholders' litigation, a lawsuit regarding the Colstrip transmission system and any potential adverse outcome related to the PJM Market Monitor report.

Reducing Recorded Loss Accruals and On-Going Assessment

When a loss accrual is recorded, PPL identifies the triggering event for subsequently reducing the loss accrual. Also, PPL periodically reviews the loss accrual to assure that the recorded potential loss exposure is reasonable.

The largest contingency currently on PPL's balance sheet is the loss accrual for above-market NUG purchase commitments, being the difference between the above-market contract terms and the fair value of electricity. This loss accrual was originally recorded at $854 million in 1998, when PPL Electric's generation business was deregulated. Under regulatory accounting, PPL Electric recorded the above-market cost of the purchases from NUGs as part of its purchased power costs on an as-incurred basis, since these costs were recovered in regulated rates. When the generation business was deregulated, the loss contingency associated with the commitment to make above-market NUG purchases was recorded. This loss accrual for the above-market portion of NUG purchase commitments was recorded because it was probable that the loss had been incurred and the estimate of future energy prices could be reasonably determined, using the then forward prices of electricity and capacity. This loss accrual was transferred to PPL EnergyPlus in the July 1, 2000 corporate realignment. The above-market loss accrual was $427 million

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at December 31, 2002.

When the loss accrual related to NUG purchases was recorded in 1998, PPL Electric established the triggering events for when the loss accrual would be reduced. A schedule was established to reduce the liability based on projected purchases over the lives of the NUG contracts. All but one of the NUG contracts expire by 2009, with the last one ending in 2014. PPL EnergyPlus reduces the above-market NUG liability based on the aforementioned schedule. As PPL EnergyPlus reduces the liability for the above-market NUG purchases, it offsets the actual cost of NUG purchases, thereby bringing the net power purchase expense more in line with market prices.

PPL EnergyPlus assessed the remaining $427 million above-market liability at December 31, 2002, comparing the projected electricity purchases under the terms of the NUG contracts, with the purchases assuming projected market prices for the energy. This assessment was based on projected PJM market prices, including capacity, through 2014, as comprehended in the current business plan of PPL EnergyPlus. The assessment also used sensitivities around the market prices, adjusting such prices upwards and downwards by 10%.

The assessment is dependent on the market prices of energy and the estimated output levels of the NUGs. Market prices of energy are dependent on many variables, including growth in electricity demand in PJM, available generation, and changes in regulatory and economic conditions. Accordingly, market price sensitivities were used in the assessment. If estimated market prices were adjusted upwards by 10% in each of the years from 2003 through 2014, the accrual for the above-market NUG purchase commitments would be approximately $401 million. Conversely, if estimated market prices were adjusted downwards by 10% during the remaining term of the NUG contracts, the accrual for the above-market NUG purchase commitments would be approximately $501 million. The recorded above-market liability of $427 million at December 31, 2002 falls within the range calculated in the year-end assessment. As noted above, it is very difficult to estimate future electricity prices, which are dependent on many variables and subject to significant volatility. PPL's management believes that the current recorded NUG above-market liability was fairly stated at December 31, 2002.

Other Information

PPL's Audit Committee has approved the independent auditor to provide the following services:

- Audit and audit-related services (including services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, employee benefit plan audits and internal control reviews);
- Certain tax consulting and advisory services for projects commenced prior to December 31, 2002; and,
- Other services permitted by the Sarbanes-Oxley Act of 2002 and SEC rules.

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ITEM 7. REVIEW OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Corporate Realignment

On July 1, 2000, PPL and PPL Electric completed a corporate realignment in order to effectively separate PPL Electric's regulated transmission and distribution operations from its generation operations and to better position the companies and their affiliates in the new competitive marketplace. The corporate realignment included the following key features:

PPL Electric contributed its generation and certain other related assets, along with associated liabilities, to new competitive generation subsidiaries of PPL Generation. In connection with the contribution, PPL Energy Funding, the parent company of PPL Generation, assumed $670 million aggregate principal amount of PPL Electric's debt issued to affiliated companies.

PPL Electric also contributed assets associated with its wholesale energy marketing activities, along with associated liabilities, to its wholly-owned subsidiary, PPL EnergyPlus, and contributed its interest in PPL EnergyPlus to PPL Energy Funding.

PPL Electric distributed in a tax-free spin-off all of the outstanding shares of stock of PPL Energy Funding to PPL, which resulted in PPL Energy Funding becoming a wholly-owned subsidiary of PPL.

PPL's unregulated power subsidiary, PPL Global, also transferred its U.S. electric generation subsidiaries to PPL Generation.

PPL Electric entered into agreements with PPL EnergyPlus for the purchase of electricity to meet all of PPL Electric's requirements through 2001 as a PLR for customers who have not selected an alternative supplier under the Customer Choice Act and its wholesale contractual obligations to certain municipalities.

As a result of the corporate realignment:

PPL Generation's principal business is owning and operating U.S. generation facilities through various subsidiaries;
PPL EnergyPlus' principal business is competitive wholesale and retail energy marketing;
PPL Global's principal businesses are the acquisition and development of both U.S. and international energy projects, and ownership and operation of international energy projects; and
PPL Electric's principal businesses are the regulated transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania, and the supply of electricity to retail customers in that territory as a PLR.

PPL Energy Supply was formed in November 2000. In May 2001, PPL Energy Funding contributed its interests in PPL Generation, PPL EnergyPlus and PPL Global to PPL Energy Supply. PPL Energy Supply serves as the parent company for substantially all of PPL's competitive businesses.

Basis of Presentation

PPL Energy Supply's financial statements for 2000 include financial information from predecessor businesses. The financial information for such entities has been combined together as one collective predecessor for purposes of satisfying the SEC's financial statement requirements, based on formation or acquisition dates of the respective businesses. Certain of PPL Energy Supply's assets were not operated as discrete businesses, and as a result, performance for prior years and historical predecessor financial information may not be indicative of PPL Energy Supply's present or future performance. See Note 1 to the Financial Statements for a discussion of the predecessor entities that comprise PPL Energy Supply.

Results of Operations

Earnings in 2002 were impacted by the acquisition of a controlling interest in WPD on September 6, 2002, and the resulting consolidation, as described in Note 9 to the Financial Statements. Therefore, the comparison of reported income statement line items is not meaningful without eliminating the impact of the WPD consolidation. The following table shows the 2002 Statement of Income as reported, the adjustments to eliminate the impact of the WPD consolidation (by reflecting WPD on the equity method), and as adjusted to exclude the WPD consolidation. The following discussion, that explains significant annual changes in principal items on the Statement of Income, compares 2002, as adjusted, to 2001.

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PPL Energy Supply, LLC and Subsidiaries
Consolidated Statement of Income
Adjusted to Eliminate WPD Consolidation

	2002		
	As Reported	**Adjustment**	**As Adjusted**
Operating Revenues			
Wholesale energy marketing	$ 993		$ 993
Wholesale energy marketing to affiliates	1,434		1,434
Utility	980	$ 579	401
Unregulated retail electric and gas	182		182
Net energy trading margins	19		19
Energy related businesses	546	(60)	606
Total	4,154	519	3,635
Operating Expenses			
Operation			
Fuel	503		503
Energy purchases	665		665
Energy purchases from affiliates	171		171
Other operation and maintenance	808	42	766
Depreciation	265	112	153
Taxes, other than income	78	42	36
Energy related businesses	521	29	492
Other charges			
Write-down of international energy projects	113		113
Workforce reduction	41		41
Write-down of generation assets	44		44
Total	3,209	225	2,984
Operating Income	945	294	651
Other Income - net	48	20	28
Interest Expense	208	127	81
Interest Expense with Affiliate	3		3
Income Taxes	266	105	161
Minority Interest	78	73	5
Cumulative Effect of a Change in Accounting Principle	(150)		(150)
Distributions - Preferred Securities	9	9	
Net Income	$ 279	$	$ 279

Earnings in 2001 were positively impacted by a full year of operating results of the Pennsylvania generating assets contributed in the July 1, 2000 corporate realignment. In many cases, the reasons for significant changes in 2001 compared with 2000 were due to the acquisition of the generation and marketing assets from PPL Electric in July 2000, as described in the "Corporate Realignment" discussion above.

The comparability of certain items on the Statement of Income has also been impacted by PPL Global's investment in CEMAR in 2000. The consolidated results of CEMAR are included for periods during which PPL had a controlling interest, from June 2000 to August 2002. See Note 9 to the Financial Statements for more information.

Earnings

The changes in net income from year to year were, in part, attributable to several unusual items with significant earnings impacts as shown below. The table below reconciles net income to income from core operations, after eliminating the impact of unusual items. Income from core operations should not be considered as an alternative to net income, which is an indicator of operating performance determined in accordance with GAAP. PPL Energy Supply believes that income from core operations, although a non-GAAP measure, is also useful and meaningful to investors because it provides them with PPL Energy Supply's underlying earnings performance as another criterion in making their investment decisions. PPL Energy Supply's management also uses income from core operations in measuring certain corporate performance goals. Other companies may use different measures to present financial performance.

	2002	**2001**	**2000**
Net income - actual	$ 279	$ 174	$ 242

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Unusual items (net of tax):			
Goodwill impairment (Note 18)	(150)		
CEMAR impairment (Note 9)	(98)	(217)	
CEMAR operating losses (Note 9)	(23)		
Write-down of generation assets (Note 9)	(26)		
Workforce reduction (Note 21)	(24)		
Tax benefit - Teesside (Note 9)	8		
Cancellation of generation projects (Note 9)		(88)	
WPD impairment (Note 9)		(117)	
Enron impact on trading (Note 17)		(8)	
Enron impact - write-down investment in Teesside (Note 9)		(21)	
Accounting method change - pensions (Note 12)		3	
Income from core operations	$ 592	$ 622	$ 242

The $30 million decrease in core earnings in 2002 compared with 2001 was primarily due to (with after-tax changes noted):

- lower wholesale margins of $81 million;
- lower unregulated retail energy margins of $33 million;
- higher operating and maintenance costs of $20 million due to the impact of new generation facilities, lower pension income and expenses related to property royalties; and
- lower net energy trading margins of $11 million.

These decreases were offset by:

- higher regulated retail energy margins of $59 million;
- higher PPL Global earnings of $50 million, due to operating performance and complete ownership of WPD, lower spending on development projects and the discontinuance of goodwill amortization, offset by lower earnings from Latin America; and
- higher earnings from synfuel tax credits of $10 million due to increased sales volumes.

The $380 million increase in core earnings in 2001 compared with 2000 was primarily due to (with after-tax changes noted):

- a full year of operating results of the Pennsylvania generating and marketing assets contributed in the July 1, 2000 corporate realignment, $307 million;
- lower after-tax interest expense of $47 million due to significantly lower intercompany debt; and
- additional PPL Montana earnings of $17 million.

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

PPL Energy Supply expects that the low level of wholesale energy prices will adversely impact margins in 2003 and beyond. Based upon current energy price levels, there is a risk that PPL Energy Supply may be unable to recover its investment in new gas-fired generation facilities. Under GAAP, PPL Energy Supply does not believe that there is an impairment charge to be recorded at this time. PPL Energy Supply is unable to predict the ultimate earnings impact of this issue, based upon energy price levels, applicable accounting rules and other factors, but such impact may be material. See "Asset Impairment" in Application of Critical Accounting Policies for additional information.

Future earnings will also be impacted by the consolidation of variable interest entities and the implementation of accounting for asset retirement obligations (as discussed in Note 22 to the Financial Statements).

Domestic Energy Margins

The following tables provide summary data regarding changes in the components of domestic gross margins of wholesale and retail energy for 2002 compared to 2001 and 2001 compared to 2000:

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	2002 vs. 2001	2001 vs. 2000 (b)
Wholesale energy marketing revenues	$ 4	$ 94
Wholesale energy marketing to affiliates	103	(620)
Unregulated retail electric and gas revenues	(174)	(203)
Net energy trading margins	(18)	(10)
Other revenue adjustments (a)		35
Total revenues	(85)	(704)
Fuel	3	31
Purchased power	(31)	(369)
Purchased power from affiliates	(23)	(443)
Other cost adjustments (a)	63	(29)
Total cost of sales	12	(810)
Domestic gross energy margins	$ (97)	$ 106

(a) Adjusted to exclude the impact of any revenues and costs not associated with domestic energy margins, in particular, revenues and energy costs related to the international operations of PPL Global.

(b) On July 1, 2000, PPL and PPL Electric completed a corporate realignment in order to effectively separate PPL Electric's regulated transmission and distribution businesses from its deregulated generation businesses. Prior to July 1, 2000, data pertaining to Eastern domestic energy margins was recorded by PPL Electric. Therefore, the data presented in this table for the first half of 2000 includes information from PPL Electric's income statements.

Changes in Gross Domestic Energy Margins By Activity

Gross margin calculations are dependent on the allocation of fuel and purchased power costs to the activities. That allocation is based on monthly MWh consumption levels compared to monthly MWh supply costs. Any costs specific to an activity are charged to that activity.

	2002 vs. 2001	2001 vs. 2000
Wholesale - Eastern U.S.	$ (53)	$ 155
Wholesale - Western U.S.	(71)	(4)
Net energy trading	(18)	(10)
Unregulated retail	(56)	(113)
Regulated retail	101	78
Domestic gross energy margins	$ (97)	$ 106

Wholesale - Eastern U.S.

Generally, Eastern wholesale margins were lower in 2002 compared to 2001, despite a buyout of a NUG contract in February 2002 that reduced purchased power costs by $25 million. The decline in margins was primarily attributable to the decline in wholesale prices for energy and capacity. In PJM, where the majority of PPL's Eastern wholesale activity occurs, on-peak prices averaged $6/MWh less, a decline of 14%, for 2002 compared to 2001. Additionally, because new generating capability has come on-line within PJM in 2002, the prices for the PJM monthly auctions for unforced capacity credits have also fallen from an average of $100/MW-month in 2001 to an average of $38/MW-month in 2002. However, higher volumes of energy sales partially offset the decline in prices, as wholesale transactions in 2002 increased by about 33% over 2001 due to better generation availability.

Eastern wholesale margins were higher in 2001 compared to 2000 primarily due to an increase in wholesale prices for energy and capacity. In PJM, on-peak prices averaged $6/MWh more in 2001, an increase of 13% from 2000. Additionally, prices for the PJM monthly auctions for unforced capacity credits increased from an average of $53/MW-month in 2000 to an average of $100/MW-month in 2001.

Wholesale - Western U.S.

Western wholesale margins consist of margins in the Northwest and in the Southwest.

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In the Northwest, margins were $74 million lower in 2002 compared to 2001, primarily due to a decrease in average realized wholesale prices by $45/MWh, partially offset by a 9% increase in volumes. Margins were $19 million lower in 2001 compared to 2000, primarily due to a 16% decline in volumes caused by the energy supply shortage in the western U.S. primarily due to the impact of a drought on hydro availability. Partially offsetting this decrease were higher average prices in 2001 compared to 2000.

In the Southwest region, margins were $9 million lower in 2002 compared to 2001, primarily due to a decrease in average wholesale prices by $40/MWh. These lower prices were offset by increased sales, which were three times higher than the prior period, as a result of the Griffith Energy and Sundance facilities coming on-line in 2002. Margins were $27 million higher in 2001 compared to 2000, primarily due to purchasing power in late 2001 to satisfy the sales commitments entered into earlier in the year at higher prices. These sales were originally expected to be supplied by the generation output from Griffith.

The above explanation is exclusive of the 2001 charge for the Enron bankruptcy which is discussed in further detail in Note 17 to the Financial Statements.

Net Energy Trading

PPL enters into certain contractual arrangements that meet the criteria of energy trading derivatives as defined by EITF 02-3. These physical and financial contracts cover trading activity associated with electricity, gas and oil. The $18 million decrease in 2002 compared to 2001 was primarily due to unrealized, mark-to-market gains in 2001 and lower energy margins in 2002. The $10 million decrease in 2001 compared to 2000 was primarily due to lower energy margins partially offset by unrealized, mark-to-market losses in 2000. The physical volumes associated with energy trading were 10,500 GWh and 12.4 Bcf in 2002; 7,700 GWh and 22.4 Bcf in 2001; and 19,900 GWh and 2.9 Bcf in 2000.

Unregulated Retail

Unregulated retail margins declined in 2002 compared to 2001 primarily due to lower revenues resulting from the expiration of contracts which were not renewed in the East and due to significantly lower retail prices in the West, somewhat offset by an increase in the number of customers in the West. The decline in 2001 from 2000 was also primarily due to the expiration of contracts which were not renewed in the East, somewhat offset by higher sales in the West.

Regulated Retail

Regulated retail margins in the East for 2002 were 15% higher than in 2001. Higher sales volumes and higher average prices, caused by changes in usage among customer classes, provided the improved margins. In addition, lower supply costs in 2002, due to lower fuel costs and increased generating unit availability, further improved margins. Regulated retail margins in the East for 2001 were 13% higher than 2000. Sales volumes increased 21% primarily due to the return of customers who previously had an alternative electric power supplier.

Utility Revenues

PPL Energy Supply's utility revenues consist of the delivery of electricity by PPL Global international subsidiaries. Utility revenues decreased by $7 million in 2002 compared with 2001. This decrease was primarily attributable to the deconsolidation of CEMAR. PPL Global stopped recording operating results of CEMAR upon relinquishing control to ANEEL. As a result, revenues from electricity deliveries in Brazil were $17 million lower in 2002 compared with 2001. This decrease was partially offset by increased volumes of deliveries in Chile and El Salvador, which resulted in increased revenues of $9 million compared with 2001.

Utility revenues increased by $88 million in 2001 compared with 2000, due to a full year of CEMAR revenues in 2001, compared with three months of revenues in 2000.

Energy Related Businesses

Energy related businesses (when adjusted to include WPD on an equity basis) contributed $11 million less to operating income in 2002 compared with 2001. This was primarily due to:

- a $28 million increase in PPL Southwest Generation Holdings, LLC's expenses of Griffith Energy due to a full year of operations in 2002. Also, 2001 benefited from margins on forward electricity contracts, executed prior to commercial operation;
- a $9 million decline from the mechanical contracting and engineering subsidiaries, primarily due to cost overruns experienced at two major projects; and
- $4 million of pre-tax operating losses from synfuel projects; partially offset by
- a $23 million decrease in PPL Global's expenses due to lower spending on development projects, including a favorable settlement on the cancellation of a generation project in Washington state.

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Although operating income from synfuel operations declined in 2002 compared to 2001, the synfuel projects contributed $7 million more to net income after the recording of tax credits.

Energy related businesses contributed $125 million to the 2001 operating income of PPL Energy Supply, an increase of $58 million from 2000. The increase reflects PPL Global's higher equity earnings of $83 million from its U.K. investments, and higher pre-tax operating income of $8 million from the mechanical contracting and engineering subsidiaries (as a result of additional acquisitions in the northeastern U.S.) These gains were partially offset by a $13 million increase in PPL Global's domestic project development expenses and by $19 million of pre-tax operating losses from synfuel projects. However, after the recording of tax credits associated with synfuel operations, the synfuel projects contributed approximately $19 million to net income in 2001.

Other Operation and Maintenance

Other operation and maintenance expenses increased by $20 million in 2002 compared to 2001. The increase was partially due to an increase of $6 million in PPL Energy Supply's estimated vacation liability, in conjunction with the workforce reduction (see Note 21 to the Financial Statements). The increase in operation and maintenance expense also reflects a $7 million decrease in pension income. Additionally, there were $9 million of expenses relating to the operating lease on the University Park and Sundance facilities, which began commercial operation in July 2002, and $4 million of increased generation expenses due to several new facilities becoming operational in 2002.

The $7 million decrease in pension income was attributable to PPL Energy Supply's participation in PPL's primary domestic pension plan. During the second quarter of 2002, the workforce reduction and union-negotiated benefit enhancements had a significant impact on PPL's primary domestic pension plan requiring remeasurement of the benefit obligation and decreasing the net pension income recorded for that plan. In addition, pension income was also decreased due to the recognition of significant asset losses caused by weakened financial markets. Certain subsidiaries of PPL Energy Supply participate in PPL's primary domestic pension plan and are allocated approximately 34% of the obligations and costs of that plan. Through December 31, 2002, PPL Energy Supply was allocated approximately $9 million of pension income. As a result of the events and remeasurements previously discussed, PPL expects to continue to allocate pension income to PPL Energy Supply in 2003, but at lower levels due to the above events and continued weakness in the financial markets. See Note 12 for details of the funded status of PPL's domestic pension plans.

Other operation and maintenance expenses increased by $281 million in 2001 compared to 2000. The transfer of approximately $210 million of expenses associated with PPL Electric generation assets transferred in the corporate realignment was the primary reason for the increase, as well as $29 million of additional operating expenses associated with PPL Global's acquisition of CEMAR. Also contributing to the increase was a $45 million gain on the sale of emission allowances in 2000, recorded as a reduction of expense.

Depreciation

Depreciation decreased by $17 million in 2002 compared with 2001. This decrease was primarily the result of:

- $14 million due to extension of the Susquehanna station's depreciable life, in conjunction with the announced plan to seek an extension of its NRC operating licenses;
- $10 million due to no longer recording goodwill amortization; and
- $7 million due to PPL Global's write-down of CEMAR assets in 2001, resulting in no depreciation on these assets in 2002.

These decreases were partially offset by an increase of $14 million due to depreciation of the Wallingford and Edgewood facilities, and plant upgrades and installation of SCR technology at the Montour plant.

Depreciation increased by $71 million in 2001 compared with 2000. This increase was primarily due to the inclusion of $44 million of depreciation on the generation assets transferred from PPL Electric in the July 1, 2000 corporate realignment. Also contributing to the increase were $10 million of depreciation expense from the inclusion of CEMAR's transmission, distribution and other assets recorded subsequent to its acquisition by PPL Global, and to $14 million associated with SCR technology installed at the Montour plant during the third quarter 2000 outage.

Taxes, Other Than Income

Taxes, other than income, decreased by $15 million in 2001 compared with 2000. The decrease was primarily in the gross receipts tax corresponding to lower retail electric revenues and a decrease in the revenue-neutral reconciliation (RNR) tax component of the effective Pennsylvania gross receipts tax rate in January 2001. The RNR, which adjusts the base gross receipts tax rate of 4.4%, was enacted as part of the Customer Choice Act as a tax revenue replacement component to recoup losses to the Commonwealth of Pennsylvania or return benefits to customers that may result from the restructuring of the electric industry.

Changes in gross receipts tax do not significantly affect earnings as they are substantially recovered or returned through customer rate revenues.

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Other Charges

Other charges of $198 million in 2002 consisted of the write-down of PPL Global's investment in CEMAR and several smaller impairment charges on other international investments (see Note 9 to the Financial Statements), the write-down of generation assets (see Note 9) and a charge for a workforce reduction program (see Note 21).

Other charges of $486 million in 2001 consisted of the write-down of international energy projects and the cancellation of generation development projects (see Note 9).

Other Income - net

See Note 16 to the Financial Statements for details of other income and deductions.

Interest Expense

Interest expense increased by $37 million in 2002 compared with 2001 primarily due to:

- a $32 million increase in long-term debt interest due to a full year of interest in 2002 from the issuance of $500 million of senior unsecured notes in 2001;
- a $20 million increase in long-term debt interest from debt issued by PPL Global's consolidated subsidiaries; and
- a $7 million decrease in capitalized interest; offset by
- a $24 million decrease in short-term debt interest from a decrease in short-term borrowings from affiliates.

Interest expense decreased by $79 million in 2001 compared with 2000. This decrease reflects lower intercompany interest expense of $90 million, in part due to the contribution to PPL Energy Supply of PPL Energy Funding's notes receivable from PPL Global, thereby eliminating the associated intercompany interest expense. This decrease in interest expense was partially offset by $6 million of interest expense associated with $500 million of senior unsecured notes issued by PPL Energy Supply in October 2001.

Income Taxes

Income tax expense decreased by $113 million in 2002 compared with 2001. This decrease was due to:

- lower pre-tax domestic book income, resulting in a $35 million reduction in income taxes;
- lower impairment charges on PPL Energy Supply's investment in Brazil resulting in a $30 million decrease in the amount of deferred income tax valuation allowances recorded;
- a $27 million reduction in income taxes due to losses recognized on foreign investments; and
- a $10 million decrease related to additional federal synfuel tax credits recognized.

Income tax expense increased by $149 million in 2001 compared with 2000. This was primarily due to higher pre-tax domestic book income, resulting in $105 million of additional income taxes, and $61 million of deferred income tax valuation allowances recorded on PPL Energy Supply's investment in Brazil and the U.K. (see Note 9 to the Financial Statements). These increases were offset by the recognition of $34 million of federal synfuel tax credits.

Change in Accounting Principle

PPL Energy Supply adopted SFAS 142, "Goodwill and Other Intangible Assets," on January 1, 2002. SFAS 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. PPL Energy Supply conducted a transition impairment analysis in the first quarter of 2002 and recorded a transition goodwill impairment charge of $150 million. See Note 18 to the Financial Statements for additional information.

In 2001, PPL changed its method of amortizing unrecognized gains or losses in the annual pension expense or income determined under SFAS 87, "Employers' Accounting for Pensions." This change resulted in an allocation to PPL Energy Supply of a cumulative-effect credit of $3 million. Under the old method, the net unrecognized gain or loss in excess of 10% of the greater of the plan's projected benefit obligation or market-related value of plan assets was amortized on a straight-line basis over the estimated average future service period of plan participants. Under the new method, a second corridor is utilized for the net unrecognized gain or loss in excess of 30% of the plan's projected benefit obligation. The net unrecognized gain or loss outside the second corridor is amortized on a straight-line basis over a period equal to one-half of the average future service period of the plan participants. See Note 12 to the Financial Statements for additional information.

These items are reported as "Cumulative Effect of a Change in Accounting Principle" on the Statement of Income.

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During 2002, PPL Energy Supply also adopted SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," and EITF 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." See Note 22 to the Financial Statements for a discussion of the adoption of SFAS 144 and SFAS 145 and see Note 17 for a discussion of the adoption of EITF 02-3.

New Accounting Standards

See Note 22 to the Financial Statements for information on new accounting standards.

Financial Condition

Liquidity

At December 31, 2002, PPL Energy Supply had $149 million in cash and cash equivalents and $928 million of short-term debt. The $810 million increase in short-term debt from December 31, 2001 to December 31, 2002 resulted primarily from the consolidation of WPD's short-term debt as a result of the acquisition of the controlling interest in WPD and the issuance of PPL Energy Supply commercial paper in the fourth quarter (see Note 8 to the Financial Statements for additional information). PPL Energy Supply plans to refinance $389 million of short-term debt at a WPD entity during the first half of 2003 with a debt offering in the U.K.

PPL Energy Supply believes that its cash and cash equivalents, operating cash flows, access to the capital markets and borrowing capacity, taken as a whole, provide sufficient resources to fund ongoing operating requirements and future capital expenditures. PPL Energy Supply's operating cash flow and access to the capital markets can be impacted by economic factors outside of its control. In addition, PPL Energy Supply's borrowing costs can be impacted by short-term and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on PPL's performance as measured by certain credit measures such as interest coverage and leverage ratios. In May 2002, Standard & Poor's (S&P) affirmed the BBB corporate credit rating of PPL Energy Supply and the BBB senior secured debt rating of PPL Montana. The A-2 short-term credit ratings on PPL Energy Supply remained unchanged. The outlook on all ratings was stable.

In September 2002, S&P revised its outlook on PPL Energy Supply and PPL Montana from a stable outlook to a negative outlook. S&P's rating action reflects its view of a weakened credit profile that has resulted primarily from declining wholesale electricity prices and also from setbacks in PPL Energy Supply's international operations, particularly in Brazil. As part of its September 2002 review, S&P affirmed its ratings on PPL Energy Supply following the acquisition of a controlling interest in WPD.

In February 2003, Moody's confirmed the ratings of WPDH Limited and WPD (South Wales) at Baa2 and Baa1, and downgraded WPD LLP from Baa1 to Baa2 and SIUK Capital Trust I from Baa2 to Baa3. The outlook on all ratings was stable. Also in January, S&P completed a review of WPD and affirmed its BBB+ long-term and A-2 short-term corporate credit ratings on WPD Holdings U.K. and related entities, SIUK Limited, WPD (South West) and WPD (South Wales). The outlook remains negative.

PPL Energy Supply expects to access both the capital and commercial paper markets during 2003. PPL Energy Supply cannot provide assurances that any of these funding sources will be available to PPL Energy Supply on acceptable terms.

Cash and cash equivalents are derived from cash from operations, cash from financing activities and cash from investing activities. Net cash from operations in 2002 was $650 million, compared to $605 million in 2001. The $45 million increase in cash provided by operating activities was due to the net effect of increases in net income adjusted to a cash basis (i.e., adding back non-cash items such as depreciation, write-downs of projects and assets, change in accounting principle, etc.), and partially offset by $152 million of turbine cancellation payments, an $89 million decrease in dividends from unconsolidated affiliates and a $50 million payment to terminate a NUG contract. As an asset-backed provider of electricity, the stability of PPL Energy Supply's cash from operations as it relates to the supply of electricity is influenced by the market prices of electricity, the cost of fuel used in the production of electricity and the operational availability of generating units, among other factors.

An important element supporting the stability of PPL Energy Supply's cash from operations is its continuing effort to secure long-term commitments from wholesale and retail customers and long-term fuel supply contracts. Two significant long-term wholesale contracts maintained by PPL EnergyPlus are: a full-requirements, eight-year agreement to supply PPL Electric with estimated peak demand between 6,700 and 7,000 MW for PPL Electric's PLR load and a five-year contract with NorthWestern for 300 MW of around-the-clock electricity supply and 150 MW of on-peak supply. Over 85% of PPL Energy Supply's projected energy margins in 2003 and about 70% of margins through 2007 are expected to come from these long-term contracts.

In 2002, a PPL Energy Supply subsidiary also entered into multi-year tolling agreements with the Long Island Power Authority for about 159 MW of generation that a PPL Energy Supply subsidiary constructed at two Long Island sites. Under these tolling agreements, the PPL Energy Supply subsidiary will convert fuel supplied by the Long Island Power Authority to electricity and will receive payments for use of its facilities. PPL EnergyPlus continues to provide up to 200 MW of supply, for various terms, to large industrial customers in Montana.

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PPL EnergyPlus enters into contracts under which it agrees to sell and purchase electricity, natural gas, oil and coal. PPL Energy Supply also enters into contracts designed to lock-in interest rates for future financings or effect changes in its exposure to fixed or floating interest rates. These contracts often provide for cash collateral or other credit enhancement, or reductions or terminations of a portion or the entire contract through cash settlement in the event of a downgrade of PPL Energy Supply or adverse changes in market prices. For example, in addition to limiting its trading ability, if PPL Energy Supply's ratings were lowered to below "investment grade" and energy prices increased by more than 10%, PPL Energy Supply estimates that, based on its December 31, 2002 position, it would have to post collateral of approximately $421 million as compared to $450 million at December 31, 2001. PPL Energy Supply has in place risk management programs that, among other things, are designed to monitor and manage its exposure to volatility of cash flows related to changes in energy prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operational performance of its generating units.

Net cash used in financing activities was $174 million in 2002, compared to $195 million in 2001. Additionally, a commercial paper program at PPL Energy Supply provides for the issuance of up to $1.1 billion of commercial paper and is maintained to meet short-term cash needs. If the existing credit ratings on the commercial paper program were lowered, it is unlikely that there would be sufficient investor demand for the commercial paper. In addition, the amount of commercial paper that could be outstanding under PPL Energy Supply's program is generally limited to the amount of the unused credit lines.

PPL Energy Supply maintains unsecured credit lines of $1.1 billion that are available as a backstop for its commercial paper program or for direct borrowings. PPL Energy Supply's credit lines are also available to issue up to $800 million in letters of credit that may be used for general corporate purposes, including margin requirements resulting from energy contracts. PPL Energy Supply had $374 million of commercial paper outstanding and no borrowings outstanding under its credit line at December 31, 2002, as compared to no commercial paper outstanding or borrowings under its credit line at December 31, 2001. In addition, the lenders in the credit line had issued $47 million of letters of credit on behalf of PPL Energy Supply or its subsidiaries and affiliates at December 31, 2002.

Under its credit lines, PPL Energy Supply must maintain a consolidated debt to capitalization percentage not greater than 65%, and an interest coverage ratio of not less than 2.0 times consolidated earnings before income taxes, depreciation and amortization, in each case as calculated in accordance with the credit lines. At December 31, 2002 and December 31, 2001, PPL Energy Supply's consolidated debt to capitalization percentages, as calculated in accordance with its credit lines, were 35% and 28%. At December 31, 2002 and December 31, 2001, PPL Energy Supply's interest coverage ratios, as calculated in accordance with its credit line, were 7.4 and 13.9. At this time, PPL Energy Supply believes that these covenants and other borrowing conditions will not limit access to these funding sources.

In October 2002, WPD (South West)'s 416 million British pounds sterling short-term facilities were replaced by a 250 million British pounds sterling bridge facility and two revolving credit facilities: a one-year 100 million British pounds sterling credit facility and a five-year 150 million British pounds sterling credit facility. At December 31, 2002, WPD (South West) had outstanding borrowings of $389 million under its bridge facility and $55 million under its credit facilities based on year-end currency exchange rates. The bridge facility is expected to be refinanced with long-term bonds in the first half of 2003.

Under its credit lines, WPD (South West) must maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization, and the regulatory asset base must be 150 million British pounds sterling greater than total gross debt, in each case as calculated in accordance with the credit lines. At December 31, 2002, WPD (South West)'s interest coverage ratio, as calculated in accordance with its credit lines, was 10.3 and its regulatory asset base exceeded its total gross debt by 491 million British pounds sterling. At this time, PPL believes that these covenants and other borrowing conditions will not limit access to these funding sources.

PPL Energy Supply and its subsidiaries also have available funding sources that are provided through operating leases that are not recorded on the balance sheet. These operating leases provide funds for developing, constructing and operating generation facilities and equipment. Failure to meet the financial and other covenants contained in these operating leases could limit or restrict access to these funds or require early payment of obligations. At this time, PPL Energy Supply believes that these covenants will not limit access to these funding sources.

Under the operating leases entered into to manufacture and construct the natural gas-fired simple-cycle generation facilities, PPL Energy Supply's subsidiaries act as construction agents for the lessor to manufacture the equipment and for construction of the facilities. Upon commercial operation, PPL Energy Supply subsidiaries will operate the facilities, be responsible for all of the costs associated with the operation and maintenance of the facilities and make rental payments to the lessor trusts.

In May 2006, under the terms of the $660 million operating lease for University Park and Sundance which terminates in April 2008, one of PPL Energy Supply's subsidiaries is required to deposit in a cash collateral account an amount equal in cash to approximately 83% of all funded asset costs. Also, PPL Energy Supply guarantees the payment obligations under this operating lease. Accordingly, as guarantor, PPL Energy Supply must meet similar covenant tests as those applied to its credit lines. At December 31, 2002 and December 31, 2001, the outstanding lease balance was $657 million and $454 million.

Under the terms of the $455 million Lower Mt. Bethel operating lease, which terminates no later than September 30, 2014, the PPL Energy Supply subsidiary lessee could be obligated to make payments equal to up to 100% of the lessor's investment and other obligations associated

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with the facility if the financing is terminated early as a result of a loss, destruction or condemnation of the project, or upon an event of default. In addition, during the lease term, the PPL Energy Supply subsidiary could, subject to certain conditions, purchase the facility from the lessor, offer to assume the outstanding lessor debt associated with the lease or purchase such debt at a premium. Also, PPL Energy Supply guarantees the payment obligations under this operating lease. Accordingly, as guarantor, PPL Energy Supply must meet similar covenant tests as those applied to its credit lines. At December 31, 2002 and December 31, 2001, the outstanding lease balance was $345 million and $116 million.

The PPL Montana Colstrip leases provide two renewal options based on the economic useful life of the generation assets at the end of the 36-year lease term that terminates in 2036. In addition, the lease places certain restriction on PPL Montana's ability to incur additional debt, sell assets and declare dividends. At December 31, 2002 and December 31, 2001, the outstanding debt balance within the lease was $314 million and $334 million.

In addition to the leasing arrangements discussed above, PPL Energy Supply's subsidiaries lease vehicles, office space, land, buildings, personal computers and other equipment under separate lease arrangements. See Note 10 to the Financial Statements for a further discussion of the operating leases.

At December 31, 2002, the estimated contractual cash obligations of PPL Energy Supply were as follows:

Contractual Cash Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term Debt (a)	$ 2,235	$ 6	$ 191	$ 600	$ 1,438
Capital Lease Obligations					
Operating Leases (b)	1,325	76	232	240	777
Purchase Obligations (c)	2,720	435	855	550	880
Other Long-term Obligations (d)	88	1	1		86
Total Contractual Cash Obligations	$ 6,368	$ 518	$ 1,279	$ 1,390	$ 3,181

(a) Includes principal maturities only.
(b) Includes current amounts for operating leases in effect and projected amounts for projects under construction.
(c) The payments reflected herein are subject to change as certain purchase obligations included are estimates based on projected obligated quantities and/or projected pricing under the contracts.
(d) Includes redemptions of preferred securities.

PPL Energy Supply provides guarantees for certain affiliate financing arrangements that enable certain transactions. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the affiliates' access to funds under these financing arrangements, require early maturity of such arrangements or limit PPL Energy Supply's ability to enter into certain transactions. At this time, PPL Energy Supply believes that these covenants will not limit access to the relevant funding sources. At December 31, 2002, the estimated commercial commitments of PPL Energy Supply were as follows:

		Amount of Commitment Expiration Per Period			
Other Commercial Commitments	**Total Amounts Committed**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**Over 5 Years**
Lines of Credit					
Standby Letters of Credit	$ 47	$ 43	$ 4		
Draws Under Lines of Credit	55	55			
Guarantees					
Debt (a)	925	18	34	$ 549	$ 324
Performance					
Standby Repurchase Obligations					
Other Commercial Commitments					
Total Commercial Commitments	$ 1,027	$ 116	$ 38	$ 549	$ 324

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(a) Includes guarantees on certain operating lease obligations.

The terms governing the securities, guarantees, lease obligations and other commitments issued by PPL Energy Supply and its subsidiaries contain financial and other covenants that require compliance in order to avoid defaults and accelerations of payments. Further, a change in control under certain of these arrangements would constitute a default and could result in early maturity of such arrangements. In addition, certain of these arrangements restrict the ability of PPL Energy Supply's subsidiaries to pay or declare dividends, issue additional debt, sell assets, or take other actions if certain conditions are not met. At this time, PPL Energy Supply believes that it and its subsidiaries will be able to meet these covenant requirements. In order to meet its maturing obligations in future years, PPL Energy Supply expects that it and its subsidiaries will have to continue to access both the bank and capital markets. The long-term debt and similar securities of PPL Energy Supply and its subsidiaries and their maturities are set forth in the table of Contractual Cash Obligations above.

Net cash used in investing activities in 2002 was $1.1 billion, compared to net cash provided by investing activities of $278 million in 2001. The primary reasons for the $1.4 billion increase in cash used in investing activities were the acquisition of the controlling interest in WPD for $211 million, net of cash acquired, a $260 million increase in loans to affiliates and no repayments of loans by non-consolidated affiliated companies in 2002. Capital expenditures have historically been for acquisitions and to support both existing and construction of new generation, transmission and distribution facilities. PPL Energy Supply's capital investment needs are currently expected to decrease significantly in 2003 due to the substantial completion of its generation construction program. The majority of PPL Energy Supply's 2003 capital requirements will be funded from cash and cash equivalents on hand at December 31, 2002, cash from operations in 2003 and lease commitments previously funded. Any additional capital requirements will be obtained either in the capital or commercial paper markets. (See "Capital Expenditure Requirements" for additional information.)

Risk Management - Energy Marketing & Trading and Other

Market Risk

Background

Market risk is the potential loss PPL Energy Supply may incur as a result of price changes associated with a particular financial or commodity instrument. PPL Energy Supply is exposed to market risk from:

- commodity price risk for energy and energy-related products associated with the sale of electricity from generating assets, the purchase of fuel for the generating assets, and energy trading activities;
- interest rate risk associated with variable-rate debt and the fair value of debt securities invested in by PPL Energy Supply's nuclear decommissioning fund;
- foreign currency exchange rate risk associated with investments in affiliates in Latin America and Europe, as well as purchases of equipment in currencies other than U.S. dollars; and
- equity securities price risk associated with the fair value of equity securities invested in by PPL Energy Supply's nuclear decommissioning fund.

PPL Energy Supply has a comprehensive risk management policy approved by PPL's Board of Directors to manage the market risk described above and counterparty credit risk. (Credit risk is discussed below.) The RMC, comprised of senior management and chaired by the Vice President-Risk Management, oversees the risk management function. Key risk control activities designed to monitor compliance with risk policies and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, sensitivity analyses, and daily portfolio reporting, including open positions, mark-to-market valuations and other risk measurement metrics. In addition, efforts are on-going to develop systems to improve the timeliness, quality and breadth of market and credit risk information.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions, due to reliance on model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses.

Contract Valuation

PPL Energy Supply utilizes forwards contracts, futures contracts, options, swaps and tolling agreements as part of its risk management strategy to minimize unanticipated fluctuations in earnings caused by price, interest rate and foreign currency volatility. When available, quoted market prices are used to determine the fair value of a commodity or financial instrument. This may include exchange prices, the average mid-point bid/ask spreads obtained from brokers, or an independent valuation by an external source, such as a bank. However, market prices for energy or energy-related contracts may not be readily determinable because of market illiquidity. If no active trading market exists, contracts are valued using internally developed models. If the contracts are not accounted for under the accrual method of accounting, the valuations are reviewed by an independent, internal group. Although PPL Energy Supply believes that its valuation methods are reasonable, changes in the underlying

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assumptions could result in significantly different values and realization in future periods.

To record derivatives at their fair value, PPL Energy Supply discounts the forward values using LIBOR. Additionally, PPL Energy Supply reduces derivative assets' carrying value to recognize differences in counterparty credit quality and potential illiquidity in the market:

The credit adjustment takes into account the bond ratings (and the implied default rates) of the counterparties that have an out-of-the-money position with PPL Energy Supply. The more counterparties that have, for example, a BBB rating instead of an A rating, the larger the adjustment.

The liquidity adjustment takes into account the fact that it may not be appropriate to value contracts at the midpoint of the bid/ask spread. PPL Energy Supply might have to accept the "bid" price if PPL Energy Supply wanted to close an open sales position or PPL Energy Supply might have to accept the "ask" price if PPL Energy Supply wanted to close an open purchase position.

Accounting and Reporting

PPL Energy Supply follows the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and interpreted by DIG issues (together, "SFAS 133") and EITF 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," to account for contracts entered into to manage market risk. SFAS 133 requires that all derivative instruments be recorded at fair value on the balance sheet as an asset or liability (unless they meet SFAS 133's criteria for exclusion) and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

PPL Energy Supply's short-term derivative contracts are recorded as "Price risk management assets" and "Price risk management liabilities" on the Balance Sheet. Long-term derivative contracts are included in "Other Noncurrent Assets - Other" and "Deferred Credits and Other Noncurrent Liabilities - Other."

PPL Energy Supply adopted the final provisions of EITF 02-3 during the fourth quarter of 2002. As such, PPL Energy Supply now reflects its net realized and unrealized gains and losses associated with all derivatives that are held for trading purposes in the "Net energy trading margins" line on the Statement of Income. Non-derivative contracts that met the definition of energy trading activities as defined by EITF 98-10, "Accounting for Energy Trading and Risk Management Activities" are reflected in the financial statements using the accrual method of accounting. Under the accrual method of accounting, unrealized gains and losses are not reflected in the financial statements. Prior periods have been reclassified. PPL Energy Supply did not need to record a cumulative effect of this change in accounting principle, because all non-derivative energy-related trading contracts had been shown in the financial statements at their amortized cost. This reflected modeling reserves that incorporated the lack of independence in valuing contracts for which there were no external market prices.

Accounting Designation

Energy contracts that do not qualify as derivatives receive accrual accounting. For energy contracts that meet the definition of a derivative, the circumstances and intent existing at the time that energy transactions are entered into determine their accounting designation. These designations are verified by PPL Energy Supply's risk control group on a daily basis. The following is a summary of the guidelines that have been provided to the traders who are responsible for contract designation for derivative energy contracts:

Any wholesale and retail contracts to sell electricity that are expected to be delivered from PPL Energy Supply's generation are considered "normal." These transactions are not recorded in the financial statements and have no earnings impact until delivery. Most wholesale electricity sales contracts in the eastern and western U.S. markets receive "normal" treatment. The methodology utilized in determining the amount of sales that can be delivered from PPL Energy Supply's generation has been reviewed by the RMC. This calculation predicts the probability that generating units will run based on the current market prices, expected price volatility and dispatch rates, as well as planned and forced outage rates by plant by month. See discussion below about the assumptions used to calculate how much energy is expected from, or required for, generation assets.

"Trading around the assets" means that PPL EnergyPlus matches a contract to sell electricity, previously to be delivered from PPL Energy Supply generation, with a physical or financial contract to purchase electricity. These contracts can qualify for fair value hedge treatment. When the contracts' terms are identical, there is no earnings impact until delivery. The realized revenues and expenses associated with these contracts are currently recorded gross on the Statement of Income. EITF 02-L, "Reporting Gains and Losses on Derivative Instruments That are Subject to FASB Statement No. 133 and Not Held for Trading Purposes," may, in the future, require that hedges that result in physical delivery be recorded on a net basis.

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Physical electricity purchases needed to meet obligations due to a change in the physical load or generation forecasts are considered "normal."

Physical electricity purchases that increase PPL Energy Supply's long position and any energy sale or purchase considered a "market call" are speculative, with unrealized gains or losses recorded immediately through earnings.

Financial electricity transactions, which can be settled in cash, cannot be considered "normal" because they do not require physical delivery. These transactions receive cash flow hedge treatment if they lock in the price PPL Energy Supply will receive or pay for energy expected to be generated or purchased in the spot market. Any unrealized gains or losses on transactions that receive cash flow hedge treatment are recorded in other comprehensive income.

Physical and financial transactions for gas and oil to meet fuel and retail requirements can receive cash flow hedge treatment if they lock in the price PPL Energy Supply will pay in the spot market. Any unrealized gains or losses on transactions receiving cash flow hedge treatment are recorded in other comprehensive income.

Option contracts that do not meet the requirements of DIG Issue C15, "Scope Exceptions: Interpreting the Normal Purchases and Normal Sales Exception as an Election," do not receive hedge accounting treatment and are marked to market through earnings.

In addition to energy-related transactions, PPL Energy Supply enters into foreign currency swap contracts to hedge the fair value of firm commitments denominated in foreign currency and net investments in foreign operations. As with energy transactions, the circumstances and intent existing at the time of the transaction determine a contract's accounting designation, which is subsequently verified by PPL Energy Supply's risk control group on a daily basis. The following is a summary of certain guidelines that have been provided to the treasury department, which is responsible for contract designation:

Transactions to lock in an interest rate prior to a debt issuance are considered cash flow hedges. Any unrealized gains or losses on transactions receiving cash flow hedge treatment are recorded in other comprehensive income and are amortized as a component of interest expense over the life of the debt.

Transactions entered into to hedge fluctuations in the value of existing debt are considered fair value hedges with no earnings impact until the debt is terminated because the hedged debt is also marked to market.

Transactions which do not qualify for hedge accounting treatment are marked to market through earnings.

Commodity Price Risk

Commodity price risk is one of PPL Energy Supply's most significant risks due to the level of investment that PPL Energy Supply maintains in its generation assets, coupled with the volatility of prices for energy and energy-related products. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations. To hedge the impact of market price fluctuations on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL EnergyPlus sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. Because of the generating assets PPL Energy Supply owns or controls, the majority of PPL Energy Supply's energy transactions qualify for accrual or hedge accounting.

Within PPL Energy Supply's hedge portfolio, the decision to enter into energy contracts hinges on the expected value of PPL Energy Supply's generation. To address this risk, PPL Energy Supply takes a conservative approach in determining the number of MWhs that are available to be sold forward. In this regard, PPL Energy Supply reduces the maximum potential output that a plant may produce by three factors - planned maintenance, forced outage and economic conditions. The potential output of a plant is first reduced by the amount of unavailable generation due to planned maintenance on a particular unit. Another reduction, representing the unforced outage rate, is the amount of MWhs that historically are not produced by a plant due to such factors as equipment breakage. Finally, the potential output of certain plants (like peaking units) are reduced because their higher cost of production will not allow them to economically run during all hours.

PPL Energy Supply's non-trading portfolio also includes full requirements energy contracts. The obligation to serve these contracts changes minute by minute. PPL Energy Supply analyzes historical on-peak and off-peak usage patterns, as well as spot prices and weather patterns, to determine a monthly level of block electricity that best fits the usage patterns in order to minimize earnings volatility. On a forward basis, PPL

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Energy Supply reserves a block amount of generation for full requirements energy contracts that is expected to be the best match with their anticipated usage patterns and energy peaks. Anticipated usage patterns and peaks are affected by expected load growth, regional economic drivers and seasonality.

Because of PPL Energy Supply's efforts to hedge the value of the energy from its generation assets, PPL Energy Supply has open contractual positions. If PPL Energy Supply were unable to deliver firm capacity and energy under its agreements, under certain circumstances it would be required to pay damages. These damages would be based on the difference between the market price to acquire replacement capacity or energy and the contract price of the undelivered capacity or energy. Depending on price volatility in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, non-performance by counterparties (or their counterparties) with which it has power contracts and other factors could affect PPL Energy Supply's ability to meet its firm capacity or energy obligations, or cause significant increases in the market price of replacement capacity and energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty non-performance in the future.

As of December 31, 2002, PPL Energy Supply estimated that a 10% adverse movement in market prices across all geographic areas and time periods would have decreased the value of the commodity contracts in its non-trading portfolio by approximately $146 million, as compared to a decrease of $84 million at December 31, 2001. However, the change in the value of the non-trading portfolio would have been substantially offset by an increase in the value of the underlying commodity, the electricity generated, because these contracts serve to reduce the market risk inherent in the generation of electricity. Additionally, the value of PPL Energy Supply's unsold generation would be improved. Because PPL Energy Supply's electricity portfolio is generally in a net sales position, the adverse movement in prices is usually an increase in prices. Conversely, because PPL Energy Supply's commodity fuels portfolio is generally in a net purchase position, the adverse movement in prices is usually a decrease in prices. If both of these scenarios happened, the implied margins for the unsold generation would increase.

PPL Energy Supply also executes energy contracts to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. The margins from these trading activities are shown in the Statement of Income as "Net energy trading margins."

PPL Energy Supply's trading contracts mature at various times through 2006. The following chart sets forth PPL Energy Supply's net fair market value of trading contracts as of December 31, 2002.

	Gains/(Losses)
Fair value of contracts outstanding at the beginning of the year	$ (5)
Contracts realized or otherwise settled during the year	5
Fair value of new contracts at inception	(13)
Other changes in fair values	7
Fair value of contracts outstanding at the end of the year	$ (6)

During 2002, PPL Energy Supply reversed net losses of approximately $5 million related to contracts entered into prior to January 1, 2002. This amount does not reflect intra-year contracts that were entered into and settled during the period.

The fair value of new contracts at inception is usually zero, because they are entered into at current market prices. However, when PPL Energy Supply enters into an option contract, a premium is paid or received. PPL Energy Supply paid $13 million during 2002 for these option contracts.

"Other changes in fair values," a gain of approximately $7 million, represent changes in the market value of contracts outstanding at the end of 2002.

As of December 31, 2002, the net loss on PPL Energy Supply's trading activities expected to be recognized in earnings during the next three months is approximately $2 million.

The following chart segregates estimated fair values of PPL Energy Supply's trading portfolio at December 31, 2002, based on whether the fair values are determined by quoted market prices or other more subjective means.

Fair Value of Contracts at Period-End
Gains/(Losses)

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	Maturity Less Than 1 year	Maturity 1-3 years	Maturity 4-5 years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices actively quoted	$ 1				$ 1
Prices provided by other external sources	3				3
Prices based on models and other valuation methods	(10)				(10)
Fair value of contracts outstanding at the end of the period	$ (6)				$ (6)

The "Prices actively quoted" category includes the fair value of exchange-traded natural gas futures contracts quoted on the New York Mercantile Exchange (NYMEX). The NYMEX has currently quoted prices through February 2009.

The "Prices provided by other external sources" category includes PPL Energy Supply's forward positions and options in natural gas and power and natural gas basis swaps at points for which over-the-counter (OTC) broker quotes are available. The fair value of electricity positions recorded above use the midpoint of the bid/ask spreads obtained through OTC brokers. On average, OTC quotes for forwards and swaps of natural gas and power extend one and two years into the future.

The "Prices based on models and other valuation methods" category includes the value of transactions for which an internally developed price curve was constructed as a result of the long-dated nature of the transaction or the illiquidity of the market point, or the value of options not quoted by an exchange or OTC broker. Additionally, this category includes "strip" transactions whose prices are obtained from external sources and then modeled to monthly prices as appropriate.

As of December 31, 2002, PPL Energy Supply estimated that a 10% adverse movement in market prices across all geographic areas and time periods would have decreased the value of the commodity contracts in its trading portfolio by $7 million, compared to an insignificant amount at December 31, 2001.

Interest Rate Risk

PPL Energy Supply and its subsidiaries have issued debt to finance their operations. PPL manages interest rate risk for PPL Energy Supply by using financial derivative products to adjust the mix of fixed and floating-rate interest rates in its debt portfolios, adjusting the duration of its debt portfolios and locking in U.S. Treasury rates (and interest rate spreads over treasuries) in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and losses in the fair value of PPL Energy Supply's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2002, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was estimated at $1 million, compared to $4 million at December 31, 2001.

PPL Energy Supply is also exposed to changes in the fair value of its debt portfolio. At December 31, 2002, PPL Energy Supply estimated that its potential exposure to a change in the fair value of its debt portfolio, through a 10% adverse movement in interest rates, was $79 million, compared to $2 million at December 31, 2001.

PPL utilizes various risk management instruments to reduce PPL Energy Supply's exposure to adverse interest rate movements for future anticipated financings. While PPL Energy Supply is exposed to changes in the fair value of these instruments, they are designed such that any economic loss in value should be offset by interest rate savings at the time the future anticipated financing is completed. At December 31, 2002 and 2001, PPL Energy Supply had not entered into any such instruments.

Foreign Currency Risk

PPL Energy Supply is exposed to foreign currency risk, primarily through investments in affiliates in Latin America and Europe. In addition, PPL Energy Supply may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities and net investments.

During the first quarter of 2001, PPL entered into contracts for the forward purchase of 51 million euros to pay for certain equipment in 2002 and 2003. The estimated value of these forward purchases as of December 31, 2002, being the amount PPL would receive to terminate them, was $4 million.

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During the second and third quarters of 2002, PPL executed forward sale transactions, maturing in March 2003, for 50 million British pounds sterling to hedge a portion of its net investment in WPDH Limited. The estimated value of these agreements as of December 31, 2002, being the amount PPL would have to pay to terminate them, was $1 million.

Nuclear Decommissioning Fund - Securities Price Risk

In connection with certain Nuclear Regulatory Commission requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna station. As of December 31, 2002, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL Energy Supply's Balance Sheet. The mix of securities is designed to provide returns to be used to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are exposed to changes in interest rates. PPL Susquehanna actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At December 31, 2002, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $16 million reduction in the fair value of the trust assets, as compared to a $17 million reduction at December 31, 2001.

PPL Electric's 1998 restructuring settlement agreement provides for the collection of authorized nuclear decommissioning costs through the CTC. Additionally, PPL Electric is permitted to seek recovery from customers of up to 96% of certain increases in these costs. Under the power supply agreements between PPL Electric and PPL EnergyPlus, these revenues are passed on to PPL EnergyPlus. Similarly, these revenues are passed on to PPL Susquehanna under a power supply agreement between PPL EnergyPlus and PPL Susquehanna. These revenues are used to fund the trusts.

Credit Risk

Credit risk relates to the risk of loss that PPL Energy Supply would incur as a result of non-performance by counterparties of their contractual obligations. PPL Energy Supply maintains credit policies and procedures with respect to counterparties (including requirements that counterparties maintain certain credit ratings criteria) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL Energy Supply has concentrations of suppliers and customers among electric utilities, natural gas distribution companies and other energy marketing and trading companies. These concentrations of counterparties may impact PPL Energy Supply's overall exposure to credit risk, either positively or negatively, in that counterparties may be similarly affected by changes in economic, regulatory or other conditions. As discussed above under "Accounting and Reporting," PPL Energy Supply records certain non-performance reserves to reflect the probability that a counterparty with contracts that are out of the money (from the counterparty's standpoint) will default in its performance, in which case PPL Energy Supply would have to sell into a lower-priced market or purchase from a higher-priced market. These reserves are reflected in the fair value of assets recorded in "Price risk management assets" on the Balance Sheet. PPL Energy Supply has also established a reserve with respect to certain sales to the California ISO for which PPL Energy Supply has not yet been paid, as well as a reserve related to PPL Energy Supply's exposure as a result of the Enron bankruptcy, which is reflected in "Accounts receivable" on the Balance Sheet. See Notes 14 and 17 to the Financial Statements.

Related Party Transactions

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

Capital Expenditure Requirements

The schedule below shows PPL Energy Supply's current capital expenditure projections for the years 2003-2007 and actual spending for the year 2002:

	Actual		----------Projected----------			
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Construction expenditures (a) (b)						
Generating facilities (c)	$ 897	$ 311	$ 175	$ 251	$ 128	$ 142
Transmission and distribution facilities	113	183	179	173	167	185
Environmental	20	5	5	12	50	96
Other	28	29	21	18	16	14
Total Construction Expenditures	1,058	528	380	454	361	437

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Nuclear fuel	52	54	56	58	60	60
Total Capital Expenditures	$ 1,110	$ 582	$ 436	$ 512	$ 421	$ 497

(a) Construction expenditures include capitalized interest, which is expected to be less than $6 million in each of the years 2003-2007.
(b) This information excludes any equity investments by PPL Global for new projects.
(c) Generating facilities include assets financed through off-balance sheet synthetic leases as follows: 2002, $494 million; 2003, $109 million; and 2004, $7 million. Financing for these facilities is already secured.

PPL Energy Supply's capital expenditure projections for the years 2003-2007 total about $2.4 billion. Capital expenditure plans are revised periodically to reflect changes in conditions.

Acquisitions and Development

From time-to-time, PPL Energy Supply and its subsidiaries are involved in negotiations with third parties regarding acquisitions, joint ventures and other arrangements which may or may not result in definitive agreements. See Note 9 to the Financial Statements for information regarding recent acquisitions and development activities.

At December 31, 2002, PPL Global had investments in foreign facilities, including consolidated investments in WPD, Emel, EC and others. See Note 3 to the Financial Statements for information on unconsolidated investments accounted for under the equity method.

At December 31, 2002, PPL Energy Supply had domestic generation projects under development which would provide 690 MW of additional generation.

PPL Energy Supply is continuously reexamining development projects based on market conditions and other factors to determine whether to proceed with these projects, sell them, cancel them, expand them, execute tolling agreements or pursue other opportunities.

Environmental Matters

See Note 14 to the Financial Statements for a discussion of environmental matters.

Competition

See Note 14 to the Financial Statements for information on the FERC Notice of Proposed Rulemaking entitled "Remedying Undue Discrimination through Open Access Transmission Service and Standard Electricity Market Design."

Application of Critical Accounting Policies

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

1. **Price Risk Management**

See "Risk Management - Energy Marketing & Trading and Other" in Financial Condition.

2. **Pension and Other Postretirement Benefits**

As described in Note 12 to the Financial Statements, PPL Energy Supply subsidiaries sponsor various pension and other postretirement plans and participate in, and are allocated a significant portion of the liability and net periodic pension cost of the PPL Retirement Plan and the PPL Postretirement Benefit Plan. PPL and PPL Energy Supply follow the guidance of SFAS 87, "Employers' Accounting for Pensions," and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," when accounting for these benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and the performance of plan assets. Delayed recognition of differences between actual results and expected or estimated results is a guiding principle of these standards. This delayed recognition of actual results allows for a smoothed recognition of changes in benefit obligations and plan performance over the working lives of the employees who

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benefit under the plans. The primary assumptions are as follows:

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

Expected Return on Plan Assets - Management projects the future return on plan assets based principally on prior performance. These projected returns reduce the net benefit costs the company will record currently.

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

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

During 2002, PPL and PPL Energy Supply made changes to their assumptions related to the discount rate, the expected return on plan assets, the rate of compensation increase and the health care cost trend rate. Management consults with its actuaries when selecting each of these assumptions.

In selecting discount rates, PPL and PPL Energy Supply consider fixed-income security yield rates. At December 31, 2002, PPL and PPL Energy Supply decreased the discount rate for their domestic plans from 7.25% to 6.75% as a result of decreased fixed-income security returns. For its international plans, PPL Energy Supply used a discount rate of 5.75% at December 31, 2002.

In selecting an expected return on plan assets, PPL and PPL Energy Supply consider past performance and economic forecasts for the types of investments held by the plan. At December 31, 2002, PPL and PPL Energy Supply decreased the expected return on plan assets for their domestic pension plans from 9.2% to 9.0% as a result of continued declines in equity and fixed-income security returns. For its international plans, PPL Energy Supply used a weighted average of 8.31% as the expected return on plan assets at December 31, 2002.

In selecting a rate of compensation increase, PPL and PPL Energy Supply consider past experience in light of movements in inflation rates. At December 31, 2002, PPL and PPL Energy Supply decreased the rate of compensation increase from 4.25% to 4.0% for their domestic plans. For its international plans, PPL Energy Supply used 3.75% as the rate of compensation increase at December 31, 2002.

In selecting health care cost trend rates, PPL and PPL Energy Supply consider past performance and forecasts of health care costs. At December 31, 2002, PPL and PPL Energy Supply increased their previous health care cost trend rates. The previous rates were 7.0% for 2002, gradually declining to 6% in 2006. The new rates are 12% for 2003, gradually declining to 5.0% for 2010. These changes are based upon continued increases in health care costs.

A variance in the assumptions listed above could have a significant impact on projected benefit obligations, accrued pension and other postretirement benefit liabilities, reported annual net periodic pension and other postretirement benefit cost and other comprehensive income (OCI). The following chart reflects the sensitivities associated with a change in certain assumptions. While the chart below reflects either an increase or decrease in each assumption, PPL, PPL Energy Supply and their actuaries expect that the inverse of this change would impact the projected benefit obligation, accrued pension and other postretirement benefit liabilities, reported annual net periodic pension and other postretirement benefit cost and OCI by a similar amount in the opposite direction. Each sensitivity below reflects an evaluation of the change based solely on a change in that assumption.

		Increase/(Decrease)			
Actuarial Assumption	**Change in Assumption**	**Impact on Obligation**	**Impact on Liabilities (a)**	**Impact on Cost**	**Impact on OCI**
Discount Rate	(0.25)%	$ 85	$ 3	$ 3	$ 63
Expected Return on Plan Assets	(0.25)%	N/A	7	7	
Rate of Compensation Increase	0.25%	13	2	2	
Health Care Cost Trend Rate (b)	1.0%	6	1	1	N/A

(a) Excludes the impact of additional minimum liability

(b) Only impacts other postretirement benefits

At December 31, 2002, PPL Energy Supply had been allocated and recognized accrued pension and other postretirement benefit liabilities totaling $355 million, included in "Deferred Credits and Other Noncurrent Liabilities - Other" on the Balance Sheet. The $355 million liability represented a $278 million increase over the $77 million liability that was recorded at December 31, 2001. The increased liability was primarily due to the liabilities recorded for the WPD pension plans acquired in 2002.

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In 2002, PPL Energy Supply was allocated and recognized net periodic pension and other postretirement income credited to operating expenses of $58 million. This amount represents a $50 million increase over the credit recognized during 2001. This increase was primarily due to pension income recognized from the WPD pension plans, partially offset by the reduction of pension earnings associated with the remeasurement of the projected benefit obligation and recognition of a decline in asset value for PPL's primary domestic pension plan during 2002.

As a result of the plans' asset return experience and decreases in the assumed discount rate at December 31, 2002, PPL Energy Supply was required to recognize additional minimum pension liabilities totaling $466 million, as prescribed by SFAS 87. Recording these liabilities resulted in a reduction in equity through charges to OCI, net of taxes and unrecognized prior service costs, of $297 million, with no effect on net income. The charges to OCI will reverse in future periods if the fair value of trust assets exceeds the accumulated benefit obligation.

Refer to Note 12 to the Financial Statements for additional information regarding pension and other postretirement benefits.

3. **Asset Impairment**

PPL Energy Supply and its subsidiaries review long-lived assets for impairment when events or circumstances indicate carrying amounts may not be recoverable. Assets subject to this review, for which impairments have been recorded in 2002 or prior years, include international equity investments, new generation assets, consolidated international energy projects and goodwill.

PPL Energy Supply performs impairment analyses for tangible long-lived assets in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." For long-lived assets to be held and used, SFAS 144 requires companies to (a) recognize an impairment loss only if the carrying amount is not recoverable from undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset. Refer to Note 22 to the Financial Statements for additional information on SFAS 144.

In determining asset impairments, management must make significant judgments and estimates to calculate the fair value of an investment. Fair value is developed through consideration of several valuation methods including comparison to market multiples, comparison of similar recent sales transactions, comparison to replacement cost and discounted cash flow. Discounted cash flow is calculated by estimating future cash flow streams, applying appropriate discount rates to determine the present values of the cash flow streams, and then assessing the probability of the various cash flow scenarios. The impairment is then recorded based on the excess of the carrying value of the investment over fair value. Changes in assumptions and estimates included within the impairment reviews could result in significantly different results than those identified and recorded in the financial statements.

During 2002, PPL Energy Supply and its subsidiaries evaluated certain international investments and gas-fired generation assets for impairment, as events and circumstances indicated that the carrying value of these investments may not be recoverable. The events that led to these impairment reviews were as follows:

CEMAR: A prolonged drought that caused electricity rationing, an unfavorable regulatory environment and disruption of Brazil's electricity markets all indicated that the future cash flow stream would be adversely impacted. In addition, CEMAR failed to pay certain of its creditors for obligations when due, and ANEEL denied CEMAR's request for a rate-increase review and denied the request for transfer of PPL Energy Supply's equity interest in CEMAR to Franklin Park Energy.

New gas-fired generation assets: Current wholesale energy prices have adversely impacted margins for 2002 and could continue to do so beyond 2002. Based upon current energy price levels, there is a risk that PPL Energy Supply may be unable to recover its investment in new gas-fired generation facilities.

PPL Energy Supply recorded an impairment charge of $100 million in 2002, for the remaining value of its investment in CEMAR. PPL Energy Supply had already recorded an impairment charge of $179 million for its investment in CEMAR in 2001. The most significant assumption used in assessing the CEMAR impairment was the estimated future cash flow. Due to the significant financial and political difficulties facing CEMAR and PPL Energy Supply's commitment to exit the business, the determination was made that there was no value remaining in the investment. Based on the circumstances surrounding this investment, PPL Energy Supply does not believe there is any variability in this assumption.

PPL Energy Supply did not record an impairment of its new gas-fired generation assets that were in-service in 2002. For these impairment analyses, the most significant assumption was the estimate of future cash flows. For the impairment analyses of its in-service gas-fired generation assets, PPL Energy Supply estimates future cash flow using information from its corporate business plan adjusted for any recent sales or purchase commitments. Key factors that impact cash flows include projected prices for electricity and gas as well as firm sales and purchase commitments. A 10% change in estimated future cash flow for any of PPL Energy Supply's in-service gas-fired generation assets would not result in an impairment charge.

In November 2002, due to low energy price curves, the absence of a tolling agreement for the site, and delays in obtaining permits, the completion of the Kings Park project became uncertain. Due to this uncertainty and the absence of other viable projects, the costs of the

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turbines and SCRs that were planned for deployment at Kings Park were determined to not be recoverable from expected undiscounted cash flows. To determine the amount of the impairment, PPL Energy Supply estimated the fair value of the turbines and SCRs based upon replacement costs of similar assets. This resulted in the recognition of a $26 million, after-tax, impairment charge. The most significant assumption related to the asset impairment was the estimate of replacement cost. A 10% change in the estimate of replacement costs would have increased or decreased the impairment charge by $3 million after-tax.

In January 2003, PPL Energy Supply decided to seek a buyer and not proceed with the development of the Kings Park project.

In 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets," which eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. PPL Energy Supply adopted SFAS 142 on January 1, 2002.

A transition impairment test was completed in the first quarter of 2002. As a result of this impairment test, PPL Energy Supply recognized a goodwill impairment charge of $150 million related to the Latin American reporting unit, which is reported as a "Cumulative Effect of a Change in Accounting Principle" on the Statement of Income. PPL Energy Supply completed its annual goodwill impairment test in the fourth quarter of 2002. This test did not result in an additional impairment. PPL Energy Supply's most significant assumptions surrounding the goodwill impairment relate to the determination of fair value. PPL Energy Supply determined fair value based upon discounted cash flow. A variance in the forecasted cash flow or discount rate could have a significant impact on the amount of the impairment charge recorded. The following chart reflects the sensitivities associated with a change in these assumptions. Each sensitivity below reflects an evaluation of the change based solely on a change in that assumption.

		Increase / (Decrease)	
	Change in Assumption	**Impact on Transition Impairment**	**Impact on Annual Impairment**
Forecasted Cash Flow	10/(10)%	$ (48)/48	$ 0/15
Discount Rate	1/(1)%	$ 33/(36)	No Impact

4. **Leasing**

PPL Energy Supply applies the provisions of SFAS 13, "Accounting for Leases," to all leasing transactions. In addition, PPL Energy Supply applies the provisions of numerous other accounting pronouncements issued by the FASB and the EITF that provide specific guidance and additional requirements related to accounting for various leasing arrangements. In general, there are two types of leases from a lessee's perspective: operating leases - leases accounted for off-balance sheet and capital leases - leases capitalized on the balance sheet.

In accounting for leases, management makes various assumptions, including the discount rate, the fair market value of the leased assets and the estimated useful life, in determining whether a lease should be classified as operating or capital. Changes in these assumptions could result in the difference between whether a lease is determined to be an operating lease or a capital lease, thus significantly impacting the amounts to be recognized in the financial statements.

In addition to uncertainty inherent in management's assumptions, leasing transactions and the related accounting rules become increasingly complex when they involve: sale/leaseback accounting (leasing transactions where the lessee previously owned the leased assets), synthetic leases (leases that qualify for operating lease treatment for book accounting purposes and financing treatment for tax accounting purposes), lessee involvement in the construction of leased assets and/or special purpose entities (SPEs) (entities created for the specific purpose of owning the property, plant and equipment and incurring the related financing obligation). Current GAAP requires that SPEs be consolidated if several conditions exist, including if the owners of the SPEs have not made an initial substantive residual equity capital investment that is at risk during the entire lease term. The consolidation of an SPE lessor by the lessee has a very similar financial result as a lease that is accounted for as a capital lease, that is, the leased assets and the related financing obligations are recorded on the lessee's balance sheet.

At December 31, 2002, PPL Energy Supply subsidiaries participated in one significant sale/leaseback transaction involving unconsolidated SPEs and two significant synthetic lease transactions involving unconsolidated SPEs. Each of these transactions has been accounted for as an operating lease. In accordance with current GAAP, these SPEs were not consolidated by PPL Energy Supply because the equity owners (entities unrelated to PPL Energy Supply and its subsidiaries) contributed and maintain a minimum of 3% equity interest throughout the life of the SPEs.

Sale/Leaseback

In July 2000, PPL Montana sold its interest in the Colstrip generating plant to owner lessors who are leasing the assets back to PPL Montana under four 36-year operating leases. This transaction is accounted for as an operating lease in accordance with current rules related to sale/leaseback arrangements. If for any reason this transaction did not meet the requirements for off-balance sheet operating lease treatment as a

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sale/leaseback, PPL Energy Supply would have approximately $343 million of additional assets and liabilities recorded on its balance sheet at December 31, 2002 and would have recorded additional expenses currently estimated at $10 million, after-tax, in 2002.

Synthetic Leases

In May 2001, a PPL Global subsidiary entered into a lease arrangement, as lessee, for the development, construction and operation of commercial power generation facilities. This arrangement covers the 540 MW gas-powered University Park project near University Park, Illinois, and the 450 MW gas-powered Sundance project near Coolidge, Arizona. In July 2002, these facilities were substantially complete and the initial lease term commenced.

In December 2001, a PPL Global subsidiary entered into a lease arrangement, as lessee, for the development, construction and operation of a 600 MW gas-fired combined-cycle generation facility located in Lower Mt. Bethel Township, Northampton County, Pennsylvania. The initial lease term is approximately 10 years, beginning on the date of commercial operation, which is expected to occur in late 2003.

Both of these leases are accounted for as operating leases in accordance with current accounting requirements. If for any reason these transactions did not meet the requirements for off-balance sheet operating lease treatment, PPL Energy Supply would have approximately $1.1 billion of additional assets and liabilities recorded on its balance sheet at December 31, 2002 and would have recorded additional expenses currently estimated at $5 million, after-tax, in 2002.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." FIN 46 clarifies that variable interest entities (VIEs), as defined therein, that do not disperse risks among the parties involved should be consolidated by the entity that is determined to be the primary beneficiary. PPL Energy Supply currently believes that the lessors involved in its leases for the Sundance, University Park and Lower Mt. Bethel generating facilities, discussed above, will be considered VIEs under FIN 46 and that PPL Energy Supply would be the primary beneficiary. PPL Energy Supply is currently evaluating whether these leasing arrangements can be restructured such that they would still qualify as off-balance sheet operating leases under the new rules. If PPL Energy Supply does not restructure these leases, PPL Energy Supply believes that it will be required to consolidate the financial statements of the lessors. The principal impact from such consolidation would be the inclusion of the generating facilities as assets and the lease financing as liabilities in the consolidated balance sheet of PPL Energy Supply. PPL Energy Supply does not currently believe that the lessors in the PPL Montana sale/leaseback will be determined to be VIEs in which PPL Energy Supply will be the primary beneficiary. Therefore, PPL Energy Supply does not expect to consolidate the financial statements of these lessors. PPL Energy Supply must adopt FIN 46 for all of these leases no later than the first interim period beginning after June 15, 2003.

See Note 10 to the Financial Statements for additional information related to operating leases and Note 22 for additional information related to FIN 46.

5. **Loss Accruals**

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

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

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

Initial Identification and Recording of the Loss Accrual

PPL Energy Supply uses its internal expertise and outside experts (such as lawyers, tax specialists and engineers), as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

Throughout 2002, PPL Energy Supply assessed potential loss accruals for environmental remediation, litigation claims, regulatory penalties and other events. There were no material events identified for which a loss was probable and for which the loss could be reasonably estimated. Therefore, there were no material loss accruals recorded in 2002 using the SFAS 5 criteria.

However, PPL Energy Supply has identified certain events which could give rise to a loss, but which do not meet the conditions for accrual

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under SFAS 5. SFAS 5 requires disclosure, but not a recording, of potential losses when it is "reasonably possible" that a loss has been incurred. FASB defines "reasonably possible" as cases in which "the chance of the future event or events occurring is more than remote but less than likely."

See Note 14 to the Financial Statements for disclosure of potential loss accruals, most of which have not met the criteria for accrual under SFAS 5. Such disclosures include, among others, the Montana Power shareholders' litigation, a lawsuit regarding the Colstrip transmission system and any potential adverse outcome related to the PJM Market Monitor report.

Reducing Recorded Loss Accruals and On-Going Assessment

When a loss accrual is recorded, PPL Energy Supply identifies the triggering event for subsequently reducing the loss accrual. Also, PPL Energy Supply periodically reviews the loss accrual to assure that the recorded potential loss exposure is reasonable.

The largest contingency currently on PPL Energy Supply's balance sheet is the loss accrual for above-market NUG purchase commitments, being the difference between the above-market contract terms and the fair value of electricity. This loss accrual was originally recorded at $854 million in 1998, when PPL Electric's generation business was deregulated. Under regulatory accounting, PPL Electric recorded the above-market cost of the purchases from NUGs as part of its purchased power costs on an as-incurred basis, since these costs were recovered in regulated rates. When the generation business was deregulated, the loss contingency associated with the commitment to make above-market NUG purchases was recorded. This loss accrual for the above-market portion of NUG purchase commitments was recorded because it was probable that the loss had been incurred and the estimate of future energy prices could be reasonably determined, using the then forward prices of electricity and capacity. This loss accrual was transferred to PPL EnergyPlus in the July 1, 2000 corporate realignment. The above-market loss accrual was $427 million at December 31, 2002.

When the loss accrual related to NUG purchases was recorded in 1998, PPL Electric established the triggering events for when the loss accrual would be reduced. A schedule was established to reduce the liability based on projected purchases over the lives of the NUG contracts. All but one of the NUG contracts expire by 2009, with the last one ending in 2014. PPL EnergyPlus reduces the above-market NUG liability based on the aforementioned schedule. As PPL EnergyPlus reduces the liability for the above-market NUG purchases, it offsets the actual cost of NUG purchases, thereby bringing the net power purchase expense more in line with market prices.

PPL EnergyPlus assessed the remaining $427 million above-market liability at December 31, 2002, comparing the projected electricity purchases under the terms of the NUG contracts, with the purchases assuming projected market prices for the energy. This assessment was based on projected PJM market prices, including capacity, through 2014, as comprehended in the current business plan of PPL EnergyPlus. The assessment also used sensitivities around the market prices, adjusting such prices upwards and downwards by 10%.

The assessment is dependent on the market prices of energy and the estimated output levels of the NUGs. Market prices of energy are dependent on many variables, including growth in electricity demand in PJM, available generation, and changes in regulatory and economic conditions. Accordingly, market price sensitivities were used in the assessment. If estimated market prices were adjusted upwards by 10% in each of the years from 2003 through 2014, the accrual for the above-market NUG purchase commitments would be approximately $401 million. Conversely, if estimated market prices were adjusted downwards by 10% during the remaining term of the NUG contracts, the accrual for the above-market NUG purchase commitments would be purchased at approximately $501 million. The recorded above-market liability of $427 million at December 31, 2002 falls within the range calculated in the year-end assessment. As noted above, it is very difficult to estimate future electricity prices, which are dependent on many variables and subject to significant volatility. PPL Energy Supply's management believes that the current recorded NUG above-market liability was fairly stated at December 31, 2002.

Other Information

PPL's Audit Committee has approved the independent auditor to provide the following services:

- Audit and audit-related services (including services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, employee benefit plan audits and internal control reviews);
- Certain tax consulting and advisory services for projects commenced prior to December 31, 2002; and,
- Other services permitted by the Sarbanes-Oxley Act of 2002 and SEC rules.

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PPL ELECTRIC UTILITIES CORPORATION
ITEM 7. REVIEW OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Results of Operations

The following discussion explains significant changes in principal items on the Statement of Income comparing 2002 to 2001, and 2001 to 2000. Certain items on the Statement of Income have been impacted by the corporate realignment undertaken by PPL and PPL Electric effective July 1, 2000. See Note 19 to the Financial Statements for information regarding the corporate realignment.

The Statement of Income of PPL Electric for 2002, 2001 and the last six months of 2000 include the results of its post-realignment activities (the transmission and distribution of electricity in its service territory and the supply of electricity as a PLR in this territory under Pennsylvania's Customer Choice Act). The results for the first six months of 2000 also include PPL Electric's former electric generation and unregulated wholesale and retail marketing functions. When discussing significant changes from 2000 to 2001, the estimated results of operations of the electric generation and unregulated marketing assets for the first six months of 2000 are eliminated for purposes of comparability.

Earnings

The changes in net income from year to year were, in part, attributable to several unusual items with significant earnings impacts as shown below. The table below reconciles net income to income from core operations, after eliminating the impact of unusual items. Income from core operations should not be considered as an alternative to net income, which is an indicator of operating performance determined in accordance with GAAP. PPL Electric believes that income from core operations, although a non-GAAP measure, is also useful and meaningful to investors because it provides them with PPL Electric's underlying earnings performance as another criterion in making their investment decisions. PPL Electric's management also uses income from core operations in measuring certain corporate performance goals. Other companies may use different measures to present financial performance.

	2002	2001	2000
Net income	$ 39	$ 119	$ 261
Unusual items (net of tax):			
Workforce reduction (Note 21)	(19)		
Accounting method change - pensions (Note 12)		5	
Environmental insurance recoveries			24
Income from core operations	$ 58	$ 114	$ 237

The decrease in core earnings in 2001 compared with 2000 was primarily due to the corporate realignment completed on July 1, 2000. After eliminating the estimated results of the electric generation and marketing assets transferred in the corporate realignment from the results of the first half of 2000, comparable earnings for 2000 would have been an estimated $68 million. The $114 million earnings from core operations for 2001 were $46 million higher than the estimated comparable earnings for 2000.

The after tax changes in core earnings were primarily due to:

	2002 vs. 2001	2001 vs. 2000
Lower delivery revenues (net of CTC/ITC amortization and interest expense on transition bonds)	$ (10)	$ (2)
Operating and maintenance costs	(18)	30
PJM ancillary expenses	(29)	
NUG purchases	9	(4)
Depreciation expense	(2)	5
Other income		8
Interest expense (excluding transition bond interest expense)	(2)	2
Other - net	(4)	7

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	$ (56)	$ 46

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

Pursuant to the Customer Choice Act and a restructuring settlement with the PUC in 1998, PPL Electric agreed to a cap on its average transmission and distribution rates of 1.74 cents per kWh through 2004.

Operating Revenues

Retail Electric

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

	2002 vs. 2001	2001 vs. 2000
PPL Electric:		
Electric delivery	$ (3)	$ 12
PLR electric generation supply	102	284
Other	(9)	(11)
PPL EnergyPlus:		
Electric generation supply		(261)
	$ 90	$ 24

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

After eliminating the estimated revenues of assets transferred in the corporate realignment from the results for the first half of 2000, retail electric revenues increased by $285 million in 2001 compared with 2000. The increase in revenues was primarily due to higher revenues from providing electric generation supply as a PLR, resulting from the return of shoppers due to fewer alternate suppliers under the Customer Choice Act. The increase in retail revenues also reflects higher deliveries of electricity in 2001, primarily in commercial and residential markets.

Retail Electric to Affiliate

Retail electric to affiliate revenues represents an intercompany billing to PPL Generation for power plant energy usage since the July 2000 corporate realignment.

Wholesale Electric

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

After eliminating the revenues of assets transferred in the corporate realignment from the results for the first half of 2000, wholesale revenues were essentially unchanged in 2001.

Wholesale Electric to Affiliate

PPL Electric has a contract to sell to PPL EnergyPlus the electricity that PPL Electric purchases under contracts with NUGs. With the termination in February 2002 of its NUG contract with Foster Wheeler, PPL Electric purchased less NUG energy in 2002 and therefore had less electricity to sell to PPL EnergyPlus.

After eliminating the revenues of assets transferred in the corporate realignment from the results for the first half of 2000, wholesale revenues increased by $99 million during 2001 compared with 2000. This increase was due to the sale of power (purchased from NUGs) to PPL EnergyPlus.

Fuel

Effective with the July 1, 2000 corporate realignment, the generation of electricity, and the acquisition of fuel for that generation, was

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transferred to PPL Energy Supply.

Energy Purchases

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

Energy purchases decreased by $680 million in 2001 compared with 2000. After eliminating the expenses associated with assets transferred in the corporate realignment from the results for the first half of 2000, energy purchases increased by $7 million during 2001 compared with 2000. The increase reflects higher energy purchases from NUGs.

Energy Purchases from Affiliate

Energy purchases from affiliate increased by $106 million in 2002 compared with 2001. This increase reflects higher purchases under power supply contracts with PPL EnergyPlus needed to support a higher PLR load, due to the return of customers to PPL Electric as their PLR. See Note 15 to the Financial Statements for a discussion of the power supply contracts.

Energy purchases increased by $773 million in 2001 compared with the same period in 2000. The increase reflects a full year of energy purchases from PPL EnergyPlus in 2001 compared to six months in 2000 due to the corporate realignment. See Note 19 to the Financial Statements for a discussion of the 2000 corporate realignment.

Other Operation Expenses

Other operation expenses increased by $15 million in 2002 compared with 2001. The increase reflects a $7 million decrease in pension income, as well as a $2 million increase in costs to restore service to customers during a winter storm. Additionally, in conjunction with the workforce reduction (see Note 21 to the Financial Statements), PPL Electric increased its estimated vacation liability by $7 million.

The $7 million decrease in pension income was attributable to PPL Electric's participation in PPL's primary domestic pension plan. During the second quarter of 2002, the workforce reduction and union-negotiated benefit enhancements had a significant impact on PPL's primary domestic pension plan requiring remeasurement of the benefit obligation and decreasing the net pension income recorded for that plan. In addition, pension income was also decreased due to the recognition of significant asset losses caused by weakened financial markets. PPL Electric participates in PPL's primary domestic pension plan and is allocated approximately 46% of the obligations and costs of that plan. Through December 31, 2002, PPL Electric was allocated approximately $17 million of pension income. As a result of the events and remeasurements previously discussed, PPL expects to continue to allocate pension income to PPL Electric in 2003, but at lower levels due to the above events and continued weakness in the financial markets. See Note 12 to the Financial Statements for details of the funded status of PPL's domestic pension plans.

Other operation expenses decreased by $123 million in 2001 compared with 2000. After eliminating the expenses of assets transferred in the corporate realignment from the results for the first half of 2000, other operation expenses increased by $3 million in 2001 compared with 2000. This increase was primarily due to a $40 million insurance settlement for environmental liability coverage recorded in 2000 (as a reduction of expenses), partially offset by lower pension expense of $20 million due to pension investment performance and lower corporate expenses of $19 million from PPL Services.

Amortization of Recoverable Transition Costs

Amortization of recoverable transition costs decreased by $25 million in 2002 compared to 2001. This decrease was primarily due to $19 million of lower ITC amortization in 2002 as a result of lower billed ITC revenues. Billed ITC revenues were lower as a result of lower ITC rates, reflecting the decrease in interest expense on the transition bonds.

Amortization of recoverable transition costs increased by $24 million in 2001 compared to 2000. This increase was primarily due to the collection of $33 million of CTC revenues related to prior year CTC deferrals of amounts in excess of the Pennsylvania rate cap.

Maintenance Expenses

Maintenance expenses increased by $16 million in 2002 compared with 2001. This was partially due to a $5 million increase in maintenance costs for customers' lighting and power service problems and $4 million of additional costs to restore service to customers during a winter storm.

Maintenance expenses decreased by $96 million in 2001 compared with 2000. After eliminating the expenses of assets transferred in the

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corporate realignment from the results for the first half of 2000, maintenance expenses decreased by $15 million in 2001 when compared with 2000. This decrease was primarily the result of allocating $12 million more of rents for office space to the user business lines in 2001 compared to 2000, as well as lower overhead line maintenance of $5 million. The lower line maintenance expenses were, in part, due to less storm damage in 2001 compared with 2000.

Depreciation

Depreciation decreased by $76 million in 2001 compared with 2000. After eliminating the expenses of assets transferred in the corporate realignment from the results for the first half of 2000, depreciation decreased by $8 million during 2001 compared with 2000. This decrease reflects a change in life characteristics for transmission and distribution property.

Taxes, Other Than Income

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

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

Taxes, other than income, decreased by $18 million in 2001 compared with 2000. After eliminating the expenses of assets transferred in the corporate realignment from results for the first half of 2000, taxes, other than income increased by $12 million. This increase was primarily due to credits to PURTA and local property tax accruals recorded in the third quarter of 2000.

Changes in taxes, other than income taxes, do not significantly affect earnings as they are substantially recovered or returned through customer rate revenues.

Other Income - net

See Note 16 to the Financial Statements for details of other income and deductions.

Workforce Reduction

See Note 21 to the Financial Statements for information regarding the $33 million charge recorded in 2002.

Financing Costs

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

Interest expense decreased by $9 million in 2001 compared with 2000. This decrease was primarily the result of lower outstanding commercial paper and intercompany borrowings.

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

Income Taxes

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

Income tax expense decreased by $106 million in 2001 compared with 2000. After eliminating the estimated income associated with assets transferred in the corporate realignment from the results for the first half of 2000, income taxes increased by $2 million during 2001 compared with 2000. This reflects an increase in pro forma pre-tax book income.

Change in Accounting Principle

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

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Under the old method, the net unrecognized gain or loss in excess of 10% of the greater of the plan's projected benefit obligation or market-related value of plan assets was amortized on a straight-line basis over the estimated average future service period of plan participants. Under the new method, a second corridor is utilized for the net unrecognized gain or loss in excess of 30% of the plan's projected benefit obligation. The net unrecognized gain or loss outside the second corridor is amortized on a straight-line basis over a period equal to one-half of the average future service period of the plan participants. See Note 12 to the Financial Statements for additional information.

This item is reported as "Cumulative Effect of a Change in Accounting Principle" on the Statement of Income.

New Accounting Standards

See Note 22 to the Financial Statements for information on new accounting standards adopted in 2002 or pending adoption.

Financial Condition

Liquidity

At December 31, 2002, PPL Electric had $29 million in cash and cash equivalents and $15 million of short-term debt. PPL Electric believes that its cash and cash equivalents, operating cash flows, access to the capital markets and borrowing capacity, taken as a whole, provide sufficient resources to fund ongoing operating requirements and future capital expenditures. PPL Electric's operating cash flow and access to the capital markets can be impacted by economic factors outside of its control. In addition, PPL Electric's borrowing costs can be impacted by short-term and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on PPL's performance as measured by certain credit measures such as interest coverage and leverage ratios. Cash and cash equivalents are derived from cash from operations, cash from financing activities and cash from investing activities. PPL Electric derives steady cash flows from operations through the delivery of electricity to customers over transmission and distribution networks. In 2001, PPL Electric signed full requirements contracts with PPL EnergyPlus to meet its PLR requirements through 2009, in order to eliminate the energy price exposure associated with purchasing energy in the open market to meet PLR load.

PPL Electric expects to access both the capital and commercial paper markets during 2003. PPL Electric cannot provide assurances that any of these funding sources will be available to it on acceptable terms.

Net cash provided by operations in 2002 was $274 million compared to $392 million in 2001. The $118 million decrease was primarily the result of an increase in accounts receivable, including receivables from affiliates.

Net cash used in financing activities was $365 million in 2002, compared to $148 million in 2001. The $217 million increase in cash used in financing activities was the result of lower financings in 2002. Additionally, a commercial paper program at PPL Electric provides for the issuance of up to $400 million of commercial paper and is maintained to meet short-term cash needs. If the existing credit ratings on the commercial paper program were lowered, it is unlikely that there would be sufficient investor demand for the commercial paper. In addition, the amount of commercial paper that could be outstanding under PPL Electric's program is generally limited to the amount of the unused credit lines.

PPL Electric maintains an unsecured credit line of $400 million that is available as a backstop for its commercial paper program or for direct borrowings. The credit line is also available for the issuance of up to $300 million in letters of credit that may be needed for credit enhancements and margin requirements resulting from PPL Electric's PLR energy contracts with PPL EnergyPlus or other contracting activities. PPL Electric's maximum collateral requirement associated with the PLR contracts is $300 million. PPL Electric had $15 million of commercial paper outstanding and no borrowings outstanding under its credit line at December 31, 2002, as compared to no commercial paper outstanding or borrowings under its credit line at December 31, 2001. In addition, the lenders in the credit line had issued $40 million of letters of credit on PPL Electric's behalf at December 31, 2002. This credit line contains financial and other covenants that, if not met, would limit or restrict PPL Electric's ability to borrow or have letters of credit issued on its behalf or cause early payment of outstanding borrowings. At this time, PPL Electric believes that these covenants will not limit access to these funding sources.

Under its credit line, PPL Electric must maintain a debt to capitalization percentage not greater than 70%. At December 31, 2002 and December 31, 2001, PPL Electric's consolidated debt to total capitalization percentage, as calculated in accordance with its credit line, was 58% and 57%.

PPL Electric leases vehicles, office space, land, buildings, personal computers and other equipment under separate lease arrangements. See Note 10 to the Financial Statements for a further discussion of the operating leases.

At December 31, 2002, the estimated contractual cash obligations of PPL Electric were as follows:

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Contractual Cash Obligations	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term Debt (a)	$ 3,183	$ 274	$ 665	$ 1,034	$ 1,210
Capital Lease Obligations					
Operating Leases	46	11	16	9	10
Purchase Obligations (b)	9,944	1,342	2,739	2,852	3,011
Other Long-term Obligations (c)	31	20	11		
Total Contractual Cash Obligations	$ 13,204	$ 1,647	$ 3,431	$ 3,895	$ 4,231

(a) Includes $1.7 billion of transition bonds issued by PPL Transition Bond Company in 1999 to securitize a portion of PPL Electric's stranded costs. This debt is non-recourse to PPL Electric.
(b) The payments reflected herein are subject to change as the purchase obligation reflected is an estimate based on projected obligated quantities and projected pricing under the contract.
(c) Includes redemptions of preferred securities.

At December 31, 2002, PPL Electric provided a guarantee in the amount of $7 million in support of Safe Harbor, in which PPL Electric had an ownership interest prior to the corporate realignment.

At December 31, 2002, the estimated commercial commitments of PPL Electric were as follows:

		Amount of Commitment Expiration Per Period			
Other Commercial Commitments	Total Amounts Committed	Less Than 1 Year	1-3 Years	4-5 Years	Over 5 Years
Lines of Credit					
Standby Letters of Credit	$ 41	$ 41			
Draws Under Lines of Credit					
Guarantees					
Debt (a)	100	93			$ 7
Performance					
Standby Repurchase Obligations					
Other Commercial Commitments					
Total Commercial Commitments	$ 141	$ 134			$ 7

(a) Includes guarantees on certain operating lease obligations. If incurred, a portion of the costs would be billed to affiliates.

Terms governing the securities, guarantees, leases and other obligations issued by PPL Electric contain financial and other covenants that require compliance in order to avoid defaults and accelerations of payments. At this time, PPL Electric believes that it will be able to meet these covenant requirements. In order to meet its maturing obligations in future years, PPL Electric expects that it will have to continue to access both the bank and capital securities markets. The long-term debt and similar securities and their maturities are included in the table of Contractual Cash Obligations above.

Net cash provided by investing activities in 2002 was $41 million, as compared to net cash used in investing activities of $432 million in 2001. The $473 million difference was primarily the result of a loan repayment by an affiliate. In 2003, PPL Electric's expenditures for property, plant and equipment are expected to increase modestly to accommodate an automated meter reading project initiated in late 2001. PPL Electric anticipates that its capital requirements will be funded from cash on hand, loan repayments from affiliates and cash from operations in 2003. (See "Capital Expenditure Requirements" for additional information.)

Subsequent Financing

In February 2003, on behalf of PPL Electric, the Lehigh County Industrial Development Authority (LCIDA) issued $90 million aggregate

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principal amount of 3.125% Pollution Control Revenue Refunding Bonds due 2008. These tax-exempt bonds were issued to refund the outstanding $90 million aggregate principal amount of the 6.40% Pollution Control Revenue Refunding Bonds issued by the LCIDA on PPL Electric's behalf in 1992. The bonds are insured by a financial guaranty insurance policy issued by Ambac Assurance Corporation and have the highest investment grade ratings, Aaa by Moody's and AAA by Standard & Poor's. In connection with the issuance of the bonds, PPL Electric issued to the LCIDA a promissory note with principal, interest and prepayment provisions corresponding to the bonds. In addition, PPL Electric issued a like amount of Senior Secured Bonds under the 2001 Senior Secured Bond Indenture to secure its obligations under the promissory note.

Risk Management

Market Risk

Commodity Price Risk - PLR Contracts

PPL Electric and PPL EnergyPlus have power supply agreements under which PPL EnergyPlus sells to PPL Electric (under a predetermined pricing arrangement) energy and capacity to fulfill PPL Electric's PLR obligation through 2009. As a result, PPL Electric has shifted any electric price risk relating to its PLR obligation to PPL EnergyPlus for 2002 through 2009. See Note 15 to the Financial Statements for information on the PLR contracts.

Interest Rate Risk

PPL Electric has issued debt to finance its operations, which increases its interest rate risk. At December 31, 2002 and 2001, PPL Electric's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Electric is also exposed to changes in the fair value of its debt portfolio. At December 31, 2002, PPL Electric estimated that its potential exposure to a change in the fair value of its debt portfolio, through a 10% adverse movement in interest rates, was approximately $45 million, compared to $56 million at December 31, 2001.

In connection with the corporate realignment, effective July 1, 2000, PPL Electric's unregulated energy marketing and trading activities were transferred to PPL EnergyPlus.

Related Party Transactions

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

For additional information on related party accounting transactions, see Note 15 to the Financial Statements.

Capital Expenditure Requirements

The schedule below shows PPL Electric's current capital expenditure projections for the years 2003-2007 and actual spending for the year 2002:

	Actual	----------Projected----------				
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Construction expenditures						
Expenditures for property, plant and equipment	$ 223	$ 222	$ 163	$ 162	$ 165	$ 159
Other	33	28	26	30	31	29
Total Capital Expenditures	$ 256	$ 250	$ 189	$ 192	$ 196	$ 188

Construction expenditures include AFUDC which is expected to be less than $4 million in each of the years 2003-2007.

PPL Electric's capital expenditure projections for the years 2003-2007 total $1.0 billion. Capital expenditure plans are revised periodically to reflect changes in conditions.

Environmental Matters

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See Note 14 to the Financial Statements for a discussion of environmental matters.

Competition

The electric utility industry has experienced, and may continue to experience, an increase in the level of competition in the energy supply market at both the state and federal levels. PPL Electric's PLR supply business will be affected by customers who select alternate suppliers under the Customer Choice Act.

In July 2001, the FERC issued orders calling for the formation of one RTO throughout the Mid-Atlantic region (PJM), New York and New England. In response, PPL Electric is taking the position that a single northeastern RTO is a significant step forward in establishing a reliable and properly functioning wholesale electricity market in the region. PPL Electric strongly supports the most comprehensive amalgamation of the existing and proposed northeast power pools, including the establishment of a single RTO as well as the elimination of marketplace distinctions and control area boundaries. The FERC's northeastern RTO proceeding is continuing.

See Note 14 to the Financial Statements for information on the FERC Notice of Proposed Rulemaking entitled "Remedying Undue Discrimination through Open Access Transmission Service and Standard Electricity Market Design."

Application of Critical Accounting Policies

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

1. **Pension and Other Postretirement Benefits**

As described in Note 12 to the Financial Statements, PPL Electric participates in, and is allocated a significant portion of the liability and net periodic pension cost of the PPL Retirement Plan and the PPL Postretirement Benefit Plan. PPL follows the guidance of SFAS 87, "Employers' Accounting for Pensions," and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," when accounting for these benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and performance of plan assets. Delayed recognition of differences between actual results and expected or estimated results is a guiding principle of these standards. This delayed recognition of actual results allows for a smoothed recognition of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the plans. The primary assumptions are as follows:

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

Expected Return on Plan Assets - Management projects the future return on plan assets based principally on prior performance. These projected returns reduce the net benefit costs the company will record currently.

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

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

During 2002, PPL made changes to its assumptions related to the discount rate, the expected return on plan assets, the rate of compensation increase and the health care cost trend rate. Management consults with its actuaries when selecting each of these assumptions.

In selecting discount rates, PPL considers fixed-income security yield rates. At December 31, 2002, PPL decreased the discount rate for its domestic plans from 7.25% to 6.75% as a result of decreased fixed-income security returns.

In selecting an expected return on plan assets, PPL considers past performance and economic forecasts for the types of investments held by the plan. At December 31, 2002, PPL decreased the expected return on plan assets for its domestic pension plans from 9.2% to 9.0% as a result of continued declines in equity and fixed-income security returns.

In selecting a rate of compensation increase, PPL considered past experience in light of movements in inflation rates. At December 31, 2002, PPL decreased the rate of compensation increase from 4.25% to 4.0% for its domestic plans.

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In selecting health care cost trend rates, PPL considers past performance and forecasts of health care costs. At December 31, 2002, PPL increased its previous health care cost trend rates. The previous rates were 7.0% for 2002, gradually declining to 6% in 2006. The new rates are 12% for 2003, gradually declining to 5.0% for 2010. These changes are based upon continued increases in health care costs.

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

		Increase/(Decrease)	
Actuarial Assumption	**Change in Assumption**	**Impact on Liabilities**	**Impact on Cost**
Discount Rate	(0.25)%	$ 4	$ 4
Expected Return on Plan Assets	(0.25)%	2	2
Rate of Compensation Increase	0.25%	2	2
Health Care Cost Trend Rate (a)	1.0%	1	1

(a) Only impacts other postretirement benefits

At December 31, 2002, PPL Electric had been allocated accrued pension and other postretirement benefit liabilities totaling $72 million, included in "Deferred Credits and Other Noncurrent Liabilities - Other" on the Balance Sheet. The $72 million liability represented a $1 million increase over the liability that was recorded at December 31, 2001.

In 2002, PPL Electric was allocated net periodic pension and other postretirement income, credited to operating expense of $4 million. This amount represents a $10 million reduction in the credit recognized during 2001. This reduction was primarily due to the remeasurement of the projected benefit obligation and the recognition of a decline in asset value for PPL's primary pension plan during 2002.

Refer to Note 12 to the Financial Statements for additional information regarding pension and other postretirement benefits.

2. **Loss Accruals**

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

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

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

Initial Identification and Recording of the Loss Accrual

PPL Electric uses its internal expertise and outside experts (such as lawyers, tax specialists and engineers), as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

Throughout 2002, PPL Electric assessed potential loss accruals for environmental remediation, litigation claims, regulatory penalties and other events. There were no material events identified for which a loss was probable and for which the loss could be reasonably estimated. Therefore, there were no material loss accruals recorded in 2002 using the SFAS 5 criteria.

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

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See Note 14 to the Financial Statements for disclosure of potential loss accruals, most of which have not met the criteria for accrual under SFAS 5. Such disclosures include any potential adverse outcome related to the PJM Market Monitor report and studies regarding the impact of electric and magnetic fields.

Reducing Recorded Loss Accruals and On-Going Assessment

When a loss accrual is recorded, PPL Electric identifies the triggering event for subsequently reducing the loss accrual. Also, PPL Electric periodically reviews the loss accrual to assure that the recorded potential loss exposure is reasonable.

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

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

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

PPL Electric periodically reviews its loss accruals, to assure that the recorded potential loss exposures are fairly stated.

Other Information

PPL's Audit Committee has approved the independent auditor to provide the following services:

- Audit and audit-related services (including services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, employee benefit plan audits and internal control reviews);
- Certain tax consulting and advisory services for projects commenced prior to December 31, 2002; and,
- Other services permitted by the Sarbanes-Oxley Act of 2002 and SEC rules.

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PPL MONTANA, LLC AND SUBSIDIARIES
Item 7. Review of the Financial Condition and Results of Operations

The following analysis of the results of operations and financial condition of PPL Montana is abbreviated as PPL Montana meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K. Such analysis should be read in conjunction with the financial statements in Item 8. Terms and abbreviations appearing here are explained in the glossary.

In July 2000, PPL Montana completed a sale and leaseback of its interests in the Colstrip generating station. The owner lessors paid an aggregate amount of approximately $410 million for the leased assets. This amount was funded by equity contributions from the owner investor to the owner lessors in the amount of $72 million, and $338 million of the proceeds from the sale of pass-through trust certificates secured by lessor notes.

Results of Operations

The following discussion explains significant changes in principal items on the Statement of Income, comparing the twelve months ended December 31, 2002, to the comparable period in 2001.

The Statement of Income reflects the results of past operations and is not intended as any indication of future operating results. Future operating results will necessarily be affected by various and diverse factors and developments. Furthermore, because results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, the results of operations for interim periods do not necessarily indicate results or trends for the year.

Earnings

Net income decreased by $56 million for the twelve months ended December 31, 2002, compared with the same period in 2001. The decrease was primarily due to lower wholesale prices in the western U.S.

Operating Revenues

Operating revenues decreased by $118 million for the twelve months ended December 31, 2002, compared with the same period in 2001. The decrease was primarily due to a decline in wholesale energy prices from the high prices experienced in the first half of 2001, resulting from an energy supply shortage in the western U.S. The decrease in power prices resulted in a decrease in revenues of $171 million, while an increase in volume sold resulted in an increase in revenues of $53 million.

In June 2001, the FERC instituted a series of price controls designed to mitigate (or cap) prices in the entire western U.S. as a result of the California energy crisis. These price controls have had the effect of significantly lowering spot and forward energy prices in the western U.S. See Note 14 to the Financial Statements for further discussion on the California situation.

Operating Expenses

Operating expenses decreased by $29 million during the twelve months ended December 31, 2002, compared with the same period in 2001. Operating expenses consist mainly of expenses for fuel, energy purchases, transmission tariffs, plant operations and maintenance, lease rental payments, and general and administrative expenses. The decrease was due to lower energy purchases, related to the decreased power costs in the western U.S. during the first half of 2002. The decrease in power prices resulted in a $53 million decrease in energy purchases, while an increase in volumes purchased resulted in an increase in energy purchases of $24 million.

Generation increased by 350 million kWh during the twelve months ended December 31, 2002, compared with the same period in 2001. This increase was primarily the result of higher hydroelectric generation caused by improved water flows in the first half of 2002.

New Accounting Standards

See Note 22 to the Financial Statements for information on new accounting standards adopted in 2002 or pending adoption.

Risk Management - Energy Marketing & Trading and Other

Market Risk

Background

Market risk is the potential loss PPL Montana may incur as a result of price changes associated with a particular financial or commodity instrument. PPL Montana is exposed to market risk from commodity price risk for energy and energy-related products associated with the sale

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of electricity from its generating assets, the purchase of fuel for the generating assets, and energy trading activities.

PPL Montana has a comprehensive risk management policy approved by the PPL's Board of Directors to manage the market risk and counterparty credit risk. (Credit risk is discussed below.) The RMC, comprised of senior management and chaired by the Vice President-Risk Management, oversees the risk management function. Key risk control activities designed to monitor compliance with risk policies and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, sensitivity analyses, and daily portfolio reporting, including open positions, mark-to-market valuations, and other risk measurement metrics. In addition, efforts are on-going to develop systems to improve the timeliness, quality and breadth of market and credit risk information.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions, due to reliance on model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses.

Contract Valuation

PPL Montana utilizes forward contracts, options and swaps as part of its risk management strategy to minimize unanticipated fluctuations in earnings caused by price volatility. When available, quoted market prices are used to determine the fair value of a commodity or financial instrument. This may include exchange prices, the average mid-point bid/ask spreads obtained from brokers, or an independent valuation by an external source, such as a bank. However, market prices for energy or energy-related contracts may not be readily determinable because of market illiquidity. If no active trading market exists, contracts are valued using internally developed models. If the contracts are not accounted for under the accrual method of accounting, the valuations are reviewed by an independent, internal group. Although PPL Montana believes that its valuation methods are reasonable, changes in the underlying assumptions could result in significantly different values and realization in future periods.

To record derivatives at their fair value, PPL Montana discounts the forward values using LIBOR. Additionally, PPL Montana reduces derivative assets' carrying value to recognize differences in counterparty credit quality and potential illiquidity in the market.

The credit adjustment takes into account the bond ratings (and the implied default rates) of the counterparties that have an out-of-the-money position with PPL. The more counterparties that have, for example, a BBB rating instead of an A rating, the larger the adjustment.

The liquidity adjustment takes into account the fact that it may not be appropriate to value contracts at the midpoint of the bid/ask spread. PPL might have to accept the "bid" price if PPL wanted to close an open sales position or PPL might have to accept the "ask" price if PPL wanted to close an open purchase position.

Accounting and Reporting

PPL Montana follows the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and interpreted by DIG issues (together, "SFAS 133") and EITF 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," to account for contracts entered into to manage market risk. SFAS 133 requires that all derivative instruments be recorded at fair value on the balance sheet as an asset or liability (unless they meet SFAS 133's criteria for exclusion) and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

PPL Montana's short-term trading contracts are recorded as "Price risk management assets" and "Price risk management liabilities" on the Balance Sheet. Long-term derivative contracts are included in "Noncurrent Assets - Other" and "Noncurrent Liabilities - Other."

PPL Montana adopted the final provisions of EITF 02-3 during the fourth quarter of 2002. As such, PPL Montana now reflects its net realized and unrealized gains and losses associated with all derivatives that are held for trading purposes in the "Net energy trading margins" line on the Statement of Income. Non-derivative contracts that met the definition of energy trading activities as defined by EITF 98-10, "Accounting for Energy Trading and Risk Management Activities" are reflected in the financial statements using the accrual method of accounting. Under the accrual method of accounting, unrealized gains and losses are not reflected in the financial statements. Prior periods have been reclassified. PPL Montana did not need to record a cumulative effect of this change in accounting principle, because all non-derivative energy-related trading contracts had been shown in the financial statements at their amortized cost. This reflected modeling reserves that incorporated the lack of independence in valuing contracts for which there were no external market prices.

Accounting Designation

Energy contracts that do not qualify as derivatives receive accrual accounting. For energy contracts that meet the definition of a derivative, the circumstances and intent existing at the time that energy transactions are entered into determine their accounting designation. These

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designations are verified by PPL Montana's risk control group on a daily basis. The following is a summary of the guidelines that have been provided to the traders who are responsible for contract designation for derivative energy contracts:

Any wholesale and retail contracts to sell electricity that are expected to be delivered from PPL Montana's generation are considered "normal." These transactions are not recorded in the financial statements and have no earnings impact until delivery. Most wholesale electricity sales contracts in the eastern and western U.S. markets receive "normal" treatment. The methodology utilized in determining the amount of sales that can be delivered from PPL Montana's generation has been reviewed by the RMC. This calculation predicts the probability that generating units will run based on current market prices, expected price volatilities and dispatch rates, as well as planned and forced outage rates by plant by month. See discussion below about the assumptions used to calculate how much energy is expected from, or required for, generation assets.

"Trading around the assets" means that PPL EnergyPlus matches a contract to sell electricity, previously to be delivered from PPL Montana's generation, with a physical or financial contract to purchase electricity. These contracts can qualify for fair value hedge treatment. When the contracts' terms are identical, there is no earnings impact until delivery. The realized revenues and expenses associated with these contracts are currently recorded gross on the Statement of Income. EITF 02-L, "Reporting Gains and Losses on Derivative Instruments That are Subject to FASB Statement No. 133 and Not Held for Trading Purposes," may, in the future, require that hedges that result in physical delivery be recorded on a net basis.

Physical electricity purchases needed to meet obligations due to a change in the physical load or generation forecasts are considered "normal."

Physical electricity purchases that increase PPL Montana's long position and any energy sale or purchase considered a "market call" are speculative, with unrealized gains or losses recorded immediately through earnings.

Financial electricity transactions, which can be settled in cash, cannot be considered "normal" because they do not require physical delivery. These transactions receive cash flow hedge treatment if they lock in the price PPL Montana will receive or pay for energy expected to be generated or purchased in the spot market. Any unrealized gains or losses on transactions that receive cash flow hedge treatment are recorded in other comprehensive income.

Option contracts that do not meet the requirements of DIG Issue C15, "Scope Exceptions: Interpreting the Normal Purchases and Normal Sales Exception as an Election," do not receive hedge accounting treatment and are marked to market through earnings.

Commodity Price Risk

Commodity price risk is one of PPL Montana's most significant risks due to the level of investment that PPL Montana maintains in its generation assets, coupled with the volatility of prices for energy and energy-related products. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations. To hedge the impact of market price fluctuations on PPL Montana's energy-related assets, liabilities and other contractual arrangements, PPL EnergyPlus sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and OTC contracts. Because of the generating assets PPL Montana owns or controls, the majority of PPL Montana's energy transactions qualify for accrual or hedge accounting.

Within PPL Montana's hedge portfolio, the decision to enter into energy contracts hinges on the expected value of PPL Montana's generation. To address this risk, PPL Montana takes a conservative approach in determining the number of MWhs that are available to be sold forward. In this regard, PPL Montana reduces the maximum potential output that a plant may produce by three factors - planned maintenance, forced outage and economic conditions. The potential output of a plant is first reduced by the amount of unavailable generation due to planned maintenance on a particular unit. Another reduction, representing the forced outage rate, is the amount of MWhs that historically are not produced by a plant due to such factors as equipment breakage. Finally, the potential output of certain plants (like peaking units) are reduced because their higher cost of production will not allow them to economically run during all hours.

PPL Montana's non-trading portfolio also includes full requirements energy contracts. The obligation to serve these contracts changes minute by minute. PPL Montana analyzes historical on-peak and off-peak usage patterns, as well as spot prices and weather patterns, to determine a monthly level of block electricity that best fits the usage patterns in order to minimize earnings volatility. On a forward basis, PPL Montana reserves a block amount of generation for full requirements energy contracts that is expected to be the best match with their anticipated usage

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patterns and energy peaks. Anticipated usage patterns and peaks are affected by expected load growth, regional economic drivers and seasonality.

Because of PPL Montana's efforts to hedge the value of the energy from its generation assets, PPL Montana has open contractual positions. If PPL Montana were unable to deliver firm capacity and energy under its agreements, under certain circumstances it would be required to pay damages. These damages would be based on the difference between the market price to acquire replacement capacity or energy and the contract price of the undelivered capacity or energy. Depending on price volatility in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, non-performance by counterparties (or their counterparties) with which it has power contracts and other factors could affect PPL Montana's ability to meet its firm capacity or energy obligations, or cause significant increases in the market price of replacement capacity and energy. Although PPL Montana attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty non-performance in the future.

As of December 31, 2002, PPL Montana estimated that a 10% adverse movement in market prices across all geographic areas and time periods would have decreased the value of the commodity contracts in its non-trading portfolio by approximately $76 million, as compared to a decrease of $49 million at December 31, 2001. However, the change in the value of the non-trading portfolio would have been substantially offset by an increase in the value of the underlying commodity, the electricity generated, because these contracts serve to reduce the market risk inherent in the generation of electricity. Additionally, the value of PPL Montana's unsold generation would be improved. Because PPL Montana's electricity portfolio is generally in a net sales position, the adverse movement in prices is usually an increase in prices.

PPL Montana also executes energy contracts to take advantage of market opportunities. As a result, PPL Montana may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. The margins from these trading activities are shown in the Statement of Income as "Net energy trading margins." The physical volumes associated with energy trading were 548 MWh in 2002, 282 MWh in 2001 and 73 MWh in 2000.

PPL Montana's trading contracts mature at various times through 2003. PPL Montana's net fair market value of trading contracts as of December 31, 2002 and 2001 was insignificant.

As of December 31, 2002, the net loss on PPL Montana's trading activities expected to be recognized in earnings during the next three months is insignificant.

PPL Montana estimated that a 10% adverse movement in market prices across all geographic areas and time periods would have decreased the value of the commodity contracts in its trading portfolio by an insignificant amount at December 31, 2002 and 2001.

Interest Rate Risk

PPL Montana may use borrowings to provide funds for its operations. PPL Montana may utilize various financial derivative products and risk management techniques to adjust the mix of fixed and floating-rate interest rates in its debt portfolio and thereby reduce its exposure to adverse interest rate movements. PPL Montana had $26 million in borrowings outstanding as of December 31, 2002, and its interest rate risk was not significant.

Credit Risk

Credit risk relates to the risk of loss that PPL Montana would incur as a result of non-performance by counterparties of their contractual obligations. PPL Montana maintains credit policies and procedures with respect to counterparties (including requirements that counterparties maintain certain credit ratings criteria) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL Montana has concentrations of suppliers and customers among electric utilities and other energy marketing and trading companies. These concentrations of counterparties may impact PPL Montana's overall exposure to credit risk, either positively or negatively, in that counterparties may be similarly affected by changes in economic, regulatory or other conditions. As discussed above under "Accounting and Reporting" PPL Montana records certain non-performance reserves to reflect the probability that a counterparty with contracts that are out of the money (from the counterparty's standpoint) will default in its performance, in which case PPL Montana would have to sell into a lower-priced market or purchase from a higher-priced market. These reserves are reflected in the fair value of assets recorded in "Price risk management assets" on the Balance Sheet. PPL Montana has also established a reserve with respect to certain sales to the California ISO for which PPL Montana has not yet been paid. See Note 14 to the Financial Statements.

Competition

See Note 14 to the Financial Statements for information on the FERC Notice of Proposed Rulemaking entitled "Remedying Undue Discrimination through Open Access Transmission Service and Standard Electricity Market Design."

Application of Critical Accounting Policies

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

1. **Price Risk Management**

See "Risk Management - Energy Marketing & Trading and Other" above.

2. **Pension and Other Postretirement Benefits**

PPL Montana follows the guidance of SFAS 87, "Employers' Accounting for Pensions," and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," when accounting for these benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and performance of plan assets. Delayed recognition of differences between actual results and expected or estimated results is a guiding principle of these standards. This delayed recognition of actual results allows for a smoothed recognition of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the plans. The primary assumptions are as follows:

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

Expected Return on Plan Assets - Management projects the future return on plan assets based principally on prior performance. These projected returns reduce the net benefit costs the company will record currently.

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

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

During 2002, PPL Montana made changes to its assumptions related to the discount rate, the expected return on plan assets, the rate of compensation increase and the health care cost trend rate. Management consults with its actuaries when selecting each of these assumptions.

In selecting discount rates, PPL Montana considers fixed-income security yield rates. At December 31, 2002, PPL Montana decreased the discount rate from 7.25% to 6.75% as a result of decreased fixed-income security returns.

In selecting an expected return on plan assets, PPL Montana considers past performance and economic forecasts for the types of investments held by the plan. At December 31, 2002, PPL Montana decreased the expected return on plan assets from 9.2% to 9.0% as a result of continued declines in equity and fixed-income security returns.

In selecting a rate of compensation increase, PPL Montana considers past experience in light of movements in inflation rates. At December 31, 2002, PPL Montana decreased the rate of compensation increase from 4.25% to 4.0%.

In selecting health care cost trend rates, PPL Montana considers past performance and forecasts of health care costs. At December 31, 2002, PPL Montana increased its previous health care cost trend rates. The previous rates were 7.0% for 2002, gradually declining to 6% in 2006. The new rates are 12% for 2003, gradually declining to 5.0% for 2010. These changes are based upon continued increases in health care costs.

A variance in the assumption listed above could have a significant impact on the projected benefit obligations, accrued pension and other postretirement benefit liabilities, reported annual net periodic pension and other postretirement benefit cost and other comprehensive income (OCI).

A 25 basis point reduction in the discount rate would increase the projected benefit obligations and OCI charge by $2 million and would have an immaterial impact on the accrued pension and other postretirement benefit liabilities (excluding additional minimum liability) and reported annual net periodic pension and other postretirement benefit cost. A 100 basis point increase in the health care cost trend rate would increase the projected benefit obligations by $1 million and would have an immaterial impact on the accrued pension and other postretirement benefit liabilities and the annual net periodic pension and other postretirement benefit cost. A 25 basis point change in the expected return on plan assets or rate of compensation increase would have an immaterial impact on the projected benefit obligations, accrued pension and other postretirement benefit liabilities, reported annual net periodic pension and other postretirement benefit cost and OCI. While the information

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above reflects either an increase or decrease in each assumption, PPL Montana and its actuaries expect that the inverse of this change would have a similar impact in the opposite direction. Each sensitivity above reflects an evaluation of the change based solely on a change in that assumption.

At December 31, 2002, PPL Montana had recognized accrued pension and other postretirement benefit liabilities of $27 million, included in "Noncurrent Liabilities - Other" on the Balance Sheet. PPL Montana's total projected obligation for these benefits was approximately $59 million, but was offset by $23 million of assets held in various trusts. The $27 million liability represented a $11 million increase over the $16 million liability that was recorded at December 31, 2001. The increased liability is due to an increase in the projected obligation associated with the reduction of the discount rate and the reduction of the fair value of plan assets due to recent performance.

In 2002, PPL Montana recognized net periodic pension and other postretirement costs charged to operating expenses of $4 million, excluding amounts credited to construction and other non-expense accounts. This amount represents a $1 million increase in the expense recognize during 2001.

As a result of the plan's asset return experience and decreases in the assumed discount rate at December 31, 2002, PPL Montana was required to recognize additional minimum pension liabilities totaling $13 million, as prescribed by SFAS 87. Recording these liabilities resulted in a reduction in equity through charges to OCI, net of taxes and unrecognized prior service costs, of $6 million, with no affect on net income. The charges to OCI will reverse in future periods if the fair value of trust assets exceeds the accumulated benefit obligation.

Refer to Note 12 to the Financial Statements for additional information regarding pension and other postretirement benefits.

3. **Leasing**

PPL Montana applies the provisions of SFAS 13, "Accounting for Leases," to all leasing transactions. In addition, PPL Montana applies the provisions of numerous other accounting pronouncements issued by the FASB and the EITF that provide specific guidance and additional requirements related to accounting for various leasing arrangements. In general, there are two types of leases from a lessee's perspective: operating leases - leases accounted for off-balance sheet and capital leases - leases capitalized on the balance sheet.

In accounting for leases, management makes various assumptions, including the discount rate, the fair market value of the leased assets and the estimated useful life, in determining whether a lease should be classified as operating or capital. Changes in these assumptions could result in the difference between whether a lease is determined to be an operating lease or a capital lease, thus significantly impacting the amounts to be recognized in the financial statements.

In addition to uncertainty inherent in management's assumptions, leasing transactions and the related accounting rules become increasingly complex when they involve: sale/leaseback accounting (leasing transactions where the lessee previously owned the leased assets), synthetic leases (leases that qualify for operating lease treatment for book accounting purposes and financing treatment for tax accounting purposes), lessee involvement in the construction of leased assets and/or special purpose entities (SPEs) (entities created for the specific purpose of owning the property, plant and equipment and incurring the related financing obligation). Current GAAP requires that SPEs be consolidated if several conditions exist, including if the owners of the SPEs have not made an initial substantive residual equity capital investment that is at risk during the entire lease term. The consolidation of an SPE lessor by the lessee has a very similar financial result as a lease that is accounted for as a capital lease, that is, the leased assets and the related financing obligations are recorded on the lessee's balance sheet.

At December 31, 2002, PPL Montana subsidiaries participated in one significant sale/leaseback transaction involving unconsolidated SPEs. This transaction has been accounted for as an operating lease. In accordance with current GAAP, these SPEs were not consolidated by PPL Montana because the equity owners (entities unrelated to PPL Montana and its subsidiaries) contributed and maintain a minimum of 3% equity interest throughout the life of the SPEs.

Sale/Leaseback

In July 2000, PPL Montana sold its interest in the Colstrip generating plant to owner lessors who are leasing the assets back to PPL Montana under four 36-year operating leases. This transaction is accounted for as an operating lease in accordance with current rules related to sale/leaseback arrangements. If for any reason this transaction did not meet the requirements for off-balance sheet operating lease treatment as a sale/leaseback, PPL Montana would have approximately $343 million of additional assets and liabilities recorded on its balance sheet at December 31, 2002 and would have recorded additional expenses currently estimated at $10 million, after-tax, in 2002.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." FIN 46 clarifies that variable interest entities (VIEs), as defined therein, that do not disperse risks among the parties involved should be consolidated by the entity that is determined to be the primary beneficiary. The principal impact from such consolidation would be the inclusion of the generating facilities as assets and the lease financing as liabilities in the consolidated balance sheet of PPL Montana. PPL Montana does not currently believe that the lessors in the PPL Montana sale/leaseback will be determined to be VIEs in which PPL Montana will be the primary beneficiary. Therefore, PPL Montana does not expect to consolidate the financial statements of these lessors. PPL Montana must adopt FIN 46

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for all of these leases no later than the first interim period beginning after June 15, 2003.

See Note 10 to the Financial Statements for additional information related to operating leases and Note 22 for additional information related to FIN 46.

4. **Loss Accruals**

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

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

The accrual of a loss contingency involves considerable judgment on the part of management. There are two major accounting aspects of loss accruals: (1) the initial identification and recording of the loss accrual and (2) the determination of a triggering event for reducing a recorded loss accrual, and the on-going assessment as to whether a recorded loss accrual is reasonable.

Initial Identification and Recording of the Loss Accrual

PPL Montana uses its internal expertise, and outside experts (such as lawyers, tax specialists and engineers), as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

Throughout 2002, PPL Montana assessed potential loss accruals for environmental remediation, litigation claims, regulatory penalties, and other possible loss events. There were no material events identified for which a loss was probable and for which the loss could be reasonably estimated. Therefore, there was no material loss accruals recorded in 2002 using the SFAS 5 criteria.

However, PPL Montana has identified certain events which could give rise to a loss, but which do not meet the conditions for accrual under SFAS 5. SFAS 5 requires disclosure, but not a recording, of potential losses when it is "reasonably possible" that a loss has been incurred. FASB defines "reasonably possible" as cases in which "the chance of the future event or events occurring is more than remote but less than likely."

See Note 14 to the Financial Statements for disclosure of potential loss accruals, most of which have not met the criteria for accrual under SFAS 5. Such disclosures include, among others, the Montana Power shareholders' litigation and a lawsuit regarding the Colstrip transmission system.

Reducing Recorded Loss Accruals and On-Going Assessment

When a loss accrual is recorded, PPL Montana identifies the triggering event for subsequently reducing the loss accrual. Also, PPL Montana periodically reviews the adequacy of the loss accrual to assure that the recorded potential loss exposure is reasonable.

The largest contingency currently on PPL Montana's balance sheet is the loss accrual for the above-market purchase contract and below-market sale contracts, being the difference between the out-of-market contract terms and the fair value of the energy. This loss accrual was originally recorded at $118 million was recorded in 1999, when PPL Montana purchased the assets of Montana Power and assumed the two contracts. Under purchase accounting, PPL Montana recorded the out-of-market cost of the purchase and sale contracts. This loss accrual for the out-of-market contracts was recorded because it was probable that the loss had been incurred and the loss could be reasonably estimated, using forward pricing information. The out-of-market loss accrual was $64 million at December 31, 2002.

When the loss accrual related to the two contracts was recorded in 1999, PPL Montana established the triggering events for when the loss accrual would be reduced. A schedule was established to reduce the liability based on projected purchases and sales over the lives of the two contracts. Both contracts expire in 2010. The liability is being reduced over the agreement terms as an adjustment to "Wholesale energy marketing" revenues and "Energy purchases" on the Statement of Income.

PPL Montana assessed the remaining $64 million out-of-market liability at December 31, 2002, comparing the energy purchases and sales under the terms of the two contracts, with the purchases and sales assuming market prices for the energy.

Market prices for the contracts were derived by using internal forward energy price curves. The forward energy price curves in this scenario were based on the revenue and sales information for 2003 through 2010, as comprehended in the current business plan of PPL Montana. The

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assessment also used sensitivities around the forward energy prices, adjusting such prices upwards and downwards by 10%.

The assessment was dependent on forward energy prices and the projected purchase and sales levels of the two contracts. The forward prices of energy are dependent on many variables, including growth in electricity demand, available generation, and general economic conditions. Changes in these and other factors can have a dramatic impact on future electricity prices. Accordingly, forward energy price sensitivities were used in the assessment. If estimated forward market prices were adjusted upwards of 10% in each of the years from 2003 through 2010, the two contracts would have an estimated liability of $59 million. Conversely, if estimated forward market prices were adjusted downwards by 10% during the remaining term of the two contracts, the contracts would have an estimated liability of $69 million. The recorded liability of $64 million falls within the range calculated in the year-end assessment. As noted above, it is very difficult to estimate future electricity prices, which are dependent on many variables and subject to significant volatility. PPL Montana's management believes that the current recorded liability was fairly stated at December 31, 2002.

Other Information

PPL's Audit Committee has approved the independent auditor to provide the following services:

- Audit and audit-related services (including services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, employee benefit plan audits and internal control reviews);
- Certain tax consulting and advisory services for projects commenced prior to December 31, 2002; and,
- Other services permitted by the Sarbanes-Oxley Act of 2002 and SEC rules.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation and PPL Montana, LLC

Reference is made to "Risk Management - Energy Marketing & Trading and Other" in Review of Financial Condition and Results of Operations.

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Report of Independent Accountants

To the Board of Directors and Shareowners of
PPL Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) on page 171 present fairly, in all material respects, the financial position of PPL Corporation and its subsidiaries ("PPL") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of PPL's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 17 to the consolidated financial statements, PPL changed its method of accounting for derivative and hedging activities pursuant to Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities (an amendment of FASB Statement 133), in 2001. PPL also changed its method of accounting for amortizing unrecognized gains or losses in the annual pension expense/income determined under Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions, as discussed in Note 12 to the consolidated financial statements in 2001. In addition, as discussed in Note 18 to the consolidated financial statements, PPL adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, in 2002.

PricewaterhouseCoopers LLP
Philadelphia, PA
February 3, 2003

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PPL Corporation
Management's Report on Responsibility for Financial Statements

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

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

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

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

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

William F. Hecht
Chairman, President and Chief Executive Officer

John R. Biggar
Executive Vice President and Chief Financial Officer

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Report of Independent Accountants

To the Board of Managers and Sole Member
of PPL Energy Supply, LLC:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) on page 171 present fairly, in all material respects, the financial position of PPL Energy Supply, LLC and its subsidiaries ("PPL Energy Supply") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of PPL Energy Supply's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 17 to the consolidated financial statements, PPL Energy Supply changed its method of accounting for derivative and hedging activities pursuant to Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities (an amendment of FASB Statement 133), in 2001. PPL Energy Supply also changed its method of accounting for amortizing unrecognized gains or losses in the annual pension expense/income determined under Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions, as discussed in Note 12 to the consolidated financial statements in 2001. In addition, as discussed in Note 18 to the consolidated financial statements, PPL Energy Supply adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, in 2002.

PricewaterhouseCoopers LLP
Philadelphia, PA
February 3, 2003

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PPL Energy Supply, LLC
Management's Report on Responsibility for Financial Statements

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

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

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

PricewaterhouseCoopers LLP, the independent certified public accountants, audited PPL Energy Supply's consolidated financial statements and issued their opinion above.

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

William F. Hecht
President

John R. Biggar
Vice President

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Report of Independent Accountants

To the Board of Directors and Shareowner of
PPL Electric Utilities Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) on page 171 present fairly, in all material respects, the financial position of PPL Electric Utilities Corporation and its subsidiaries ("PPL Electric") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of PPL Electric's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 to the consolidated financial statements, PPL Electric changed its method of accounting for amortizing unrecognized gains or losses in the annual pension expense/income determined under Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions in 2001.

PricewaterhouseCoopers LLP
Philadelphia, PA
February 3, 2003

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PPL Electric Utilities Corporation
Management's Report on Responsibility for Financial Statements

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

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

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

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

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

Michael E. Bray
Vice Chairman and President

Joseph J. McCabe
Vice President and Controller

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Report of Independent Accountants

To the Board of Managers and Member of
PPL Montana, LLC

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) on page 171 present fairly, in all material respects, the financial position of PPL Montana, LLC and its subsidiaries ("PPL Montana") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of PPL Montana's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 17 to the consolidated financial statements, PPL Montana changed its method of accounting for derivative and hedging activities pursuant to Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities (an amendment of FASB Statement 133) in 2001. PPL Montana also changed its method of accounting for amortizing unrecognized gains or losses in the annual pension expense/income determined under Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions, as discussed in Note 12 to the consolidated financial statements in 2001. In addition, as discussed in Note 18 to the consolidated financial statements, PPL Montana adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, in 2002.

PricewaterhouseCoopers LLP
February 3, 2003

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PPL Montana, LLC
Management's Report on Responsibility for Financial Statements

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

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

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

PricewaterhouseCoopers LLP, the independent certified public accountants, audited PPL Montana's consolidated financial statements and issued their opinion above.

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

Bradley E. Spencer
Chief Operating Officer and Vice President

Charles S. Baker
Controller

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, except per share data)

	2002	2001	2000
Operating Revenues			
Utility	**$ 3,676**	$ 3,034	$ 3,672
Unregulated retail electric and gas	**182**	356	279
Wholesale energy marketing	**993**	989	110
Net energy trading margins	**19**	37	47
Energy related businesses	**559**	661	437
Total	**5,429**	5,077	4,545
Operating Expenses			
Operation			
Fuel	**584**	602	539
Energy purchases	**873**	873	783
Other	**818**	797	717
Amortization of recoverable transition costs	**226**	251	227
Maintenance	**314**	263	265
Depreciation (Note 1)	**367**	266	271
Taxes, other than income (Note 5)	**232**	155	176
Energy related businesses	**543**	535	373
Other charges			
Write-down of international energy projects (Note 9)	**113**	336	
Cancellation of generation projects (Note 9)		150	
Workforce reduction (Note 21)	**75**		
Write-down of generation assets (Note 9)	**44**		
Total	**4,189**	4,228	3,351
Operating Income	**1,240**	849	1,194
Other Income - net (Note 16)	**33**	17	(7)
Interest Expense	**560**	386	376
Income Before Income Taxes and Minority Interest	**713**	480	811
Income Taxes (Note 5)	**210**	261	294
Minority Interest (Note 1)	**78**	(2)	4
Income Before Extraordinary Item	**425**	221	513
Extraordinary Item (net of income taxes) (Note 1)			11
Income Before Cumulative Effect of a Change in Accounting Principle	**425**	221	524
Cumulative Effect of a Change in Accounting Principle (net of income taxes) (Notes 12 and 18)	**(150)**	10	
Income Before Dividends and Distributions on Preferred Securities	**275**	231	524
Dividends and Distributions - Preferred Securities	**67**	52	26
Net Income	**$ 208**	$ 179	$ 498
Basic Earnings Per Share of Common Stock (Note 4)	**$ 1.37**	$ 1.23	$ 3.45
Diluted Earnings Per Share of Common Stock (Note 4)	**$ 1.36**	$ 1.22	$ 3.44
Dividends Declared Per Share of Common Stock	**$ 1.44**	$ 1.06	$ 1.06

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

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	2002	2001	2000
Cash Flows From Operating Activities			
Net income	**$ 208**	$ 179	$ 498
Extraordinary item (net of income taxes)			11
Net income before extraordinary item	**208**	179	487
Adjustments to reconcile net income before extraordinary item to net cash provided by operating activities			
Depreciation	**289**	266	271
Amortizations - recoverable transition costs and other	**198**	224	188
Charge for cancellation of generation projects		150	
Payments to cancel generation projects	**(152)**		
Dividends received from unconsolidated affiliates	**14**	103	6
Pension income	**(42)**	(47)	(6)
Cumulative effect of a change in accounting principle	**150**	(10)	
Write-down of international energy projects	**113**	336	
Write-down of generation assets	**44**		
Dividend and distribution requirements - preferred securities	**60**	52	26
Equity in earnings of unconsolidated affiliates	**9**	(125)	(80)
Equity in earnings of WPD prior to acquiring controlling interest in 2002	**(75)**		
Deferred income taxes and investment tax credits	**85**	(47)	(59)
Workforce reduction - net of cash paid	**67**		
Unrealized (gain) loss on derivative hedging activities	**24**	(16)	
Gain on NUG contract termination	**(25)**		
NUG contract termination payment	**(50)**		
Change in current assets and current liabilities			
Accounts receivable	**(48)**	35	(151)
Accounts payable	**(73)**	(101)	82
Other - net	**(6)**	(36)	147
Other operating activities - net			
Other assets	**3**	(69)	43
Other liabilities	**3**	(3)	(83)
Net cash provided by operating activities	**796**	891	871
Cash Flows From Investing Activities			
Expenditures for property, plant and equipment	**(648)**	(565)	(460)
Proceeds from PPL Montana sale/leaseback			410
Investment in generating assets and electric energy projects	**(261)**	(312)	(570)
Acquisition of controlling interest in WPD, net of cash acquired	**(211)**		
Net (increase) decrease in notes receivable from affiliates		210	(114)
Other investing activities - net	**(9)**	(35)	(23)
Net cash used in investing activities	**(1,129)**	(702)	(757)
Cash Flows From Financing Activities			
Issuance of company-obligated mandatorily redeemable preferred securities		575	
Retirement of company-obligated mandatorily redeemable preferred securities	**(250)**		
Issuance of long-term debt		1,529	1,000
Retirement of long-term debt	**(823)**	(616)	(532)
Issuance of common stock	**592**	56	35
Payment of common and preferred dividends	**(261)**	(201)	(177)
Termination of nuclear fuel lease			(154)
Net increase (decrease) in short-term debt	**411**	(981)	45
Other financing activities - net	**(26)**	(95)	16

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Net cash provided by (used in) financing activities	**(357)**	267	233
Effect of Exchange Rates on Cash and Cash Equivalents	**2**	(3)	
Net Increase (Decrease) in Cash and Cash Equivalents	**(688)**	453	347
Cash and Cash Equivalents at Beginning of Period	**933**	480	133
Cash and Cash Equivalents at End of Period	**$ 245**	$ 933	$ 480
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for:			
Interest (net of amount capitalized)	**$ 412**	$ 373	$ 363
Income taxes	**$ 100**	$ 328	$ 266

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

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CONSOLIDATED BALANCE SHEET AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

		2002	2001
Assets			
Current Assets			
Cash and cash equivalents (Note 1)		**$ 245**	$ 933
Accounts receivable (less reserve: 2002, $112; 2001, $125)		**633**	552
Unbilled revenues		**281**	248
Fuel, materials and supplies - at average cost		**242**	251
Prepayments		**122**	33
Deferred income taxes (Note 5)		**99**	77
Price risk management assets (Notes 1 and 17)		**103**	123
Other		**135**	109
		1,860	2,326
Investments			
Investment in unconsolidated affiliates - at equity (Notes 1 and 3)		**234**	586
Investment in unconsolidated affiliates - at cost (Note 1)		**107**	114
Nuclear plant decommissioning trust fund (Note 6)		**287**	276
Other		**28**	23
		656	999
Property, Plant and Equipment - net (Note 1)			
Electric plant in service			
	Transmission and distribution	**5,603**	2,566
	Generation	**2,679**	2,464
	General	**476**	310
		8,758	5,340
Construction work in progress		**223**	181
Nuclear fuel		**129**	127
	Electric plant	**9,110**	5,648
Gas and oil plant		**204**	196
Other property		**252**	103
		9,566	5,947
Regulatory and Other Noncurrent Assets (Note 1)			
Recoverable transition costs		**1,946**	2,172
Goodwill and other intangibles (Note 18)		**663**	580
Other		**878**	538
		3,487	3,290
		$ 15,569	$ 12,562

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

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CONSOLIDATED BALANCE SHEET AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	2002	2001
Liabilities and Equity		
Current Liabilities		
Short-term debt (Note 8)	**$ 554**	$ 118
Short-term debt expected to be refinanced (Note 8)	**389**	
Long-term debt	**366**	498
Above market NUG contracts (Note 14)	**75**	87
Accounts payable	**488**	565
Taxes	**193**	138
Interest	**101**	61
Dividends	**66**	51
Price risk management liabilities (Notes 1 and 17)	**110**	106
Other	**294**	202
	2,636	1,826
Long-term Debt	**5,901**	5,081
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes and investment tax credits (Note 5)	**2,370**	1,449
Above market NUG contracts (Note 14)	**352**	493
Other (Notes 1, 6 and 12)	**1,307**	911
	4,029	2,853
Commitments and Contingent Liabilities (Note 14)		
Minority Interest (Note 1)	**36**	38
Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Company Debentures	**661**	825
Preferred Stock		
With sinking fund requirements	**31**	31
Without sinking fund requirements	**51**	51
	82	82
Shareowners' Common Equity		
Common stock	**2**	2
Capital in excess of par value	**2,539**	1,956
Treasury stock (Note 1)	**(836)**	(836)
Earnings reinvested	**1,013**	1,023
Accumulated other comprehensive loss (Notes 1 and 17)	**(446)**	(251)
Capital stock expense and other	**(48)**	(37)
	2,224	1,857
	$ 15,569	$ 12,562

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

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CONSOLIDATED STATEMENT OF SHAREOWNERS' COMMON EQUITY AND COMPREHENSIVE INCOME
PPL Corporation and Subsidiaries
(Millions of Dollars, except share amounts)

	For the Years Ended December 31,		
	2002	**2001**	**2000**
Common stock at beginning of year	**$ 2**	$ 2	$ 2
Common stock at end of year	**2**	2	2
Capital in excess of par value at beginning of year	**1,956**	1,895	1,860
Common stock issued (a)	**592**	56	35
Other	**(9)**	5	
Capital in excess of par value at end of year	**2,539**	1,956	1,895
Treasury stock at beginning of year	**(836)**	(836)	(836)
Treasury stock at end of year	**(836)**	(836)	(836)
Earnings reinvested at beginning of year	**1,023**	999	654
Net income (b)	**208**	179	498
Cash dividends declared on common stock	**(218)**	(155)	(153)
Earnings reinvested at end of year	**1,013**	1,023	999
Accumulated other comprehensive loss at beginning of year (c)	**(251)**	(36)	(55)
Foreign currency translation adjustments (b)	**125**	(234)	15
Unrealized gain (loss) on available-for-sale securities (b)	**(3)**	(4)	3
Minimum pension liability adjustments (b) (d)	**(301)**		1
Unrealized gain (loss) on qualifying derivatives (b)	**(16)**	23	
Accumulated other comprehensive loss at end of year	**(446)**	(251)	(36)
Capital stock expense and other at beginning of year	**(37)**	(12)	(12)
Issuance costs and other charges to issue common stock	**(18)**		
Issuance costs and other charges to issue PEPS Units		(25)	
Other	**7**		
Capital stock expense and other at end of year	**(48)**	(37)	(12)
Total Shareowners' Common Equity	**$ 2,224**	$ 1,857	$ 2,012
Common stock shares at beginning of year (a)	**146,580**	145,041	143,697
Common stock issued through the ESOP, DRIP, ICP, ICPKE, structured equity program and public offering	**19,156**	1,539	1,344
Common stock shares at end of year	**165,736**	146,580	145,041

(a) Shares in thousands. $.01 par value, 390 million shares authorized. Each share entitles the holder to one vote on any question presented to any shareowners' meeting.

(b) Statement of Comprehensive Income (Note 1):

Net income	**$ 208**	$ 179	$ 498
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax (benefit) of $(5), $15, $(6)	**125**	(234)	15
Unrealized gain (loss) on available-for-sale securities, net of tax (benefit) of $(2), $(3), $2	**(3)**	(4)	3
Minimum pension liability adjustments, net of tax (benefit) of $(131)	**(301)**		1
Unrealized gain (loss) on qualifying derivatives, net of tax (benefit) of $(10), $12	**(16)**	23	
Total other comprehensive income (loss)	**(195)**	(215)	19
Comprehensive Income (Loss)	**$ 13**	$ (36)	$ 517

(c) See Note 1 for disclosure of balances for each component of Accumulated Other Comprehensive Loss.

(d) See Note 12 for additional information on the adjustments to the additional minimum pension liability.

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

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CONSOLIDATED STATEMENT OF PREFERRED STOCK AT DECEMBER 31,
PPL Corporation and Subsidiaries (a)
(Millions of Dollars)

	Outstanding		Shares Outstanding	Shares Authorized
PPL Electric	**2002**	**2001**	**2002**	
Preferred Stock - $100 par, cumulative				
4-1/2%	**$ 25**	$ 25	247,524	629,936
Series	**57**	57	568,665	10,000,000
	$ 82	$ 82		

Details of Preferred Stock (b)

	Outstanding		Shares Outstanding	Optional Redemption Price Per Share	Sinking Fund Provisions: Shares to be Redeemed Annually	Sinking Fund Provisions: Redemption Period
	2002	**2001**	**2002**			
With Sinking Fund Requirements						
Series Preferred						
6.125%	**$ 17**	$ 17	167,500	$ 100.00 (c)	(d)	2003-2005
6.15%	**10**	10	97,500	100.00 (c)	97,500	April 2003
6.33%	**4**	4	46,000	100.00 (c)	46,000	July 2003
	$ 31	$ 31				
Without Sinking Fund Requirements						
4-1/2% Preferred	**$ 25**	$ 25	247,524	$ 110.00		
Series Preferred						
3.35%	**2**	2	20,605	103.50		
4.40%	**12**	12	117,676	102.00		
4.60%	**3**	3	28,614	103.00		
6.75%	**9**	9	90,770	Varies (c)		
	$ 51	$ 51				

Decreases in Preferred Stock

	2002		2001		2000	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
4-1/2% Preferred			(134)			
Series Preferred						
5.95%			(10,000)	$ (1)		
6.125%			(148,000)	(14)		

Decreases in Preferred Stock normally represent: (i) the redemption of stock pursuant to sinking fund requirements; or (ii) shares redeemed pursuant to optional provisions. There were no issuances or redemptions of preferred stock in 2002 or 2000 through these provisions.

(a) Each share of PPL Electric's preferred stock entitles the holder to one vote on any question presented to PPL Electric's shareowners' meetings. There were also 10 million shares of PPL's preferred stock and 5 million shares of PPL Electric's preference stock authorized; none were outstanding at December 31, 2002 and 2001.

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(b) The involuntary liquidation price of the preferred stock is $100 per share. The optional voluntary liquidation price is the optional redemption price per share in effect, except for the 4-1/2% Preferred Stock for which such price is $100 per share (plus in each case any unpaid dividends).

(c) These series of preferred stock are not redeemable prior to 2003: 6.125%, 6.15%, 6.33% and 6.75%.

(d) Shares to be redeemed annually on October 1 as follows: 2003-2004, 57,500; 2005, 52,500.

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

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CONSOLIDATED STATEMENT OF COMPANY-OBLIGATED MANDATORILY REDEEMABLE SECURITIES AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	Outstanding		Shares Outstanding	Shares	
	2002	**2001**	**2002**	**Authorized**	**Maturity**
Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Company Debentures					
$25 per security					
8.10% (a)		$ 150		6,000,000	July 2027(b)
8.20% (a)		100		4,000,000	April 2027(b)
7.75% (c)	**$ 575**	575	23,000,000	23,000,000	May 2006
$1,000 per security					
8.23% (d)	**86**		82,000	82,000	February 2027
	$ 661	$ 825			

(a) PPL Capital Trust and PPL Capital Trust II issued to the public a total of $250 million of preferred securities through two Delaware statutory business trusts holding solely PPL Electric debentures. PPL Electric owned all of the common securities of the subsidiary trusts, representing the remaining undivided beneficial ownership interest in the assets of the trusts. The proceeds derived from the issuance of the preferred securities and the common securities were used by PPL Capital Trust and PPL Capital Trust II to acquire $103 million and $155 million principal amount of PPL Electric Junior Subordinated Deferrable Interest Debentures (Subordinated Debentures). Thus, the preferred securities were supported by a corresponding amount of Subordinated Debentures issued by PPL Electric to the trusts.

(b) The preferred securities were subject to mandatory redemption upon the early redemption of all of the Subordinated Debentures. At the option of PPL Electric, the 8.20% Subordinated Debentures were redeemed in May 2002 and the 8.10% Subordinated Debentures were redeemed in September 2002. The redemption price was $25 per preferred security plus an amount equal to accumulated and unpaid distributions to the date of redemption.

(c) In May 2001, PPL and PPL Capital Funding Trust I, a wholly-owned finance subsidiary of PPL, issued $575 million of 7.75% PEPS Units. Each PEPS Unit consists of (i) a contract to purchase shares of PPL common stock on or prior to May 18, 2004 and (ii) a trust preferred security of PPL Capital Funding Trust I with a stated liquidation amount of $25. Each purchase contract requires PPL to make contract adjustment payments of .46% per year, paid quarterly, on the $25 stated amount of the PEPS Unit and requires the holders of the contracts to purchase a number of shares of PPL common stock on or prior to May 18, 2004. The number of shares required to be purchased will depend on the average market price of PPL's common stock prior to the purchase date, subject to certain limitations. The holders' obligations to purchase shares under the purchase contracts may be settled with the proceeds of a remarketing of the preferred securities, which have been pledged to secure these obligations. The distribution rate on each preferred security is 7.29% per year, paid quarterly, until May 18, 2004. The Trust's sole source of funds for distributions are from payments of interest on the 7.29% subordinated notes of PPL Capital Funding, due May 18, 2006, issued to the Trust. The preferred securities are expected to be remarketed in the first half of 2004. Upon a remarketing, the interest rate on the subordinated notes and the distribution rate on the preferred securities will be reset at a rate that will be equal to or greater than 7.29%. PPL has guaranteed the payment of principal and interest on the subordinated notes issued to the trust by PPL Capital Funding. PPL has also fully and unconditionally guaranteed all of the Trust's obligations under the trust preferred securities. See Note 8 for a discussion of dividend restrictions related to PPL's subsidiaries.

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(d) SIUK Capital Trust I issued $82 million of 8.23% preferred securities and invested the proceeds in 8.23% subordinated debentures issued by SIUK Limited. Thus, the preferred securities are supported by a corresponding amount of subordinated debentures. SIUK Limited owns all of the common securities of SIUK Capital Trust I. In addition, SIUK Limited has guaranteed all of SIUK Capital Trust I's obligations under the preferred securities. With PPL's acquisition of the controlling interest in WPD in September 2002, these preferred securities were consolidated on the books of PPL at their then fair value of $86 million. See Note 9 for information on the acquisition of a controlling interest in WPD.

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

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CONSOLIDATED STATEMENT OF LONG-TERM DEBT AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	Outstanding				
	2002		**2001**		**Maturity** (a)
First Mortgage Bonds (b)					
7-3/4%			$	28	May 1, 2002
6-7/8%	**$**	**19**		19	February 1, 2003
6-7/8%		**25**		25	March 1, 2004
6-1/2%		**110**		110	April 1, 2005
6.55%		**146**		146	March 1, 2006
7-3/8%		**10**		10	2013-2017
8-1/2%			(d)	11	2018-2022
6-3/4% to 7-7/8%		**72**		72	2023-2024
First Mortgage Pollution Control Bonds (b)					
6.40% Series H		**90**		90	November 1, 2021
5.50% Series I		**53**		53	February 15, 2027
6.40% Series J		**116**		116	September 1, 2029
6.15% Series K		**55**		55	August 1, 2029
Senior Secured Bonds (b)					
5-7/8%		**300**		300	August 15, 2007
6-1/4%		**500**		500	August 15, 2009
		1,496		1,535	
Series 1999-1 Transition Bonds					
6.08% to 7.15%		**1,678**	(e)	1,923	2002-2008
Medium-Term Notes - 5.75% to 8.375% (c)		**822**	(f)	1,347	2002-2007
Senior Unsecured Notes - 6.40%		**500**		500	November 1, 2011
Pollution Control Revenue Bonds - 1.54%		**9**		9	June 1, 2027
Unsecured Promissory Notes - 8.70% to 9.64%		**12**	(g)	13	2010-2022
Unsecured Bonds - 6.50% to 9.25%		**1,583**	(h)		2004-2028
Inflation Linked Bonds - 6.20% to 6.40%		**131**		130	2006-2022
Other Long Term Debt		**21**	(i)	134	2002-2012
		6,252		5,591	
Fair Value Swaps		**28**		3	
Unamortized discount		**(13)**		(15)	
		6,267		5,579	
Less amount due within one year		**(366)**		(498)	
Total Long-Term Debt	**$**	**5,901**	$	5,081	

(a) Aggregate long-term debt maturities through 2007 are (millions of dollars): 2003, $366; 2004, $576; 2005, $730; 2006, $852; 2007, $1,069.

(b) The First Mortgage Bonds and the First Mortgage Pollution Control Bonds were issued under, and are secured by, the lien of the 1945 First Mortgage Bond Indenture. The lien of the 1945 First Mortgage Bond Indenture covers substantially all electric transmission and distribution plant owned by PPL Electric. The Senior Secured Bonds were issued under the 2001 Senior Secured Bond Indenture. The Senior Secured Bonds are secured by (i) an equal principal amount of First Mortgage Bonds issued under the 1945 First Mortgage Bond Indenture and (ii) the lien of the 2001 Senior Secured Bond Indenture, which covers substantially all electric transmission and distribution plant owned by PPL Electric and which is junior to the lien of the 1945 First Mortgage Bond Indenture.

(c) PPL fully and unconditionally guarantees the medium-term notes of PPL Capital Funding, a wholly-owned finance subsidiary of PPL. See Note 8 for a discussion of dividend restrictions related to PPL's subsidiaries.

(d) In May 2002, PPL Electric redeemed and retired all of its outstanding First Mortgage Bonds, 8-1/2% Series due 2022, at an aggregate par value of $11 million through the maintenance and replacement fund provisions of its 1945 First Mortgage Bond Indenture.

(e) In August 1999, PPL Transition Bond Company issued $2.4 billion of transition bonds to securitize a portion of PPL Electric's stranded costs. The bonds were issued in eight different classes, with expected average lives of 1 to 8.7 years. Bond principal payments of $245 million were made in 2002.

(f) During 2002, PPL Capital Funding retired the following series of medium-term notes: in February 2002, $10 million of 7.75% Series due 2005; in September 2002, $175 million of floating-rate Series B due 2002 and $25 million of 7.75% Series due 2002; in October 2002, $100 million of 7.75% Series due 2005 and $15 million of 8-3/8% Series due 2007; in November 2002, $200 million of 7.7% Reset Put Securities due 2007.

(g) In September 2002, PPL Gas Utilities made a $750,000 principal payment on its 9.64% Notes due 2010.

(h) On September 6, 2002, PPL Global acquired a controlling interest in WPD, which resulted in the consolidation of WPD's assets and liabilities. (See Note 9.)

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(i) CEMAR's debt was deconsolidated when PPL relinquished control. (See Note 9.)

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

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CONSOLIDATED STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2002	2001	2000
Operating Revenues			
Wholesale energy marketing	**$ 993**	$ 989	$ 90
Wholesale energy marketing to affiliates (Note 15)	**1,434**	1,331	551
Utility	**980**	408	320
Unregulated retail electric and gas	**182**	356	559
Net energy trading margins	**19**	37	47
Energy related businesses	**546**	633	415
Total	**4,154**	3,754	1,982
Operating Expenses			
Operation			
Fuel	**503**	500	269
Energy purchases	**665**	696	208
Energy purchases from affiliates (Note 15)	**171**	194	85
Other operation and maintenance	**808**	746	465
Depreciation (Note 1)	**265**	170	99
Taxes, other than income (Note 5)	**78**	38	53
Energy related businesses	**521**	508	348
Other charges			
Write-down of international energy projects (Note 9)	**113**	336	
Cancellation of generation projects (Note 9)		150	
Workforce reduction (Note 21)	**41**		
Write-down of generation assets (Note 9)	**44**		
Total	**3,209**	3,338	1,527
Operating Income	**945**	416	455
Other Income - net (Note 16)	**48**	74	42
Interest Expense	**208**	21	25
Interest Expense with Affiliate	**3**	26	101
Income Before Income Taxes and Minority Interest	**782**	443	371
Income Taxes (Note 5)	**266**	274	125
Minority Interest (Note 1)	**78**	(2)	4
Income Before Cumulative Effect of a Change in Accounting Principle	**438**	171	242
Cumulative Effect of a Change in Accounting Principle (net of income taxes) (Notes 12 and 18)	**(150)**	3	
Income Before Distributions on Preferred Securities	**288**	174	242
Distributions - Preferred Securities	**9**		
Net Income	**$ 279**	$ 174	$ 242

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2002	2001	2000
Cash Flows From Operating Activities			
Net income	**$ 279**	$ 174	$ 242
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	**175**	170	99
Amortization - energy commitments and other	**(50)**	(61)	(38)
Dividends received from unconsolidated affiliates	**14**	103	4
Gain on NUG contract termination	**(25)**		
NUG contract termination payment	**(50)**		
Charge for cancellation of generation projects		150	
Write-down of international energy projects	**113**	336	
Write-down of generation assets	**44**		
Payments to cancel generation projects	**(152)**		
Equity in earnings of unconsolidated affiliates	**8**	(127)	(68)
Equity in earnings of WPD prior to acquiring controlling interest in 2002	**(75)**		
Deferred revenue on PLR supply to affiliate		90	
Deferred income taxes and investment tax credits	**158**	14	(19)
Workforce reduction - net of cash paid	**37**		
Unrealized (gain) loss on derivative hedging activities	**3**	(16)	
Pension income	**(20)**	(23)	
Cumulative effect of a change in accounting principle	**150**	(3)	
Change in current assets and current liabilities			
Accounts receivable	**109**	47	(9)
Accounts payable	**(32)**	(145)	242
Other - net	**(40)**	(101)	201
Other operating activities - net			
Other assets	**1**	(1)	(58)
Other liabilities	**3**	(2)	19
Net cash provided by operating activities	**650**	605	615
Cash Flows From Investing Activities			
Expenditures for property, plant and equipment	**(404)**	(380)	(280)
Proceeds from PPL Montana sale/leaseback			410
Acquisition of controlling interest in WPD, net of cash acquired	**(211)**		
Investment in generating assets and electric energy projects	**(261)**	(312)	(575)
Net (increase) decrease in notes receivable from affiliates	**(260)**	986	(914)
Other investing activities - net	**(8)**	(16)	8
Net cash provided by (used in) investing activities	**(1,144)**	278	(1,351)
Cash Flows From Financing Activities			
Issuance of long-term debt	**1**	729	
Retirement of long-term debt	**(14)**	(9)	(42)
Contributions from Member	**160**	953	17
Distributions to Member	**(710)**	(463)	(142)
Net increase (decrease) in short-term debt	**392**	(193)	(180)
Net increase (decrease) in short-term debt payable to affiliates		(1,200)	1,122
Other financing activities - net	**(3)**	(12)	9
Net cash provided by (used in) financing activities	**(174)**	(195)	784
Effect of Exchange Rates on Cash and Cash Equivalents	**2**	(3)	
Net Increase (Decrease) in Cash and Cash Equivalents	**(666)**	685	48
Cash and Cash Equivalents at Beginning of Period	**815**	130	82
Cash and Cash Equivalents at End of Period	**$ 149**	$ 815	$ 130
Supplemental Disclosures of Cash Flow Information			

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Cash paid during the period for:						
Interest (net of amount capitalized)	**$**	**97**	$	53	$	27
Income taxes	**$**	**27**	$	60	$	117
Non-cash Contributions from Member						
Intercompany notes and accounts receivable			$	920		
Net assets transferred in corporate realignment					$	1,588

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

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CONSOLIDATED BALANCE SHEET AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

		2002	2001
Assets			
Current Assets			
Cash and cash equivalents (Note 1)		**$ 149**	$ 815
Accounts receivable (less reserve: 2002, $88; 2001, $104)		**375**	350
Unbilled revenues		**165**	114
Accounts receivable from affiliates (Note 15)		**11**	113
Notes receivable from affiliates (Note 15)		**655**	305
Fuel, materials and supplies - at average cost		**200**	209
Price risk management assets (Notes 1 and 17)		**93**	123
Other		**177**	89
		1,825	2,118
Investments			
Investment in unconsolidated affiliates - at equity (Notes 1 and 3)		**234**	586
Investment in unconsolidated affiliates - at cost (Note 1)		**107**	114
Nuclear plant decommissioning trust fund (Note 6)		**287**	276
Other		**10**	7
		638	983
Property, Plant and Equipment - net (Note 1)			
Electric plant in service			
	Transmission and distribution	**3,390**	465
	Generation	**2,679**	2,464
	General	**277**	122
		6,346	3,051
Construction work in progress		**176**	146
Nuclear fuel		**129**	127
	Electric plant	**6,651**	3,324
Gas and oil plant		**23**	23
Other property		**213**	71
		6,887	3,418
Other Noncurrent Assets			
Goodwill and other intangibles (Note 18)		**490**	400
Notes receivable from affiliates			90
Other		**495**	148
		985	638
		$ 10,335	$ 7,157

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CONSOLIDATED BALANCE SHEET AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2002	2001
Liabilities and Equity		
Current Liabilities		
Short-term debt (Note 8)	**$ 539**	$ 118
Short-term debt expected to be refinanced (Note 8)	**389**	
Long-term debt	**6**	24
Accounts payable	**396**	500
Accounts payable to affiliates (Note 15)	**76**	47
Above market NUG contracts (Note 14)	**75**	87
Taxes	**114**	94
Deferred revenue on PLR energy supply to affiliate (Note 15)	**12**	11
Price risk management liabilities (Notes 1 and 17)	**96**	97
Other	**257**	154
	1,960	1,132
Long-term Debt	**2,225**	737
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes and investment tax credits (Note 5)	**1,027**	55
Above market NUG contracts (Note 14)	**352**	493
Nuclear plant decommissioning (Note 6)	**296**	294
Deferred revenue on PLR energy supply to affiliate (Note 15)	**69**	79
Other (Notes 1 and 12)	**777**	357
	2,521	1,278
Commitments and Contingent Liabilities (Note 14)		
Minority Interest (Note 1)	**36**	38
Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Company Debentures	**86**	
Member's Equity	**3,507**	3,972
	$ 10,335	$ 7,157

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

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CONSOLIDATED STATEMENT OF MEMBER'S EQUITY AND COMPREHENSIVE INCOME
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	For the Years Ended December 31,		
	2002	**2001**	**2000**
Member's Equity at beginning of year	**$ 3,972**	$ 2,577	$ 922
Member's contributions	**160**	1,873	1,540
Net income (a)	**279**	174	242
Other comprehensive income (loss), net of tax: (b)			
Foreign currency translation adjustments (a) (c)	**125**	(234)	15
Unrealized gain (loss) on qualifying derivatives (a)	**(23)**	46	
Minimum pension liability adjustments (a) (d)	**(296)**	(1)	
Distributions to Member	**(710)**	(463)	(142)
Member's Equity at end of period	**$ 3,507**	$ 3,972	$ 2,577
(a) Statement of Comprehensive Income (Note 1):			
Net income	**$ 279**	$ 174	$ 242
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax (benefit) of $(5), $15, $(6)	**125**	(234)	15
Unrealized gain (loss) on qualifying derivatives, net of tax (benefit) of $(15), $29	**(23)**	46	
Minimum pension liability adjustments, net of tax (benefit) of $(128), $0	**(296)**	(1)	
Total other comprehensive income (loss)	**(194)**	(189)	15
Comprehensive Income (Loss)	**$ 85**	$ (15)	$ 257

(b) See Note 1 for disclosure of balances for each component of Accumulated Other Comprehensive Loss.

(c) Includes a $94 million credit for the write-off of the CEMAR cumulative translation adjustment in June 2002. See Note 9 for additional information.

(d) See Note 12 for additional information on the adjustments to the additional minimum pension liability.

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

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CONSOLIDATED STATEMENT OF COMPANY-OBLIGATED MANDATORILY REDEEMABLE SECURITIES AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

		Outstanding		Shares Outstanding	Shares	
		2002	**2001**	**2002**	**Authorized**	**Maturity**
Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Company Debentures - $1,000 per security						
	8.23% (a)	**$ 86**		82,000	82,000	February 2027

(a) SIUK Capital Trust I issued $82 million of 8.23% preferred securities and invested the proceeds in 8.23% subordinated debentures issued by SIUK Limited. Thus, the preferred securities are supported by a corresponding amount of subordinated debentures. SIUK Limited owns all of the common securities of SIUK Capital Trust I. In addition, SIUK Limited has guaranteed all of SIUK Capital Trust I's obligations under the preferred securities. With PPL's acquisition of the controlling interest in WPD in September 2002, these preferred securities were consolidated on the books of PPL at their then fair value of $86 million. See Note 9 for information on the acquisition of a controlling interest in WPD.

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CONSOLIDATED STATEMENT OF LONG-TERM DEBT AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	Outstanding			
	2002		**2001**	**Maturity** (a)
6.40% Senior Unsecured Notes	**$ 500**		$ 500	November 1, 2011
6.50% to 9.25% Unsecured Bonds	**1,583**	(b)		2004-2028
18% Banco Rural S.A. - Brazilian real denominated		(c)	6	2002
5% - 10% Electrobras - Brazilian real denominated		(c)	73	2012
13% Electronorte S.A. - U.S. dollar denominated		(c)	15	2005
LIBOR Brazilian Govt. - U.S. dollar denominated		(c)	9	2002-2024
6.20% Bonds - UF denominated debt	**71**		71	2006
6.40% Bonds - UF denominated debt	**59**		59	2022
6% Bolivian Govt.	**10**		11	2002-2013
2.57% - 18% UF denominated debt with various banks	**6**		9	2002-2013
9% Note payable	**2**		3	2002-2004
Other Long-Term Debt	**4**		9	2002-2011
	2,235		765	
Unamortized discount	**(4)**		(4)	
	2,231		761	
Less amount due within one year	**(6)**		(24)	
Total Long-Term Debt	**$ 2,225**		$ 737	

(a) Aggregate long-term debt maturities through 2007 are (millions of dollars): 2003, $6; 2004, $187; 2005, $4; 2006, $418; 2007, $182. There are no debt securities outstanding that have sinking fund requirements.

(b) On September 6, 2002, PPL Global acquired a controlling interest in WPD, which resulted in the consolidation of WPD's assets and liabilities. (See Note 9.)

(c) CEMAR's debt was deconsolidated when PPL relinquished control. (See Note 9.)

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

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CONSOLIDATED STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2002	2001	2000
Operating Revenues			
Retail electric	**$ 2,527**	$ 2,437	$ 2,413
Retail electric to affiliate	**23**	20	10
Wholesale electric	**28**	33	805
Wholesale electric to affiliate (Note 15)	**160**	176	86
Energy related businesses	**10**	28	22
Total	**2,748**	2,694	3,336
Operating Expenses			
Operation			
Fuel			200
Energy purchases	**208**	177	857
Energy purchases from affiliate (Note 15)	**1,431**	1,325	552
Other	**252**	237	360
Amortization of recoverable transition costs	**226**	251	227
Maintenance	**67**	51	147
Depreciation (Note 1)	**94**	91	167
Taxes, other than income (Note 5)	**153**	116	134
Energy related businesses	**9**	27	23
Workforce reduction (Note 21)	**33**		
Total	**2,473**	2,275	2,667
Operating Income	**275**	419	669
Other Income - net (Note 16)	**16**	16	17
Interest Expense	**218**	230	231
Interest Expense with affiliate			8
Income Before Income Taxes	**73**	205	447
Income Taxes (Note 5)	**18**	65	171
Income Before Extraordinary Item	**55**	140	276
Extraordinary Item (net of income taxes) (Note 1)			11
Income Before Cumulative Effect of a Change in Accounting Principle	**55**	140	287
Cumulative Effect of a Change in Accounting Principle (net of income taxes) (Note 12)		5	
Income Before Dividends and Distributions on Preferred Securities	**55**	145	287
Dividends and Distributions - Preferred Securities	**16**	26	26
Net Income	**$ 39**	$ 119	$ 261

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

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2002	2001	2000
Cash Flows From Operating Activities			
Net income	**$ 39**	$ 119	$ 261
Extraordinary item (net of income taxes)			11
Net income before extraordinary item	**39**	119	250
Adjustments to reconcile net income before extraordinary item to net cash provided by operating activities			
Depreciation	**94**	91	167
Amortizations - recoverable transition costs and other	**245**	260	217
Dividend and distribution requirements - preferred securities	**16**	26	26
Deferred income taxes and investment tax credits	**21**	31	(9)
Workforce reduction - net of cash paid	**31**		
Prepayment on PLR energy supply from affiliate		(90)	
Pension income	**(17)**	(24)	(4)
Cumulative effect of a change in accounting principle		(5)	
Change in current assets and current liabilities			
Accounts receivable	**(65)**	76	22
Accounts payable	**(97)**	(113)	(192)
Other - net	**5**	33	339
Other operating activities - net			
Other assets	**11**	(22)	37
Other liabilities	**(9)**	10	(50)
Net cash provided by operating activities	**274**	392	803
Cash Flows From Investing Activities			
Expenditures for property, plant and equipment	**(223)**	(134)	(242)
Net (increase) decrease in notes receivable from parent and affiliates	**260**	(280)	142
Other investing activities - net	**4**	(18)	31
Net cash provided by (used in) investing activities	**41**	(432)	(69)
Cash Flows From Financing Activities			
Issuance of long-term debt		800	
Retirement of long-term debt	**(285)**	(465)	(380)
Retirement of company-obligated mandatorily redeemable preferred securities	**(250)**		
Contribution from parent	**240**		
Purchase of treasury stock		(280)	
Retirement of preferred stock		(15)	
Payment of common and preferred dividends	**(85)**	(107)	(140)
Termination of nuclear fuel lease			(154)
Cash of subsidiaries divested in corporate realignment (Note 19)			(73)
Net increase (decrease) in short-term debt	**15**	(59)	239
Other financing activities - net		(22)	(11)
Net cash used in financing activities	**(365)**	(148)	(519)
Net Increase (Decrease) in Cash and Cash Equivalents	**(50)**	(188)	215
Cash and Cash Equivalents at Beginning of Period	**79**	267	52
Cash and Cash Equivalents at End of Period	**$ 29**	$ 79	$ 267
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for:			
Interest (net of amount capitalized)	**$ 222**	$ 214	$ 227
Income taxes	**$ 32**	$ 63	$ 91

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

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CONSOLIDATED BALANCE SHEET AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2002	2001
Assets		
Current Assets		
Cash and cash equivalents (Note 1)	**$ 29**	$ 79
Accounts receivable (less reserve: 2002, $23; 2001, $19)	**216**	185
Unbilled revenues	**113**	131
Accounts receivable from affiliates (Note 15)	**44**	18
Notes receivable from affiliates (Note 15)	**90**	350
Income tax receivable	**35**	35
Prepayments	**51**	4
Prepayment on PLR energy supply from affiliate (Note 15)	**12**	11
Deferred income taxes (Note 5)	**43**	41
Other	**36**	29
	669	883
Property, Plant and Equipment - net (Note 1)		
Electric utility plant in service		
Transmission and distribution	**2,214**	2,101
General	**192**	183
	2,406	2,284
Construction work in progress	**46**	32
Electric utility plant	**2,452**	2,316
Other property	**4**	3
	2,456	2,319
Regulatory and Other Noncurrent Assets (Note 1)		
Recoverable transition costs	**1,946**	2,172
Intangibles (Note 18)	**118**	125
Prepayment on PLR energy supply from affiliate (Note 15)	**69**	79
Other	**325**	343
	2,458	2,719
	$ 5,583	$ 5,921

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

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CONSOLIDATED BALANCE SHEET AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2002	2001
Liabilities and Equity		
Current Liabilities		
Short-term debt (Note 8)	**$ 15**	
Long-term debt	**274**	$ 274
Accounts payable	**42**	34
Accounts payable to affiliates (Note 15)	**24**	122
Taxes	**96**	74
Interest	**34**	34
Other	**63**	46
	548	584
Long-term Debt	**2,901**	3,185
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes and investment tax credits (Note 5)	**780**	757
Other (Notes 1 and 12)	**125**	132
	905	889
Commitments and Contingent Liabilities (Note 14)		
Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Company Debentures		250
Preferred Stock		
With sinking fund requirements	**31**	31
Without sinking fund requirements	**51**	51
	82	82
Shareowner's Common Equity		
Common stock	**1,476**	1,476
Additional paid-in capital	**282**	51
Treasury stock (Note 1)	**(912)**	(912)
Earnings reinvested	**308**	332
Capital stock expense and other	**(7)**	(16)
	1,147	931
	$ 5,583	$ 5,921

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

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CONSOLIDATED STATEMENT OF SHAREOWNER'S COMMON EQUITY AND COMPREHENSIVE INCOME
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, except share amounts)

	For the Years Ended December 31,		
	2002	**2001**	**2000**
Common stock at beginning of year	**$ 1,476**	$ 1,476	$ 1,476
Common stock at end of year	**1,476**	1,476	1,476
Additional paid-in capital at beginning of year	**51**	55	55
Capital contribution from PPL	**240**		
Return of capital in conjunction with plan of division		(5)	
Other	**(9)**	1	
Additional paid-in capital at end of year	**282**	51	55
Treasury stock at beginning of year	**(912)**	(632)	(632)
Treasury stock purchased		(280)	
Treasury stock at end of year	**(912)**	(912)	(632)
Earnings reinvested at beginning of year	**332**	277	419
Net income (a)	**39**	119	261
Cash dividends declared on common stock	**(63)**	(64)	(132)
Common distribution in corporate realignment			(271)
Earnings reinvested at end of year	**308**	332	277
Accumulated other comprehensive income (loss) at beginning of year			(6)
Transfer of minimum pension liability in corporate realignment (a) (b)			6
Accumulated other comprehensive income (loss) at end of year			
Capital stock expense and other at beginning of year	**(16)**	(16)	(16)
Other	**9**		
Capital stock expense and other at end of year	**(7)**	(16)	(16)
Total Shareowner's Common Equity	**$ 1,147**	$ 931	$ 1,160
Common stock shares at beginning of year (c)	**78,030**	102,230	102,230
Treasury stock purchased		(24,200)	
Common stock shares at end of year	**78,030**	78,030	102,230
(a) Statement of Comprehensive Income (Note 1):			
Net income	**$ 39**	$ 119	$ 261
Other comprehensive income:			
Transfer of minimum pension liability in corporate realignment			6
Total other comprehensive income			6
Comprehensive Income	**$ 39**	$ 119	$ 267

(b) The adjustment in 2000 represents the transfer of the minimum pension liability to PPL Services in the corporate realignment.

(c) Shares in thousands. No par value. 170 million shares authorized. All common shares of PPL Electric stock are owned by PPL.

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

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CONSOLIDATED STATEMENT OF PREFERRED STOCK AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries (a)
(Millions of Dollars)

	Outstanding		Shares Outstanding	Shares Authorized
	2002	**2001**	**2002**	
Preferred Stock - $100 par, cumulative				
4-1/2%	**$ 25**	$ 25	247,524	629,936
Series	**57**	57	568,665	10,000,000
	$ 82	$ 82		

Details of Preferred Stock (b)

	Outstanding		Shares Outstanding	Optional Redemption Price Per Share	Sinking Fund Provisions: Shares to be Redeemed Annually	Sinking Fund Provisions: Redemption Period
	2002	**2001**	**2002**			
With Sinking Fund Requirements						
Series Preferred						
6.125%	**$ 17**	$ 17	167,500	$ 100.00 (c)	(d)	2003-2005
6.15%	**10**	10	97,500	100.00 (c)	97,500	April 2003
6.33%	**4**	4	46,000	100.00 (c)	46,000	July 2003
	$ 31	$ 31				
Without Sinking Fund Requirements						
4-1/2% Preferred	**$ 25**	$ 25	247,524	$ 110.00		
Series Preferred						
3.35%	**2**	2	20,605	103.50		
4.40%	**12**	12	117,676	102.00		
4.60%	**3**	3	28,614	103.00		
6.75%	**9**	9	90,770	Varies (c)		
	$ 51	$ 51				

Decreases in Preferred Stock

	2002		2001		2000	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
4-1/2% Preferred			(134)			
Series Preferred						
5.95%			(10,000)	$ (1)		
6.125%			(148,000)	(14)		

Decreases in Preferred Stock normally represent: (i) the redemption of stock pursuant to sinking fund requirements; or (ii) shares redeemed pursuant to optional provisions. There were no issuances or redemptions of preferred stock in 2002 or 2000 through these provisions.

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(a) Each share of PPL Electric's preferred stock entitles the holder to one vote on any question presented to PPL Electric's shareowners' meetings. There were 5 million shares of PPL Electric's preference stock authorized; none were outstanding at December 31, 2002 and 2001.

(b) The involuntary liquidation price of the preferred stock is $100 per share. The optional voluntary liquidation price is the optional redemption price per share in effect, except for the 4-1/2% Preferred Stock for which such price is $100 per share (plus in each case any unpaid dividends).

(c) These series of preferred stock are not redeemable prior to 2003: 6.125%, 6.15%, 6.33% and 6.75%.

(d) Shares to be redeemed annually on October 1 as follows: 2003-2004, 57,500; 2005, 52,500.

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CONSOLIDATED STATEMENT OF COMPANY-OBLIGATED MANDATORILY REDEEMABLE SECURITIES AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries (a)
(Millions of Dollars)

	Outstanding		Shares Outstanding	Shares	Maturity
	2002	2001	2002	Authorized	(b)
Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Company Debentures - $25 per security					
8.10%		$ 150		6,000,000	July 2027
8.20%		100		4,000,000	April 2027
		$ 250			

(a) PPL Capital Trust and PPL Capital Trust II issued to the public a total of $250 million of preferred securities through two Delaware statutory business trusts holding solely PPL Electric debentures. PPL Electric owns all of the common securities of the subsidiary trusts, representing the remaining undivided beneficial ownership interest in the assets of the trusts. The proceeds derived from the issuance of the preferred securities and the common securities were used by PPL Capital Trust and PPL Capital Trust II to acquire $103 million and $155 million principal amount of PPL Electric Junior Subordinated Deferrable Interest Debentures (Subordinated Debentures). Thus, the preferred securities are supported by a corresponding amount of Subordinated Debentures issued by PPL Electric to the trusts.

(b) The preferred securities were subject to mandatory redemption upon the early redemption of all of the Subordinated Debentures. At the option of PPL Electric, the 8.20% Subordinated Debentures were redeemed in May 2002 and the 8.10% Subordinated Debentures were redeemed in September 2002. The redemption price was $25 per preferred security plus an amount equal to accumulated and unpaid distributions to the date of redemption.

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CONSOLIDATED STATEMENT OF LONG-TERM DEBT AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	Outstanding				
	2002		**2001**		**Maturity** (a)
First Mortgage Bonds (b)					
7-3/4%			$	28	May 1, 2002
6-7/8%	**$ 19**			19	February 1, 2003
6-7/8%	**25**			25	March 1, 2004
6-1/2%	**110**			110	April 1, 2005
6.55%	**146**			146	March 1, 2006
7-3/8%	**10**			10	2013-2017
8-1/2%		(c)		11	2018-2022
6-3/4% to 7-7/8%	**72**			72	2023-2024
First Mortgage Pollution Control Bonds (b)					
6.40% Series H	**90**			90	November 1, 2021
5.50% Series I	**53**			53	February 15, 2027
6.40% Series J	**116**			116	September 1, 2029
6.15% Series K	**55**			55	August 1, 2029
Senior Secured Bonds (b)					
5-7/8%	**300**			300	August 15, 2007
6-1/4%	**500**			500	August 15, 2009
	1,496			1,535	
Series 1999-1 Transition Bonds					
6.08% to 7.15%	**1,678**	(d)		1,923	2002-2008
Pollution Control Revenue Bonds - 1.54%	**9**			9	June 1, 2027
	3,183			3,467	
Unamortized discount	**(8)**			(8)	
	3,175			3,459	
Less amount due within one year	**(274)**			(274)	
Total Long-Term Debt	**$ 2,901**		$	3,185	

(a) Aggregate long-term debt maturities through 2007 are (millions of dollars): 2003, $274; 2004, $289; 2005, $376; 2006, $434; 2007, $600. There are no bonds outstanding that have sinking fund requirements.

(b) The First Mortgage Bonds and the First Mortgage Pollution Control Bonds were issued under, and are secured by, the lien of the 1945 First Mortgage Bond Indenture. The lien of the 1945 First Mortgage Bond Indenture covers substantially all electric transmission and distribution plant owned by PPL Electric. The Senior Secured Bonds were issued under the 2001 Senior Secured Bond Indenture. The Senior Secured Bonds are secured by (i) an equal principal amount of First Mortgage Bonds issued under the 1945 First Mortgage Bond Indenture and (ii) the lien of the 2001 Senior Secured Bond Indenture, which covers substantially all electric transmission and distribution plant owned by PPL Electric and which is junior to the lien of the 1945 First Mortgage Bond Indenture.

(c) In May 2002, PPL Electric redeemed and retired all of its outstanding First Mortgage Bonds, 8-1/2% Series due 2022, at an aggregate par value of $11 million through the maintenance and replacement fund provisions of its 1945 First Mortgage Bond Indenture.

(d) In August 1999, PPL Transition Bond Company issued $2.4 billion of transition bonds to securitize a portion of PPL Electric's stranded costs. The bonds were issued in eight different classes, with expected average lives of 1 to 8.7 years. Bond principal payments of $245 million were made in 2002.

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

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CONSOLIDATED STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Montana, LLC and Subsidiaries
(Millions of Dollars)

	2002	2001	2000
Operating Revenues			
Wholesale energy marketing	**$ 237**	$ 335	$ 394
Wholesale energy marketing to affiliate (Note 15)	**68**	80	33
Net energy trading margins	**(1)**	6	8
Other	**2**	3	3
Total	**306**	424	438
Operating Expenses			
Operation			
Fuel	**32**	30	32
Energy purchases	**53**	82	100
Other operation and maintenance	**98**	101	95
Transmission	**7**	8	13
Depreciation (Note 1)	**11**	10	13
Taxes, other than income (Note 5)	**17**	16	15
Total	**218**	247	268
Operating Income	**88**	177	170
Other Income - net		3	
Interest Expense	**6**	9	27
Income Before Income Taxes	**82**	171	143
Income Taxes (Note 5)	**35**	68	57
Net Income	**$ 47**	$ 103	$ 86

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

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Montana, LLC and Subsidiaries
(Millions of Dollars)

	2002	2001	2000
Cash Flows From Operating Activities			
Net income	**$ 47**	$ 103	$ 86
Adjustments to reconcile net income to net cash provided by operating activities			
Allowance for doubtful accounts		28	19
Depreciation and amortization	**11**	10	15
Amortization - wholesale energy commitments	**(17)**	(20)	(19)
Deferred income taxes	**(14)**	7	(11)
Changes in current assets and liabilities:			
Accounts receivable	**(5)**	38	(97)
Accounts receivable/payable to Member	**(14)**	(27)	41
Accounts receivable/payable to affiliate	**6**	(22)	17
Accounts payable and accrued expenses	**(2)**	(17)	57
Other	**2**	(11)	(8)
Net cash provided by operating activities	**14**	89	100
Cash Flows From Investing Activities			
Proceeds from sale of property, plant and equipment		5	410
Expenditures for property, plant and equipment	**(19)**	(26)	(14)
Net cash provided by (used in) investing activities	**(19)**	(21)	396
Cash Flows From Financing Activities			
Repayments of short-term debt			(365)
Borrowings on revolving line of credit	**80**	60	23
Repayments on revolving line of credit	**(98)**	(16)	(28)
Distribution to Member		(167)	(50)
Net cash used in financing activities	**(18)**	(123)	(420)
Net Increase (Decrease) in Cash and Cash Equivalents	**(23)**	(55)	76
Cash and Cash Equivalents at Beginning of Period	**24**	79	3
Cash and Cash Equivalents at End of Period	**$ 1**	$ 24	$ 79
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for:			
Interest	**$ 1**	$ 2	$ 16
Income taxes	**$ 32**	$ 88	$ 1
Gain deferred on sale of assets			$ 8

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

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CONSOLIDATED BALANCE SHEET AT DECEMBER 31,
PPL Montana, LLC and Subsidiaries
(Millions of Dollars)

	2002	2001
Assets		
Current Assets		
Cash and cash equivalents (Note 1)	**$ 1**	$ 24
Accounts receivable (less reserve: 2002, $47; 2001, $47)	**26**	22
Accounts receivable from joint owners	**8**	6
Accounts receivable from affiliates		4
Accounts receivable from Member	**2**	
Fuel, materials and supplies - at average cost	**6**	6
Price risk management assets (Notes 1 and 17)	**12**	14
Deferred income taxes (Note 5)	**17**	4
Prepayments and other	**4**	4
	76	84
Noncurrent Assets		
Property, plant and equipment - net (Note 1)	**433**	425
Deferred income taxes (Note 5)	**12**	20
Other	**122**	122
	567	567
	$ 643	$ 651
Liabilities and Equity		
Current Liabilities		
Accounts payable	**$ 31**	$ 36
Accounts payable to affiliates	**1**	
Accounts payable to Member		11
Revolving line of credit (Note 8)	**26**	44
Accrued expenses	**17**	14
Price risk management liabilities (Notes 1 and 17)	**12**	4
Wholesale energy commitments (Note 14)	**2**	13
	89	122
Noncurrent Liabilities		
Employee benefit obligations	**27**	16
Wholesale energy commitments (Note 14)	**62**	65
Other (Note 12)	**31**	27
	120	108
Commitments and Contingent Liabilities (Note 14)		
Member's Equity	**434**	421
	$ 643	$ 651

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

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CONSOLIDATED STATEMENT OF MEMBER'S EQUITY AND COMPREHENSIVE INCOME
PPL Montana, LLC and Subsidiaries
(Millions of Dollars)

	For the Years Ended December 31,		
	2002	**2001**	**2000**
Member's Equity at beginning of year	**$ 421**	$ 453	$ 417
Net income (a)	**47**	103	86
Other comprehensive income (loss), net of tax: (b)			
Unrealized gain (loss) on qualifying derivatives (a)	**(29)**	33	
Minimum pension liability adjustment (a)	**(5)**	(1)	
Distribution to Member		(167)	(50)
Member's Equity at end of year	**$ 434**	$ 421	$ 453
(a) Statement of Comprehensive Income:			
Net income	**$ 47**	$ 103	$ 86
Other comprehensive income (loss):			
Unrealized gain (loss) on qualifying derivatives, net of tax (benefit) of $(19), $21	**(29)**	33	
Minimum pension liability adjustment	**(5)**	(1)	
Total other comprehensive income (loss)	**(34)**	32	
Comprehensive Income	**$ 13**	$ 135	$ 86

(b) See Note 1 for disclosure of balances for each component of Accumulated Other Comprehensive Income.

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

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Terms and abbreviations appearing in Combined Notes to Consolidated Financial Statements are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

1. **Summary of Significant Accounting Policies**

Business and Consolidation

(PPL, PPL Energy Supply and PPL Electric)

PPL is an energy and utility holding company that, through its subsidiaries, is primarily engaged in the generation and marketing of electricity in the northeastern and western U.S. and in the delivery of electricity in Pennsylvania, the U.K. and Latin America. Based in Allentown, Pennsylvania, PPL is the parent of PPL Energy Funding, PPL Electric, PPL Gas Utilities, PPL Services and PPL Capital Funding.

(PPL and PPL Energy Supply)

PPL Energy Funding is the parent of PPL Energy Supply, which serves as the holding company for PPL's principal unregulated subsidiaries. PPL Energy Supply was formed in November 2000 to engage in competitive energy businesses. In May 2001, PPL Energy Funding contributed its interests in PPL Generation, PPL EnergyPlus and PPL Global to PPL Energy Supply, after receipt of required regulatory approvals. As a result, PPL Energy Supply is now the parent of PPL Generation, PPL EnergyPlus and PPL Global. PPL Energy Funding is the sole Member of PPL Energy Supply.

PPL Generation owns and operates a portfolio of domestic power generating assets. These power plants are located in Pennsylvania, Montana, Arizona, Illinois, Connecticut, New York and Maine and use well-diversified fuel sources including coal, nuclear, natural gas, oil and hydro. PPL EnergyPlus markets or brokers electricity produced by PPL Generation, along with purchased power, natural gas and oil in competitive wholesale and deregulated retail markets, primarily in the northeastern and western portions of the U.S. PPL Global acquires and develops domestic generation projects that are, in turn, operated by PPL Generation as part of its portfolio of generation assets. PPL Global also acquires and holds international energy projects that are primarily focused on the distribution of electricity.

(PPL and PPL Electric)

PPL Electric is the principal regulated subsidiary of PPL. PPL Electric's principal businesses are the transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania, and the supply of electricity to retail customers in that territory as a PLR.

The consolidated financial statements include the accounts of PPL Electric and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated.

(PPL Montana)

PPL Montana commenced operations in December 1999, after the purchase of substantially all the generation assets and certain contracts of the utility division of Montana Power. PPL Montana operates steam generation and hydroelectric facilities throughout Montana. PPL Montana has been designated as an EWG under the Federal Power Act and sells wholesale power throughout the western U.S.

The consolidated financial statements include the accounts of PPL Montana, a Delaware limited-liability company, and its direct wholly-owned subsidiaries PPL Colstrip I, LLC and PPL Colstrip II, LLC. The subsidiaries have no assets or operations and bear no relationship to Colstrip Units 1 and 2. All significant intercompany accounts and transactions have been eliminated. PPL Montana Holdings, LLC is the sole Member of PPL Montana and is an indirect wholly-owned subsidiary of PPL.

(PPL and PPL Energy Supply)

PPL and PPL Energy Supply consolidate the financial statements of their affiliates when they have control. All significant intercompany transactions have been eliminated. Minority interests in operating results and equity ownership are reflected in the consolidated financial statements.

The consolidated financial statements reflect the accounts of all controlled affiliates on a current basis, with the exception of certain PPL Global investments. It is the policy of PPL Global to consolidate foreign affiliates and record equity in earnings of affiliates on a lag,

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based on the availability of financial data on a U.S. GAAP basis:

Earnings from foreign equity method investments are recorded on a three-month lag.
PPL Global consolidates the results of controlled subsidiaries, WPD, Emel, EC, the Bolivian subsidiaries and other investments, on a one-month lag. The portion of the subsidiaries' earnings owned by outside shareowners is included in "Minority Interest" in the consolidated financial statements.

PPL Global's investments in CGE and CEMAR (effective August 21, 2002) are accounted for using the cost method. Dividends from these investments are recorded as income when received.

Predecessor Businesses and Basis of Presentation *(PPL Energy Supply)*

The SEC requires financial information of a registrant's predecessors for all periods prior to a registrant's existence. The following business and asset acquisitions were identified as predecessors to PPL Energy Supply:

1950 - Realty Company of Pennsylvania
1960 - Lady Jane Collieries, Inc.
1968 - Pennsylvania Mines, LLC
1975 - Greene Manor Coal Company
1976 - PPL Interstate Energy Company
1977 - BDW Corporation
1995 - PPL Global, LLC; PPL Spectrum, Inc.
1998 - PPL EnergyPlus, LLC; H. T. Lyons, Inc.; McClure Company
1999 - generation assets acquired from Montana Power (forming PPL Montana, LLC); PPL Rights, Inc.; Burns Mechanical, Inc.; McCarl's Inc.; PPL Energy Services Northeast, Inc. (formerly Western Mass. Holdings, Inc.); PPL Synfuel Investments, LLC; PPL Somerset, LLC; PPL Maine, LLC
2000 - Clymer Fuel, LLC; generation assets transferred by PPL Electric Utilities Corporation in the July 1, 2000 corporate realignment (formed as subsidiaries of PPL Generation, LLC. See Note 19).

Since acquisition or formation, each entity identified above remained a wholly-owned subsidiary of PPL or its subsidiaries. Therefore, the entities listed above have been combined as one collective predecessor for purposes of satisfying SEC financial statement requirements for 2000, based on their respective acquisition or formation dates. In the balance of these notes, "PPL Energy Supply" refers to the predecessors of PPL Energy Supply as presented above for 2000.

Certain line items in these PPL Energy Supply financial statements may not be consistent with the financial statements previously issued in connection with the Securities Act of 1934 filing requirements of PPL, due to reclassifications, as well as eliminations at different levels of consolidation.

Use of Estimates/Contingencies *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PPL records loss contingencies in accordance with SFAS 5, "Accounting for Contingencies."

Accounting Records *(PPL and PPL Electric)*

The accounting records for PPL Electric and PPL Gas Utilities are maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the PUC.

Cash Equivalents *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

All highly liquid debt instruments purchased with original maturities of three months or less are considered to be cash equivalents.

Property, Plant and Equipment

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

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Property, plant and equipment is recorded at original cost, unless impaired under the provisions of SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," or SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." Original cost includes material, labor, contractor costs, construction overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. PPL records costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs are accrued in advance of the period in which the work is performed.

When a component of property, plant or equipment is retired that was depreciated under the composite or group method, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit is retired or sold that was depreciated under the composite or group method, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators. See discussion of depreciation methods below.

AFUDC is capitalized as part of the construction costs for regulated projects. Interest is capitalized as part of construction costs for non-regulated projects.

(PPL)

Depreciation is computed over the estimated useful lives of property using various methods including the straight-line, composite and group methods. The annual provisions for depreciation have been computed principally in accordance with the following ranges of asset lives: generation, 5-50 years; transmission and distribution, 15-80 years; and general, 3-80 years. PPL periodically reviews and adjusts the depreciable lives of its fixed assets.

Following are the classes of PPL property, plant and equipment, with the associated accumulated depreciation, at December 31:

	2002	2001
Electric plant		
Transmission and distribution	$ 7,279	$ 3,973
Generation	7,407	7,144
General	744	481
Construction work in progress	223	180
Nuclear fuel	129	127
Gas and oil	323	304
Other property	301	131
	16,406	12,340
Less: Accumulated depreciation	6,840	6,393
	$ 9,566	$ 5,947

(PPL Energy Supply)

Depreciation is computed over the estimated useful lives of property using various methods including the straight-line, composite and group methods. The annual provisions for depreciation have been computed principally in accordance with the following ranges of asset lives: generation, 5-50 years; transmission and distribution, 30-40 years; and general, 3-60 years. PPL Energy Supply periodically reviews and adjusts the depreciable lives of its fixed assets.

Following are the classes of PPL Energy Supply property, plant and equipment, with the associated accumulated depreciation, at December 31:

	2002	2001
Electric plant		
Generation	$ 7,407	$ 7,144
Transmission and distribution	3,695	556
Nuclear fuel	129	127
Construction work in progress	176	146
General	409	164
Gas and oil	64	67
Other property	262	96
	12,142	8,300
Less: Accumulated depreciation	5,255	4,882
	$ 6,887	$ 3,418

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(PPL Electric)

Depreciation is computed over the estimated useful lives of property using various methods including the straight-line, composite and group methods. The annual provisions for depreciation have been computed principally in accordance with the following ranges of asset lives: transmission and distribution, 15-80 years, and general, 10-80 years. PPL Electric periodically reviews and adjusts the depreciable lives of its fixed assets if approved by regulators.

When a component of regulated property, plant or equipment is retired, the original cost plus the cost of retirement, less salvage, is charged to accumulated depreciation.

Following are the classes of PPL Electric property, plant and equipment, with the associated accumulated depreciation, at December 31:

	2002	2001
Electric plant		
Transmission and distribution	$ 3,584	$ 3,412
General	324	312
Construction work in progress	46	32
Other property	5	5
	3,959	3,761
Less: Accumulated depreciation	1,503	1,442
	$ 2,456	$ 2,319

(PPL Montana)

Depreciation is computed over the estimated useful lives of property using various methods including the straight-line, composite and group methods. The annual provisions for depreciation have been computed principally in accordance with the following ranges of asset lives: electric generation plant in-service, 30-45 years and non-generation property, 5-55 years. PPL Montana periodically reviews and adjusts the depreciable lives of its fixed assets.

Following are the classes of PPL Montana property, plant and equipment, with the associated accumulated depreciation, at December 31:

	2002	2001
Electric generation plant	$ 388	$ 371
Non-generation property	41	42
Land	15	15
Construction work in progress	14	14
	458	442
Less: Accumulated depreciation	25	17
	$ 433	$ 425

Asset Impairment *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

Long-lived assets and identifiable intangibles held and used by PPL and its subsidiaries are reviewed for impairment when events or circumstances indicate carrying amounts may not be recoverable. Such reviews were performed in accordance with SFAS 144 in 2002 and SFAS 121 in prior years. SFAS 144 and SFAS 121 required impairment losses to be recognized if the asset's carrying amount was not recoverable from undiscounted future cash flow. The impairment charge is measured by the difference between the asset's carrying amount and fair value. Equity investments are reviewed for impairment in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." APB Opinion No. 18 provides that "a loss in value of an investment which is other than a temporary decline should be recognized." PPL identifies and measures loss in value of equity investments based upon a comparison of fair value to carrying value.

Project Development Costs *(PPL and PPL Energy Supply)*

PPL Global expenses the costs of evaluating potential acquisition and development opportunities as incurred. Acquisition and development costs are capitalized upon approval of the investment by the PPL Global Board of Managers and the Finance Committee of PPL's Board of Directors or, if later, the achievement of sufficient project milestones such that the economic viability of the project is reasonably assured. The level of assurance needed for capitalization of such costs requires that all major uncertainties be resolved and that there be a high probability that the project will proceed as planned, or that such costs will be recoverable through long-term operations, a financing or a sale.

The continued capitalization of project development and acquisition costs is subject to on-going risks related to successful completion. In the

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event that PPL Global determines that a particular project is no longer viable, previously capitalized costs are charged to expense in the period that such determination is made.

Regulation

(PPL and PPL Electric)

Historically, PPL Electric accounted for its regulated operations, which included transmission, distribution and generation, in accordance with the provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation," which requires rate-regulated entities to reflect the effects of regulatory decisions in their financial statements. PPL Electric discontinued application of SFAS 71 for the generation portion of its business, effective June 30, 1998. In connection with the corporate realignment, effective July 1, 2000, PPL Electric's generating and certain other related assets, along with associated liabilities, were transferred to new unregulated subsidiaries of PPL Generation. PPL Electric's remaining regulated business and PPL Gas Utilities continue to be subject to SFAS 71.

The following regulatory assets were included in the "Regulatory and Other Noncurrent Assets" section of the Balance Sheet at December 31:

	PPL		PPL Electric	
	2002	**2001**	**2002**	**2001**
Recoverable transition costs	$ 1,946	$ 2,172	$ 1,946	$ 2,172
Taxes recoverable through future rates	260	253	235	239
Other	13	11	8	6
	$ 2,219	$ 2,436	$ 2,189	$ 2,417

Based on the PUC Final Order, PPL Electric was amortizing its competitive transition (or stranded) costs over an 11-year transition period effective January 1, 1999. In August 1999, competitive transition costs of $2.4 billion were converted to intangible transition costs when they were securitized by the issuance of transition bonds. The intangible transition costs are being amortized over the life of the transition bonds, August 1999 through December 2008, in accordance with an amortization schedule filed with the PUC. The assets of PPL Transition Bond Company, including the intangible transition property, are not available to creditors of PPL or PPL Electric. The transition bonds are obligations of PPL Transition Bond Company and are non-recourse to PPL and PPL Electric. The remaining competitive transition costs are also being amortized based on an amortization schedule previously filed with the PUC, adjusted for those competitive transition costs that were converted to intangible transition costs. As a result of the conversion of a significant portion of the competitive transition costs into intangible transition costs, amortization of substantially all of the remaining competitive transition costs will occur in 2009.

(PPL and PPL Energy Supply)

Certain PPL Global affiliates continue to be subject to SFAS 71. Although subject to price-cap regulation (as described in Note 14), WPD is not subject to SFAS 71.

Accounting for Derivatives and Other Contracts Held for Trading Purposes *(PPL, PPL Energy Supply and PPL Montana)*

PPL Energy Supply and PPL Montana enter into energy and energy-related contracts. PPL and PPL Energy Supply enter into interest rate derivative contracts to hedge their exposure to changes in the fair value of their debt instruments and to hedge their exposure to variability in expected cash flows associated with existing debt instruments or forecasted transactions. PPL and PPL Energy Supply also enter into foreign currency derivative contracts to hedge foreign currency exposures, including firm commitments, recognized assets or liabilities, forecasted transactions or net investments.

As of January 1, 2001, contracts that meet the definition of a derivative are accounted for under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." Certain energy contracts have been excluded from SFAS 133's requirements because they meet the definition of a "normal sale or purchase" under DIG Issue C15, "Scope Exceptions: Normal Purchases and Normal Sales Exception for Certain Option-Type Contracts and Forward Contracts in Electricity." These contracts are reflected in the financial statements using the accrual method of accounting. See Note 17 for additional information on SFAS 133.

Under SFAS 133, all derivatives are recognized on the balance sheet at their fair value. On the date the derivative contract is executed, PPL designates the derivative as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), a foreign currency fair value or cash flow hedge ("foreign currency" hedge), a hedge of a net investment in a foreign operation or a trading derivative. Changes in the fair value of a derivative that is highly effective as, and is designated and qualifies as, a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk, are recorded in current-period earnings. Changes in the fair value of a derivative that is highly effective as, and is designated as and qualifies as, a cash flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows being hedged. Changes in the fair value of

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derivatives that are designated as and qualify as foreign currency hedges are recorded in either current-period earnings or other comprehensive income, depending on whether the hedge transaction is a fair value hedge or a cash flow hedge. If, however, a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair value, to the extent effective as a hedge, are recorded in the cumulative foreign currency translation adjustments account within equity. Changes in the fair value of derivatives that are not designated as hedging instruments are reported in current-period earnings.

Unrealized gains and losses from changes in market prices of energy contracts accounted for as fair value hedges are reflected in "Energy purchases" on the Statement of Income, as are changes in the underlying positions. Gains and losses from changes in market prices of energy contracts accounted for as cash flow hedges, when recognized on the Statement of Income, are reflected in "Wholesale energy marketing" revenues or "Energy purchases," consistent with the hedged item. Gains and losses from changes in the market price of interest rate derivative contracts, when recognized on the Statement of Income, are accounted for in "Interest Expense."

PPL has adopted the accounting requirements under EITF 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." As such, PPL now reflects its net realized and unrealized gains and losses associated with all derivatives that are held for trading purposes in the "Net energy trading margins" line on the Statement of Income. Non-derivative contracts that met the definition of energy trading activities as defined by EITF 98-10, "Accounting for Energy Trading and Risk Management Activities" are reflected in the financial statements using the accrual method of accounting. Prior periods have been restated.

Gains or losses on interest rate derivative contracts that settled prior to the adoption of SFAS 133 were deferred and are being recognized over the life of the debt. Market gains and losses on foreign currency derivative contracts that settled prior to the adoption of SFAS 133 were recognized in accordance with SFAS 52, "Foreign Currency Translation," and are included in "Foreign currency translation adjustments," a component of accumulated other comprehensive income (loss).

Revenue Recognition

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

Operating revenues, except for energy related businesses, are recorded based on deliveries through the end of the calendar month. Unbilled retail revenues result because customers' meters are read and bills are rendered throughout the month, rather than all being read at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh.

"Energy related businesses" revenue includes revenues from PPL Global and the mechanical contracting and engineering subsidiaries. PPL Global's revenue reflects its proportionate share of affiliate earnings under the equity method of accounting, as described in the "Business and Consolidation" section of Note 1, and dividends received from its investments are accounted for using the cost method. The mechanical contracting and engineering subsidiaries record profits from construction contracts on the percentage-of-completion method of accounting. Income from time and material contracts is recognized currently as the work is performed. Costs include all direct material and labor costs and job-related overhead. Provisions for estimated loss on uncompleted contracts, if any, are made in the period in which such losses are determined.

(PPL and PPL Energy Supply)

WPD revenues are stated net of value added tax.

Utility Revenue

(PPL and PPL Energy Supply)

The Statement of Income "Utility" line item contains revenues from domestic and international rate-regulated delivery operations, including WPD. These revenues were previously reported as "Retail electric and gas" and "Wholesale energy marketing and trading" by PPL and as "Retail electric and gas" by PPL Energy Supply.

(PPL Electric)

Since most of PPL Electric's operations are regulated, it is not meaningful to use a "Utility" caption. Therefore, the revenues of PPL Electric are presented according to specific types of revenue.

Income Taxes

(PPL)

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The income tax provision for PPL is calculated in accordance with SFAS 109, "Accounting for Income Taxes."

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return.

(PPL Energy Supply)

The income tax provision for PPL Energy Supply is calculated in accordance with SFAS 109, "Accounting for Income Taxes." The taxable income or loss is included in the consolidated U.S. federal income tax return of PPL. The income tax provision for PPL Energy Supply is calculated in accordance with an intercompany tax sharing policy which provides that the taxable income be calculated as if PPL Energy Supply and its domestic subsidiaries filed a separate consolidated return.

(PPL and PPL Electric)

The provision for PPL Electric's deferred income taxes for regulated assets is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. The difference in the provision for deferred income taxes for regulated assets and the amount that otherwise would be recorded under U.S. GAAP is deferred and included in taxes recoverable through future rates in "Regulatory and Other Noncurrent Assets - Other" on the Balance Sheet. See Note 5 for additional information.

PPL Electric deferred investment tax credits when they were utilized and is amortizing the deferrals over the average lives of the related assets.

PPL Electric and its subsidiaries are included in the consolidated federal income tax return of PPL. The income tax provision for PPL Electric is calculated in accordance with an intercompany tax sharing policy which provides that the taxable income be calculated as if PPL Electric and its subsidiaries filed a separate consolidated return.

(PPL Montana)

PPL Montana is a limited liability company and has elected to be disregarded as a separate entity for federal and state income tax purposes. PPL Montana's taxable income or loss is included in the consolidated federal and state income tax returns of PPL. The Member is a party to a tax sharing policy that provides that the Member is responsible for taxes associated with PPL Montana's operations. The income tax provision for PPL Montana is calculated in accordance with SFAS 109. Income taxes are presented in the accompanying financial statements as if PPL Montana files separate returns. The current tax benefit or provision recognized for each period is reported in "Accounts receivable from" or "Accounts payable to" Member on the Balance Sheet, as applicable.

Leases

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

PPL and its subsidiaries apply the provisions of SFAS 13, "Accounting for Leases," to all leasing transactions. In addition, PPL applies the provisions of numerous other accounting pronouncements that provide specific guidance and additional requirements related to accounting for leases.

See Note 10 for a discussion of accounting for leases under which PPL, PPL Energy Supply, PPL Electric and PPL Montana are lessees.

(PPL and PPL Energy Supply)

In August 2002, PPL began commercial operation of its 79.9 MW oil powered station in Shoreham, New York. The Long Island Power Authority has contracted to purchase all of the plant's capacity and ancillary services as part of a 15-year power purchase agreement with PPL EnergyPlus. The capacity payments in the power purchase agreement result in the plant being classified as a direct-financing lease, under which PPL EnergyPlus is the lessor. SFAS 13, "Accounting for Leases," required PPL Energy Supply to remove the plant assets from the balance sheet, and replace them with a receivable for the gross capacity payments and unearned income for the expected lease revenues. As of December 31, 2002, PPL and PPL Energy Supply had a receivable balance of $260 million (included in "Current Assets - Other" and "Regulatory and Other Noncurrent Assets - Other" for PPL and "Current Assets - Other" and "Other Noncurrent Assets - Other" for PPL Energy Supply) and an unearned revenue balance of $152 million (included in "Deferred Credits and Other Noncurrent Liabilities - Other"). Rental income received through this direct-financing lease during 2002 was $5 million, and total future minimum lease payments expected to be received are estimated at $12 million for each of the years from 2003 through 2007.

Stock-Based Compensation

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

PPL grants stock options, restricted stock and stock units to employees and directors under several stock-based compensation plans, as detailed

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in Note 11. SFAS 123, "Accounting for Stock-Based Compensation," encourages entities to record compensation expense for stock-based employee compensation plans at fair value but provides the option of measuring compensation expense using the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." As of December 31, 2002, PPL and its subsidiaries accounted for stock-based compensation in accordance with APB Opinion No. 25.

PPL and its subsidiaries adopted the fair value method of accounting for stock-based compensation effective January 1, 2003 using the prospective method of transition permitted by SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123." See Note 22 for further discussion of SFAS 148 and this adoption. Use of the fair value method under SFAS 123 requires the recognition of compensation expense for stock options issued by PPL which APB Opinion No. 25 did not require. As currently structured, awards of restricted stock and stock units will result in the same amount of compensation expense under the fair value method of SFAS 123 as they did under the intrinsic value method of APB Opinion No. 25.

The following table illustrates the effect on net income and EPS if the fair value method had been used to account for stock-based compensation in the years shown:

(PPL)

	2002	2001	2000
Income			
Net Income - as reported	$ 208	$ 179	$ 498
Add: Stock-based employee compensation expense included in reported net income, net of tax	3	3	3
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of tax	8	6	4
Pro forma net income	$ 203	$ 176	$ 497

	2002	2001	2000
EPS			
Basic - as reported	$ 1.37	$ 1.23	$ 3.45
Basic - pro forma	$ 1.34	$ 1.21	$ 3.44
Diluted - as reported	$ 1.36	$ 1.22	$ 3.44
Diluted - pro forma	$ 1.33	$ 1.20	$ 3.43

(PPL Energy Supply)

Recognition of stock-based compensation expense determined under the fair value method would have decreased PPL Energy Supply's reported earnings by $2 million, $1 million and an immaterial amount in 2002, 2001 and 2000.

(PPL Electric and PPL Montana)

Stock-based compensation expense for PPL Electric and PPL Montana was immaterial under both the intrinsic value and fair value methods.

Pension and Other Postretirement Benefits *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

See Note 12 for a discussion of accounting for pension and other postretirement benefits.

Comprehensive Income

(PPL)

Comprehensive income consists of net income and other comprehensive income, defined as changes in common equity from transactions not related to shareowners. Other comprehensive income consists of unrealized gains or losses on available-for-sale securities and qualifying derivatives, the excess of additional pension liability over unamortized prior service costs, and foreign currency translation adjustments recorded by PPL Global. Comprehensive income is reflected on the Statement of Shareowners' Common Equity and Comprehensive Income, and "Accumulated other comprehensive loss" is presented on the Balance Sheet.

The accumulated other comprehensive loss of PPL consisted of the following at December 31:

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	2002	2001
Foreign currency translation adjustments	$ (143)	$ (268)
Unrealized losses on available-for-sale securities	(4)	(1)
Minimum pension liability	(306)	(5)
Unrealized gains on qualifying derivatives	7	23
	$ (446)	$ (251)

(PPL Energy Supply)

Comprehensive income consists of net income and other comprehensive income, defined as changes in Member's equity from transactions other than with the Member. Other comprehensive income consists of foreign currency translation adjustments recorded by PPL Global, unrealized gains or losses on available-for-sale securities and qualifying derivatives, and the excess of additional pension liability over unamortized prior service costs. Comprehensive income is reflected on the Statement of Member's Equity and Comprehensive Income, and accumulated other comprehensive loss is included in Member's Equity on the Balance Sheet.

The accumulated other comprehensive loss of PPL Energy Supply consisted of the following at December 31:

	2002	2001
Foreign currency translation adjustments	$ (143)	$ (268)
Unrealized losses on available-for-sale securities	(2)	(2)
Minimum pension liability	(297)	(1)
Unrealized gains on qualifying derivatives	23	46
	$ (419)	$ (225)

(PPL Montana)

Comprehensive income consists of net income and other comprehensive income, defined as changes in Member's equity from transactions other than with the Member. Other comprehensive income consists of unrealized gains or losses on qualifying derivatives and the excess of additional pension liability over unamortized prior service costs. Comprehensive income is reflected on the Statement of Member's Equity and Comprehensive Income. The accumulated other comprehensive income (loss) of PPL Montana at December 31, 2002 and 2001 was $(2) million and $32 million. The 2002 balance consisted of the following: minimum pension liability adjustment of $(6) million, and unrealized gains on qualifying derivatives of $4 million.

Treasury Stock *(PPL and PPL Electric)*

Treasury shares are reflected on the balance sheet as an offset to common equity under the cost method of accounting. Management has no definitive plans for the future use of these shares. Treasury shares are not considered outstanding in calculating EPS.

Foreign Currency Translation and Transactions *(PPL and PPL Energy Supply)*

Assets and liabilities of international operations, where the local currency is the functional currency, are translated at year-end exchange rates, and related revenues and expenses are translated at average exchange rates prevailing during the year. Adjustments resulting from translation are recorded in accumulated other comprehensive income.

Gains or losses relating to foreign currency transactions are recognized currently in income. The aggregate transaction gain (loss) was $(9) million and $8 million in 2002 and 2001, and was not significant in 2000.

Independent System Operator *(PPL, PPL Energy Supply and PPL Electric)*

Certain PPL subsidiaries participate in PJM in several roles. Certain PPL subsidiaries also participate in the New England Power Pool (NEPOOL) and the New York ISO (NYISO) in a less significant way. In PJM, PPL EnergyPlus is a marketer, a load-serving entity to its customer-choice customers and a seller for PPL's Pennsylvania generation subsidiaries. PPL Electric is a transmission owner and provider of last resort load in PJM. In NEPOOL, PPL EnergyPlus is a marketer and a seller for PPL's New England generating assets. In the NYISO, PPL EnergyPlus acts as a marketer. PPL Electric does not participate in NEPOOL or NYISO.

A function of interchange accounting is to match participants' MWh entitlements (generation plus scheduled bilateral purchases) against their MWh obligations (load plus scheduled bilateral sales) during every hour of every day. If the net result during any given hour is an entitlement, the participant is credited with a spot market sale to the ISO at the respective market price for that hour; if the net result is an obligation, the participant is charged with a spot market purchase from the ISO at the respective market price for that hour. ISO purchases and sales are not

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allocated to individual customers.

PPL records the hourly net sales and purchases in its financial statements as sales to and purchases from the respective ISOs, in accordance with the FERC and industry accounting.

Extraordinary Item *(PPL and PPL Electric)*

In December 2000, PPL Electric recorded an $11 million extraordinary credit relating to wholesale power activity.

Reclassifications *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

Certain amounts in the 2001 and 2000 financial statements have been reclassified to conform to the current presentation.

New Accounting Standards *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

See Note 22 for a discussion of new accounting standards.

2. **Segment and Related Information**

(PPL and PPL Energy Supply)

PPL's reportable segments are Supply, Delivery and International. The Supply segment primarily consists of the domestic energy marketing, domestic generation and domestic development operations of PPL Energy Supply. The Delivery segment includes the regulated electric and gas delivery operations of PPL Electric and PPL Gas Utilities. The International segment includes PPL Global's responsibility for the acquisition and holding of international energy projects. The majority of PPL Global's international investments are located in the U.K., Chile, El Salvador and Bolivia.

PPL Energy Supply's reportable segments are Supply and International. The International segment at the PPL Energy Supply level is consistent with the International segment at the PPL level. The Supply segment information reported at the PPL Energy Supply level will not agree with the Supply segment information reported at the PPL level. Additional Supply segment functions, including telecommunications, exist at PPL that are outside of PPL Energy Supply. Furthermore, certain income items, including PLR revenue and certain interest income, exist at the PPL Energy Supply level, but are eliminated in consolidation at the PPL level. Finally, certain expense items are fully allocated to the segments at the PPL level only.

Segments include direct charges, as well as an allocation of indirect corporate costs, for services provided by PPL Services. These service costs include functions such as financial, legal, human resources and information services.

See Note 15 for a discussion of the PLR contracts between PPL Electric and PPL EnergyPlus. PPL EnergyPlus' sales to PPL Electric, to meet PPL Electric's PLR load, are included in the Supply segment of PPL Energy Supply. PPL Electric's sales of this electricity to its PLR customers are included in the Delivery segment of PPL. There are no intersegment revenues for PPL or PPL Energy Supply.

Previously reported information has been reclassified to conform to the current presentation. Financial data for the segments are as follows:

(PPL)

		2002	2001	2000
Income Statement Data				
Revenues from external customers				
	Supply	$ 1,640	$ 1,630	$ 1,677
	Delivery	2,706	2,867	2,413
	International (a)	1,083	580	455
		5,429	5,077	4,545
Equity in earnings of unconsolidated affiliates				
	Supply	(12)	12	2
	International (a)	3	113	78
		(9)	125	80
Depreciation				
	Supply	129	126	137
	Delivery	100	96	104
	International (a)	138	44	30
		367	266	271

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Amortizations - recoverable transition costs, nuclear fuel and other				
	Supply	(38)	(35)	(48)
	Delivery	236	259	236
		198	224	188
Interest income				
	Supply	(5)	3	(28)
	Delivery	20	10	27
	International (a)	13	2	14
		28	15	13
Interest expense				
	Supply	106	58	109
	Delivery	214	233	230
	International (a)	240	95	37
		560	386	376
Income taxes				
	Supply	119	153	221
	Delivery	24	71	59
	International (a)	67	37	14
		210	261	294
Extraordinary item				
	Delivery			11
				11
Net Income				
	Supply	356	368	325
	Delivery	48	126	113
	International (b)	(196)	(315)	60
		$ 208	$ 179	$498
Cash Flow Data				
Expenditures for property, plant and equipment				
	Supply	$ 299	$ 290	$278
	Delivery	236	149	148
	International	113	126	34
		648	565	460
Investment in generating assets and electric energy projects				
	Supply	261	176	97
	International (c)	211	136	473
		$ 472	$ 312	$570

		As of December 31,	
		2002	**2001**
Balance Sheet Data			
Net investment in unconsolidated affiliates - at equity			
	Supply	$ 198	$ 211
	International (d)	36	375
		234	586
Total assets			
	Supply	4,930	4,716
	Delivery	5,867	6,097
	International (d)	4,772	1,749
		$ 15,569	$ 12,562

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Geographic Data

Revenues from external customers			
Domestic	$ 4,346	$ 4,497	$ 4,090
Foreign (a)	1,083	580	455
	$ 5,429	$ 5,077	$ 4,545

	As of December 31,	
	2002	**2001**
Property, plant and equipment		
Domestic	$ 5,797	$ 5,367
Foreign (d)	3,769	580
	$ 9,566	$ 5,947

(PPL Energy Supply)

		2002	**2001**	**2000**
Income Statement Data				
Revenues from external customers				
	Supply	$ 3,071	$ 3,174	$ 1,527
	International (a)	1,083	580	455
		4,154	3,754	1,982
Equity in earnings of unconsolidated affiliates				
	Supply	(11)	14	(10)
	International (a)	3	113	78
		(8)	127	68
Depreciation				
	Supply	127	126	69
	International (a)	138	44	30
		265	170	99
Amortizations - nuclear fuel and energy commitments				
	Supply	(50)	(61)	(38)
		(50)	(61)	(38)
Interest income				
	Supply	26	61	28
	International (a)	13	2	14
		39	63	42
Interest expense				
	Supply	(29)	(48)	89
	International (a)	240	95	37
		211	47	126
Income taxes				
	Supply	199	237	111
	International (a)	67	37	14
		266	274	125

		2002	**2001**	**2000**
Net Income (loss)				
	Supply	475	489	182
	International (b)	(196)	(315)	60
		$ 279	$ 174	$ 242
Cash Flow Data				
Expenditures for property, plant and equipment				
	Supply	$ 291	$ 254	$ 246
	International	113	126	34
		404	380	280
Investment in generating assets and electric energy projects				
	Supply	261	176	102

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International (c)	211	136	473
	$ 472	$ 312	$ 575

	As of December 31, 2002	As of December 31, 2001
Balance Sheet Data		
Net investment in unconsolidated affiliates - at equity		
Supply	$ 198	$ 211
International (d)	36	375
	234	586
Total assets		
Supply	5,563	5,408
International (d)	4,772	1,749
	$ 10,335	$ 7,157

	2002	2001	2000
Geographic Data			
Revenues from external customers			
Domestic	$ 3,071	$ 3,174	$ 1,527
Foreign (a)	1,083	580	455
	$ 4,154	$ 3,754	$ 1,982

	As of December 31, 2002	As of December 31, 2001
Property, plant and equipment		
Domestic	$ 3,118	$ 2,838
Foreign (d)	3,769	580
	$ 6,887	$ 3,418

(a) The period ended December 31, 2002 contains the results of WPD. See Note 9 for additional information on the acquisition of a controlling interest in WPD.
(b) The International segment includes the "Cumulative Effect of a Change in Accounting Principle" recorded in March 2002. See Note 18 for additional information. The International segment also includes the write-downs of the CEMAR investment described in Note 9.
(c) The 2002 amount represents the acquisition of the controlling interest in WPD.
(d) The December 31, 2002 balance sheet includes the consolidation of the accounts of WPD. See Note 9 for additional information on the acquisition of WPD.

3. **Investment in Unconsolidated Affiliates - at Equity**

(PPL and PPL Energy Supply)

Investments in unconsolidated affiliates accounted for under the equity method by both PPL and PPL Energy Supply were $234 million and $586 million at December 31, 2002 and 2001. The balance at December 31, 2001 included PPL Global's investment in WPDH Limited, which was $328 million. In the third quarter of 2002, PPL Global acquired a controlling interest in WPD. As a result, PPL Global fully consolidated the financial results of WPD at September 30, 2002. See Note 9 for additional information.

Investment in unconsolidated affiliates accounted for under the equity method at December 31, 2002, and the effective equity ownership percentages, were as follows:

PPL Global:
Aguaytia Energy, LLC - 11.4%
Hidro Iberica, B.V. - 50.0%

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Latin American Energy & Electricity Fund I, LP - 16.6%
Transemel - 60.0%
Wind Resources Limited - 45.0%

PPL Generation:
Safe Harbor Water Power Corporation - 33.3%
Bangor Pacific Hydro Associates - 50.0%
Southwest Power Partners, LLC - 50.0%

Summarized below is information from the financial statements of unconsolidated affiliates accounted for under the equity method, underlying the amounts included in PPL's and PPL Energy Supply's consolidated financial statements:

	2002	2001	2000
Income Statement Data (a)			
Revenues	$ 118	$ 111	$ 99
Operating Income	13	42	40
Net Income (Loss)	(9)	52	15

	December 31, 2002	December 31, 2001
Balance Sheet Data (a)		
Current Assets	$ 139	$ 144
Noncurrent Assets	807	865
Current Liabilities	31	37
Noncurrent Liabilities	298	310

(a) For purpose of comparability, the summarized information of WPD is excluded from all periods.

4. **Earnings Per Share**

(PPL)

Basic EPS is calculated by dividing "Net Income" on the Statement of Income by the weighted average number of common shares outstanding during the period. In the calculation of diluted EPS, weighted average shares outstanding are increased for additional shares that would be outstanding if potentially dilutive securities were converted to common stock.

Potentially dilutive securities consist of stock options granted under the incentive compensation plans, stock units representing common stock granted under directors compensation programs and PEPS Units.

Dividends and distributions on preferred securities are included in net income in the computation of basic and diluted EPS.

The basic and diluted EPS calculations, and the reconciliation of the shares (in thousands) used in the calculations, are shown below:

	2002	2001	2000
Income (Numerator)			
Net Income - before extraordinary item and cumulative effect of a change in accounting principle	$ 358	$ 169	$ 487
Extraordinary item (net of tax)			11
Cumulative effect of a change in accounting principle (net of tax)	(150)	10	
Net Income	$ 208	$ 179	$ 498

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Shares (Denominator)			
Shares for Basic EPS	152,492	145,974	144,350
Add: Incremental shares			
Stock options	244	569	364
Stock units	73	71	67
Shares for Diluted EPS	152,809	146,614	144,781
Basic EPS			
Net Income - before extraordinary item and cumulative effect of a change in accounting principle	$ 2.35	$ 1.16	$ 3.38
Extraordinary item (net of tax)			0.07
Cumulative effect of a change in accounting principle (net of tax)	(0.98)	0.07	
Net Income	$ 1.37	$ 1.23	$ 3.45
Diluted EPS			
Net Income - before extraordinary item and cumulative effect of a change in accounting principle	$ 2.35	$ 1.15	$ 3.37
Extraordinary item (net of tax)			0.07
Cumulative effect of a change in accounting principle (net of tax)	(0.99)	0.07	
Net Income	$ 1.36	$ 1.22	$ 3.44

See Note 12 for a description of the cumulative effect of a change in accounting for pension gains and losses and the pro forma effect of retroactive application of the change in accounting.

See Note 18 for a description of the cumulative effect of a change in accounting related to the adoption of SFAS 142 and the elimination of goodwill amortization, as well as the pro forma effect of retroactive application of the elimination of goodwill amortization.

In May 2001, PPL issued 23 million PEPS Units that contain a purchase contract component for PPL's common stock. The purchase contract would settle between 8.8 million and 10.8 million of PPL's common shares, depending on a conversion ratio tied to the price of PPL's common stock. The PEPS Units will only be dilutive if the average price of PPL's common stock exceeds $65.03 for any period. Since the weighted average price has not exceeded $65.03 since issuance, they were excluded from the diluted EPS calculations.

Stock options to purchase approximately 1,294,000 and 896,000 PPL common shares for 2002 and 2001 were not included in those period's computation of diluted EPS because the exercise price of the options was greater than the average market price of the common shares. Therefore, the effect would have been antidilutive.

5. **Income and Other Taxes**

For 2002, 2001 and 2000, the corporate federal income tax rate was 35%. The statutory corporate net income tax rates for Pennsylvania and Montana were 9.99% and 6.75%.

(PPL)

The tax effects of significant temporary differences comprising PPL's net deferred income tax liability were as follows:

	2002	2001
Deferred Tax Assets		
Deferred investment tax credits	$ 54	$ 60
NUG contracts & buybacks	203	272
Accrued pension costs	214	74
Deferred foreign income taxes	233	69
Cancellation of generation projects		60

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Write-down of generating assets	18	
Impairment write-down	91	61
Contribution in aid of construction	56	42
Other	209	200
Valuation allowance	(327)	(132)
	751	706
Deferred Tax Liabilities		
Electric plant - net	922	852
Restructuring - CTC	778	861
Taxes recoverable through future rates	104	104
Reacquired debt costs	11	12
Foreign-plant	792	
Foreign-pensions	167	
Foreign-other	35	42
Other domestic	83	63
	2,892	1,934
Net deferred tax liability	$ 2,141	$ 1,228

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations for accounting purposes, and details of taxes other than income are as follows:

	2002	2001	2000
Income Tax Expense			
Current-Federal	$ 41	$ 270	$ 285
Current-State	(9)	36	57
Current-Foreign	52	8	11
	84	314	353
Deferred-Federal	70	(86)	(52)
Deferred-State	27	4	12
Deferred-Foreign	44	44	(4)
	141	(38)	(44)
Investment tax credit, net-federal	(15)	(15)	(15)
Total	$ 210	$ 261	$ 294
Total income tax expense-Federal	$ 96	$ 169	$ 218
Total income tax expense-State	18	40	69
Total income tax expense-Foreign	96	52	7
Total	$ 210	$ 261	$ 294

	2002	2001	2000
Reconciliation of Income Tax Expense			
Indicated federal income tax on pre-tax income before extraordinary item and a cumulative effect of a change in accounting principle at statutory tax rate - 35%	$ 250	$ 168	$ 284
Increase/(decrease) due to:			
State income taxes	11	25	45
Flow through of depreciation differences not previously normalized			2
Amortization of investment tax credit	(11)	(11)	(11)
Write-down of international energy projects	14	144	
Difference related to income recognition of foreign affiliates (net of foreign income taxes)	18	(9)	(7)
Federal income tax credits	(50)	(40)	(6)
Other	(22)	(16)	(13)
	(40)	93	10

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Total income tax expense	$ 210	$ 261	$ 294
Effective income tax rate	29.5%	54.4%	36.3%
Taxes, Other than Income			
State gross receipts	$ 154	$ 112	$ 128
State utility realty	3	4	6
State capital stock	7	20	23
Property-international	42		
Domestic property and other	26	19	19
	$ 232	$ 155	$ 176

PPL Global had foreign net operating loss carryforwards of approximately $28 million and $34 million at December 31, 2002 and 2001. PPL Global also had foreign capital loss carryforwards of $760 million at December 31, 2002 and none at December 31, 2001. All of these losses have an unlimited carryforward period. However, it is more likely than not that these losses will not be utilized and as such, a full valuation allowance has been provided.

PPL Global does not pay or record U.S. income taxes on the undistributed earnings of its foreign subsidiaries where management has determined that the earnings are permanently reinvested. The cumulative undistributed earnings are included in "Earnings reinvested" on the Balance Sheet. The amounts considered permanently reinvested at December 31, 2002 and 2001 were $295 million and $38 million. If the earnings were remitted as dividends, PPL Global may be subject to additional U.S. taxes, net of allowable foreign tax credits. It is not practical to estimate the amount of additional taxes that might be payable on these foreign earnings.

(PPL Energy Supply)

The tax effects of significant temporary differences comprising PPL Energy Supply's net deferred income tax asset (liability) were as follows:

	2002	2001
Deferred Tax Assets		
Deferred investment tax credits	$ 42	$ 47
NUG contracts & buybacks	203	272
Accrued pension costs	159	25
Deferred foreign income taxes	233	69
Cancellation of generation projects		60
Write-down of generating assets	18	
Impairment write-down	91	61
Other	107	98
Valuation allowance	(327)	(132)
	526	500
Deferred Tax Liabilities		
Electric plant - net	393	358
Foreign investments	21	14
Foreign-plant	792	
Foreign-pensions	167	
Foreign-other	35	42
Other domestic	16	10
	1,424	424
Net deferred tax asset (liability)	$ (898)	$ 76

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations for accounting purposes, and details of taxes, other than income are as follows:

	2002	2001	2000

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Income Tax Expense			
Current-Federal	$ 22	$ 210	$ 109
Current-State	(6)	44	24
Current-Foreign	52	8	11
	68	262	144
Deferred-Federal	134	(22)	(10)
Deferred-State	32	2	1
Deferred-Foreign	44	44	(4)
	210	24	(13)
Investment tax credit, net-federal	(12)	(12)	(6)
Total	$ 266	$ 274	$ 125
Total income tax expense-Federal	$ 144	$ 176	$ 93
Total income tax expense-State	26	46	25
Total income tax expense-Foreign	96	52	7
Total	$ 266	$ 274	$ 125

	2002	2001	2000
Reconciliation of Income Tax Expense			
Indicated federal income tax on pre-tax income before extraordinary item and a cumulative effect of a change in accounting principle at statutory tax rate - 35%	$ 274	$ 155	$ 130
Increase/(decrease) due to:			
State income taxes	17	31	16
Amortization of investment tax credit	(8)	(8)	(4)
Write-down of international energy projects	14	144	
Difference related to income recognition of foreign affiliates (net of foreign income taxes)	18	(9)	(7)
Federal income tax credits	(50)	(40)	(6)
Other	1	1	(4)
	(8)	119	(5)
Total income tax expense	$ 266	$ 274	$ 125
Effective income tax rate	34.0%	61.9%	33.6%
Taxes, Other than Income			
State gross receipts	$ 4	$ 7	$ 24
State capital stock	9	11	10
Property-international	42		
Domestic property and other	23	20	19
	$ 78	$ 38	$ 53

PPL Global had foreign net operating loss carryforwards of approximately $28 million and $34 million at December 31, 2002 and 2001. PPL Global also had foreign capital loss carryforwards of $760 million at December 31, 2002 and none at December 31, 2001. All of these losses have an unlimited carryforward period. However, it is more likely than not that these losses will not be utilized and as such, a full valuation allowance has been provided.

PPL Global does not pay or record U.S. income taxes on the undistributed earnings of its foreign subsidiaries where management has determined that the earnings are permanently reinvested. The cumulative undistributed earnings are included in Member's Equity on the Balance Sheet. The amounts considered permanently reinvested at December 31, 2002 and 2001 were $295 million and $38 million. If the earnings were remitted as dividends, PPL Global may be subject to additional U.S. taxes, net of allowable foreign tax credits. It is not practical to estimate the amount of additional taxes that might be payable on these undistributed foreign earnings.

(PPL Electric)

The tax effects of significant temporary differences comprising PPL Electric's net deferred income tax liability were as follows:

	2002	2001
Deferred Tax Assets		
Deferred investment tax credits	$ 11	$ 12
Accrued pension costs	33	31
Contribution in aid of construction	55	41

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Other	61	63
	160	147
Deferred Tax Liabilities		
Electric utility plant - net	529	494
Restructuring - CTC	223	220
Taxes recoverable through future rates	99	99
Reacquired debt costs	10	12
Other	11	11
	872	836
Net deferred tax liability	$712	$689

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations for accounting purposes, and details of taxes other than income are as follows:

	2002	2001	2000
Income Tax Expense			
Current-Federal	$ (8)	$ 31	$ 144
Current-State	5	6	35
	(3)	37	179
Deferred-Federal	27	27	(10)
Deferred-State	(3)	4	10
	24	31	
Investment tax credit, net-federal	(3)	(3)	(8)
Total	$ 18	$ 65	$ 171
Total income tax expense-Federal	$ 16	$ 55	$ 126
Total income tax expense-State	2	10	45
Total	$ 18	$ 65	$ 171
	2002	**2001**	**2000**
Reconciliation of Income Tax Expense			
Indicated federal income tax on pre-tax income before extraordinary item and cumulative effect of a change in accounting principle at statutory tax rate - 35%	$ 26	$ 72	$ 156
Increase/(decrease) due to:			
State income taxes	1	4	29
Flow through of depreciation differences not previously normalized			2
Amortization of investment tax credit	(3)	(3)	(7)
Other	(6)	(8)	(9)
	(8)	(7)	15
Total income tax expense	$ 18	$ 65	$ 171
Effective income tax rate	24.7%	31.7%	38.3%
Taxes, Other than Income			
State gross receipts	$ 151	$ 105	$ 117
State utility realty	3	4	6
State capital stock	(2)	8	12
Property and other	1	(1)	(1)
	$ 153	$ 116	$ 134

(PPL Montana)

The tax effects of significant temporary differences comprising PPL Montana's net deferred income tax asset were as follows:

	2002	2001
Deferred Tax Assets		
Accrued retirement costs	$ 9	$ 5
Wholesale energy commitments	25	30
Allowance for doubtful accounts	18	19

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Other	2	
	54	54

Deferred Tax Liabilities		
Property, plant and equipment	17	9
Mark-to-market	2	20
Other	6	1
	25	30
Net deferred tax asset	$29	$24

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations for accounting purposes and details of taxes other than income are as follows:

	2002	**2001**	**2000**
Income Tax Expense			
Current-Federal	$ 12	$ 50	$ 56
Current-State	6	11	12
	18	61	68
Deferred-Federal	14	5	(9)
Deferred-State	3	2	(2)
	17	7	(11)
	$ 35	$ 68	$ 57
Total income tax expense-Federal	$ 26	$ 55	$ 47
Total income tax expense-State	9	13	10
	$ 35	$ 68	$ 57

Reconciliation of Income Tax Expense:			
Indicated federal income tax on pre-tax income at statutory tax rate - 35%	$ 29	$ 60	$ 50
Increase/(decrease) due to:			
State income taxes	7	9	6
Other	(1)	(1)	1
	6	8	7
Total income tax expense	$ 35	$ 68	$ 57
Effective income tax rate	42.7%	39.8%	39.9%

Taxes, Other than Income			
Property taxes	$15	$ 14	$13
Generation taxes	2	2	2
	$17	$ 16	$15

6. **Nuclear Decommissioning Costs**

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(PPL and PPL Energy Supply)

The cost to decommission the Susquehanna station is based on a site-specific study to dismantle and decommission each unit immediately following final shutdown. PPL Susquehanna's 90% share of the total estimated cost of decommissioning the Susquehanna station was approximately $936 million measured in 2002 dollars. This estimate includes decommissioning the radiological portions of the station and the cost of removal of non-radiological structures and materials.

Decommissioning costs are recorded as a component of depreciation expense. Beginning in January 1999, in accordance with the PUC Final Order, $130 million of decommissioning costs are being recovered from customers through the CTC over the 11-year life of the CTC rather than the remaining life of Susquehanna. The recovery will include a return on unamortized decommissioning costs. Decommissioning charges were $22 million in 2002, $24 million in 2001 and $26 million in 2000 (for PPL Energy Supply, the charge was only $13 million for the six months ended December 31, 2000 due to the corporate realignment in 2000.)

Amounts collected from PPL Electric's customers for decommissioning, less applicable taxes, are deposited in external trust funds for investment and can be used only for future decommissioning costs. Accrued nuclear decommissioning costs were $296 million and $294 million at December 31, 2002 and 2001, and are included in "Deferred Credits and Other Noncurrent Liabilities - Other" by PPL and in "Nuclear plant decommissioning" by PPL Energy Supply.

In November 2001, PPL Susquehanna notified the NRC that it intends to file for 20-year license renewals for each of the Susquehanna units. If approved, the operating licenses would be extended from 2022 to 2042 for Unit 1 and from 2024 to 2044 for Unit 2.

See Note 22 for additional information on SFAS 143, "Accounting for Asset Retirement Obligations," which changed the accounting for the decommissioning of the Susquehanna station effective January 1, 2003.

(PPL Electric)

Prior to July 1, 2000, an annual provision for PPL Electric's share of the future cost to decommission the Susquehanna station, equal to the amount allowed in utility rates, was charged to depreciation expense. Such amounts were invested in external trust funds which could only be used for future decommissioning costs. In connection with the corporate realignment, effective July 1, 2000, the generating and certain other related assets, along with associated liabilities related to the operation and decommissioning of the Susquehanna nuclear station, were transferred to PPL Susquehanna.

7. **Financial Instruments**

The carrying amount on the Balance Sheet and the estimated fair value of financial instruments are set forth below. These tables exclude derivative and non-derivative energy contracts that do not meet the definition of a financial instrument because physical delivery is expected.

(PPL)

	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents (a)	$ 245	$ 245	$ 933	$ 933
Nuclear plant decommissioning trust fund (a)	287	287	276	276
Price risk management assets - current: (b)				
Energy	30	30	22	22
Foreign exchange	6	6		
Price risk management assets - noncurrent: (b)				
Energy	12	12	44	44
Interest	12	12	6	6
Foreign exchange	63	63		
Other investments (a)	51	51	61	61
Other financial instruments included in other current assets (a)	5	5	3	3

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	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities				
Long-term debt (c)	6,267	6,657	5,579	5,724
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures (c)	661	507	825	705
Short-term debt (a)	943	943	118	118
Price risk management liabilities - current: (b)				
Energy	32	32	12	12
Interest	14	14	4	4
Foreign exchange	6	6	2	2
Price risk management liabilities - noncurrent: (b)				
Energy	7	7	7	7
Interest	33	33	3	3
Foreign exchange	9	9	1	1
Preferred stock with sinking fund requirements (c)	31	30	31	31
Other financial instruments included in other current liabilities (a)			12	12

(PPL Energy Supply)

	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents (a)	$ 149	$ 149	$ 815	$ 815
Nuclear plant decommissioning trust fund (a)	287	287	276	276
Price risk management assets - current: (b)				
Energy	30	30	22	22
Foreign exchange	1	1		
Price risk management assets - noncurrent: (b)				
Energy	12	12	44	44
Foreign exchange	63	63		
Other investments (a)	9	9	13	13
Other financial instruments included in other current assets (a)	4	4	1	1

	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities				
Long-term debt (c)	2,231	2,252	761	725
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures (c)	86	90		
Short-term debt (a)	928	928	118	118
Price risk management liabilities - current: (b)				
Energy	32	32	12	12

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Foreign exchange	6	6		
Price risk management liabilities - noncurrent: (b)				
Energy	7	7	7	7
Foreign exchange	9	9		
Other financial instruments included in other current liabilities (a)			12	12

(PPL Electric)

	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents (a)	$ 29	$ 29	$ 79	$ 79
Other investments (a)	27	27	35	35
Liabilities				
Long-term debt (c)	3,175	3,476	3,459	3,575
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company debentures (c)			250	253
Short-term debt (a)	15	15		
Preferred stock with sinking fund requirements (c)	31	30	31	31

(a) The carrying value of these financial instruments generally is based on established market prices and approximates fair value.
(b) Valued using either exchange-traded market quotes or prices obtained through third-party brokers. See Note 17 about the various uses of derivative financial instruments.
(c) The fair value generally is based on quoted market prices for the securities where available and estimates based on current rates offered to PPL where quoted market prices are not available.

(PPL Montana)

At December 31, 2002 and 2001, the carrying value of cash and cash equivalents, price risk management assets and liabilities, and the revolving line of credit approximated fair value due to either the short-term nature of the instruments or variable interest rates associated with the financial instruments.

8. **Credit Arrangements and Financing Activities**

Credit Arrangements

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

In order to enhance liquidity, and as a credit back-stop to their respective commercial paper programs, PPL Electric maintains a $400 million 364-day credit facility maturing in June 2003 (replacing a similar facility that had expired in June 2002), and PPL Energy Supply maintains three credit facilities: a $300 million 364-day credit facility maturing in June 2003, a $500 million three-year credit facility maturing in June 2004 and a $300 million three-year credit facility maturing in June 2005 (the two $300 million credit facilities replaced a $600 million 364-day credit facility which expired in June 2002). At December 31, 2002, no borrowings were outstanding under any of these facilities. Both PPL Electric and PPL Energy Supply have the ability to cause the lenders to issue letters of credit under their respective facilities. At December 31, 2002, PPL Electric had $40 million of letters of credit outstanding under its facility, and PPL Energy Supply had $47 million of letters of credit outstanding under its $500 million facility, of which $25 million was for the benefit of PPL Montana.

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(PPL, PPL Energy Supply and PPL Montana)

PPL Montana maintained a $100 million three-year credit facility, which matured in November 2002, to meet its liquidity needs and to provide for the issuance of up to $75 million in letters of credit. Additionally, PPL Montana maintained a $150 million credit facility, which matured in April 2002, for the sole purpose of issuing letters of credit. These facilities were not renewed.

In the fourth quarter of 2002, PPL Montana entered into a $100 million three-year credit facility with another PPL Energy Supply subsidiary on market terms to meet its liquidity needs. At December 31, 2002, PPL Montana had outstanding borrowings of $26 million under this facility.

(PPL and PPL Energy Supply)

In October 2002, WPD (South West)'s 416 million British pounds sterling short-term facilities were replaced by a 250 million British pounds sterling bridge facility and two revolving credit facilities: a one-year 100 million British pounds sterling credit facility and a five-year 150 million British pounds sterling credit facility. At December 31, 2002, WPD (South West) had outstanding borrowings of $389 million under its bridge facility and $55 million under its credit facilities based on year-end currency exchange rates. The bridge facility is expected to be refinanced with long-term bonds in the first half of 2003.

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

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 the 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. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL absent a specific contractual undertaking by PPL to pay the creditors of its subsidiaries or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and PPL Montana are separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and PPL Montana. Accordingly, creditors of PPL Energy Supply, PPL Electric and PPL Montana 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. In addition, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and PPL Montana are not liable for the debts of their subsidiaries. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric or PPL Montana absent a specific contractual undertaking by that parent to pay the creditors of its subsidiaries or as required by applicable law or regulation.

Financing Activities

(PPL)

In February 2002, PPL Capital Funding repurchased $10 million, par value, of its medium-term notes, 7.75% Series due 2005, at a market value of $11 million. In October 2002, it repurchased an additional $100 million, par value, of these notes at a market value of $104 million.

In September 2002, PPL Capital Funding retired $175 million of its medium-term notes, floating-rate Series B due 2002, and $25 million of its medium-term notes, 7.75% Series due 2002, both at par value.

In September 2002, PPL Capital Funding cancelled the remarketing agreement on its 7.7% Reset Put Securities due 2007. This agreement would have permitted a third party to remarket the securities at an above-market coupon in November 2002. This action required PPL Capital Funding to pay a $30 million termination fee to the third party in September, and PPL Capital Funding repurchased the principal amount ($200 million) of these securities in November 2002. A $24 million charge (the payment to the third party net of hedge income and the unamortized balance of the original option premium) was included in "Interest Expense" on the Statement of Income.

In October 2002, PPL Capital Funding repurchased $15 million, par value, of its medium-term notes, 8-3/8% Series due 2007, at a market value of $16 million.

In September 2002, PPL issued 16.7 million shares of common stock for $30.50 per share, resulting in gross proceeds of approximately $509 million. PPL received net proceeds of $493 million, which were used to redeem all of the $150 million outstanding 8.10% Preferred Securities issued by PPL Capital Trust II and to repay short-term debt.

During the first quarter of 2002, PPL issued $13 million of common stock in small amounts on a periodic basis under its Structured Equity Shelf Program. This program was terminated in November 2002 and replaced with another program with a different sales agent. Under this new program, PPL issued $41 million of common stock in the fourth quarter of 2002 and $50 million in January 2003.

(PPL and PPL Energy Supply)

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At December 31, 2002, PPL Energy Supply had $374 million of commercial paper outstanding.

(PPL and PPL Electric)

In May 2002, PPL Electric:

- retired $11 million of its outstanding First Mortgage Bonds, 8-1/2% Series due 2022, at par value, through the maintenance and replacement fund provisions of the 1945 First Mortgage Bond Indenture;
- retired $28 million of its outstanding First Mortgage Bonds, 7-3/4% Series due May 2002, at par value; and
- instructed the property trustee of PPL Capital Trust to redeem, at par value, all of the $100 million of outstanding 8.20% Preferred Securities due 2027 that were previously issued by PPL Capital Trust.

In the third quarter of 2002, PPL Electric instructed the property trustee for the 8.10% Preferred Securities due 2027 to redeem, at par value, all of the $150 million of outstanding preferred securities issued by PPL Capital Trust II. This redemption occurred in September 2002.

During 2002, PPL Transition Bond Company made principal payments on bonds totaling $245 million.

In September 2002, PPL Electric received a capital contribution of $240 million from PPL.

At December 31, 2002, PPL Electric had $15 million of commercial paper outstanding.

(PPL Energy Supply)

During 2002, PPL Energy Supply distributed $710 million to its parent company, PPL Energy Funding. Also during this time, PPL Energy Supply received $160 million in capital contributions from PPL Energy Funding.

Dividend Restrictions

(PPL, PPL Energy Supply and PPL Montana)

The PPL Montana Colstrip lease places certain restrictions on PPL Montana's ability to declare dividends. At this time, PPL believes that these covenants will not limit PPL Montana's ability to operate as desired and will not affect PPL's ability to meet any of its cash obligations. Certain of PPL Global's international subsidiaries also have financing arrangements which limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact its ability to meet its cash obligations.

(PPL and PPL Electric)

PPL Electric's 2001 Senior Secured Bond Indenture restricts dividend payments in the event that PPL Electric fails to meet interest coverage ratios or fails to comply with certain separateness formalities undertaken in connection with its strategic initiative (see Note 20 for additional information). PPL Electric does not, at this time, expect that any of such limitations would significantly impact its ability to declare dividends.

9. **Acquisitions, Development and Divestitures**

(PPL and PPL Energy Supply)

Domestic Generation Projects

In December 2001, PPL Global made a decision to cancel approximately 2,100 MW of previously planned generation development in Pennsylvania and Washington state. These projects were in the early stage of development and would have had an estimated capital cost of approximately $1.3 billion. The charge for cancellation of these generation projects, which was primarily due to cancellation fees under turbine purchase contracts, was approximately $150 million, or $88 million after-tax, and was reported on the 2001 Statement of Income as "Cancellation of generation projects," a component of "Other charges." At June 30, 2002, PPL Global had completed payment of the cancellation fees.

In November 2002, PPL Global canceled the development of a 44 MW electricity-generating facility at Freeport, Long Island due to scheduling delays in the development process and increased project costs. As a result of this cancellation, PPL's capital expenditure program was reduced by approximately $65 million over 2003 and 2004.

Also in November, PPL Global evaluated its options with respect to six unassigned turbines and SCRs that are complete or substantially

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complete. These units were intended to be used at the Kings Park site on Long Island, New York. At that time, given low energy prices and the unavailability of a power contract, PPL Global was reevaluating its options with respect to the Kings Park project.

Due to the uncertainty of the project and absence of other viable projects, a valuation based upon replacement costs of the turbines and the SCRs was completed. This resulted in the recognition of a $44 million impairment charge, which is reported on the Statement of Income as "Write-down of generation assets," a component of "Other charges." A deferred income tax benefit of $18 million was recognized on the write-down.

In January 2003, PPL announced that it decided to seek a buyer and not proceed with development of the 300 MW Kings Park project. PPL is exploring the sale of both the generation equipment and the development rights at Kings Park. The decision reduced PPL's planned capital expenditures for generation by a total of approximately $165 million in 2003 and 2004.

See Note 10 for a discussion of the Lower Mt. Bethel project.

International Energy Projects

Acquisition of Controlling Interest in WPD

On September 6, 2002, PPL Global acquired the remaining 49% equity interest in WPDH Limited and WPDL from Mirant for approximately $236 million, including acquisition costs. Mirant announced its decision to exit the investment earlier in the year. The acquisition of Mirant's 49% interest provides PPL Global with complete control of WPD. WPD operates two electric distribution companies in the U.K., which together serve approximately 2.5 million end-users and have about 2,500 employees. The acquisition was initially funded by the issuance of commercial paper by PPL Energy Supply. The commercial paper was paid off with proceeds of the September 2002 common stock sale by PPL.

Prior to the acquisition, PPL Global held 51% of the equity interest in WPD but shared control with Mirant pursuant to a shareholders' agreement. The shareholders' agreement was terminated in connection with the closing of the acquisition. No regulatory approvals were required for this transaction.

The purchase of Mirant's interest in WPD was accounted for as a step-acquisition and resulted in the consolidation of WPD's results of operation into PPL's and PPL Energy Supply's Statement of Income as of January 1, 2002, on a one-month lag, consistent with PPL Global's current consolidation policy. The PPL income statement for the period ended December 31, 2002 reflects the results of WPD for the twelve months ended November 30, 2002. The acquisition also resulted in the addition of $3.4 billion of assets and $2.1 billion of WPD's debt to the balance sheet. However, the non-recourse nature of WPD's debt to PPL and PPL Energy Supply will not change.

The assets acquired and liabilities assumed were recorded at estimated fair values as determined by management based on information currently available. PPL Global is in the process of obtaining an independent appraisal of the fair value of acquired property, plant and equipment and any intangible assets. Management is also completing its review and determination of fair value of other assets acquired and liabilities assumed, including pre-acquisition contingencies. Accordingly, the preliminary allocation of purchase price is subject to revision based on the final determination of appraised and other fair values. The following table summarizes the preliminary allocation of purchase price based on estimated fair values of the assets acquired and liabilities assumed at the date of acquisition, plus the book value of assets and liabilities underlying PPL Global's previous 51% equity ownership:

Current assets	$	228
Investments (a)		(451)
Property, plant and equipment		3,429
Goodwill		225
Other		239
Total assets acquired		3,670
Current liabilities		787
Long-term debt		1,574
Other		1,073
Total liabilities assumed		3,434
Net assets acquired	$	236

(a) Includes the reversal of PPL Global's equity investment.

The goodwill reflected above includes the remaining value of PPL Global's 51% share of the goodwill recognized by WPD on its acquisition of Hyder.

The unaudited pro forma information that follows is presented to give effect to the acquisition on the statements of income of PPL and PPL

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Energy Supply. The pro forma adjustments assume that the transaction was consummated at the beginning of the income statement period.

(PPL)

	As Reported	Pro Forma Adjustments	As Adjusted
2002			
Operating revenue	$ 5,429		$ 5,429
Income from continuing operations (before cumulative effect of a change in accounting principle)	358	$ 71	429
Net income	208	71	279
Basic EPS	1.37	0.46	1.83
2001			
Operating revenue	$ 5,077	$ 499	$ 5,576
Income from continuing operations (before cumulative effect of a change in accounting principle)	169	67	236
Net income	179	67	246
Basic EPS	1.23	0.46	1.69

(PPL Energy Supply)

	As Reported	Pro Forma Adjustments	As Adjusted
2002			
Operating revenue	$ 4,154		$ 4,154
Income from continuing operations (before cumulative effect of a change in accounting principle)	429	$ 71	500
Net income	279	71	350
2001			
Operating revenue	$ 3,754	$499	$ 4,253
Income from continuing operations (before cumulative effect of a change in accounting principle)	171	67	238
Net income	174	67	241

Write-down of International Energy Projects

CEMAR

At December 31, 2001, PPL Global estimated that the long-term viability of its CEMAR investment was jeopardized and that there was minimal probability of positive future cash flows. At that time, PPL Global recorded an impairment loss in the carrying value of its net assets in CEMAR, an increase in its valuation allowance in deferred tax assets, and a credit to "Minority Interest" on the Statement of Income. The net result of these transactions was a $217 million charge to earnings, with $179 million included in "Write-down of international energy projects," a component of "Other charges," $44 million in deferred income taxes and a $6 million credit to "Minority Interest."

At March 31, 2002, PPL Global recorded a further impairment loss in the carrying value of its net assets in CEMAR of approximately $4 million, after-tax. The pre-tax charge was $6 million, and was recorded as a charge to "Write-down of international energy projects" on the Statement of Income.

Throughout the first half of 2002, PPL was working with governmental authorities in Brazil and CEMAR's creditors on a plan to return the company to financial stability. That plan included two requests by CEMAR for rate-increase reviews, which Brazilian regulators denied in January and June 2002. PPL viewed the rate-increase reviews as critical in restoring CEMAR to financial stability. Given the regulator's denial of the rate-increase reviews and the financial condition of CEMAR, PPL made a decision in June 2002 to exit the investment. PPL Global's remaining portion of its CEMAR investment, primarily related to its foreign currency translation adjustment balance, was written-off as of June

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30, 2002. The $94 million charge was recorded in "Write-down of international energy projects" on the Statement of Income.

As a result of its financial difficulties, CEMAR failed to pay certain of its creditors for obligations when due. In addition, CEMAR was not in compliance with the financial covenants in its 150 million Brazilian reais (approximately $56 million) debenture indenture for the year ended December 31, 2001, and for the quarter ended March 31, 2002. CEMAR reached agreement with the required majority of debenture holders on a postponement until February 1, 2003 of the annual rollover terms pursuant to the debenture agreement and a waiver for the failure to meet certain financial covenants through measurement periods ending September 30, 2002. As far as PPL can ascertain, CEMAR subsequently violated a cross default covenant of the debenture indenture through nonpayment of certain short-term credit lines and the full 150 million Brazilian reais are due and owing. In addition, the rollover term postponement and covenant waiver agreement for the debentures expired as of February 1, allowing these creditors to demand payment in full. CEMAR was required to propose credit extension terms 25 days prior to the February 1 deadline, but failed to do so. The intervention management (discussed below) of CEMAR has represented that CEMAR has received an extension until February 14 to pay certain unsecured credit lines that had previously matured and had been extended several times during late 2002. PPL does not know whether these creditors have granted a further extension beyond February 14.

In July 2002, PPL announced a proposal to sell all of its 90% equity interest in CEMAR to Franklin Park Energy, LLC. The sale was subject to approval by ANEEL and other customary conditions. On August 21, ANEEL denied the request for transfer of PPL's equity interest in CEMAR to Franklin Park Energy. The purchase and sale agreement was terminated by Franklin Park Energy on August 26 as a result of ANEEL's denial of the transfer request.

On August 20, 2002, the trustee for CEMAR's debenture holders and three bank lenders to CEMAR filed an injunction with a state court in Brazil, enjoining CEMAR's officers and the board of directors of Brisk Participacoes Ltda. (Brisk), a wholly-owned subsidiary of PPL Global and CEMAR's controlling shareholder, from taking actions that would result in the equivalent of a U.S. Chapter 7 liquidation proceeding or liquidating event for CEMAR. Brisk filed objections to the injunction with the state court on September 4. On August 21, CEMAR filed a concordata preventiva, the Brazilian equivalent of a U.S. Chapter 11 bankruptcy work-out proceeding. On September 18, certain creditors and bondholders of CEMAR filed a complaint with the Brazilian courts against Brisk, requesting that Brisk's voting rights in CEMAR be suspended for a 90-day period and that the shares representing the controlling interest in CEMAR be transferred to a third party recommended by the creditors representing two-thirds of CEMAR's debt.

On August 21, 2002, ANEEL authorized an administrative intervention in CEMAR and fully assumed operational and financial control of the company. In its public announcement relating to the intervention, ANEEL said that its intervention and control of CEMAR would last for an initial term of 180 days and that it could be extended. On August 29, at the request of the intervenor appointed by ANEEL, the bankruptcy judge dismissed the concordata preventiva filing without prejudice.

The intervenor appointed by ANEEL issued a public statement and schedule for the transfer of the ownership interest in CEMAR to a new owner. Pursuant to that schedule, ANEEL announced its approval in November 2002 of three Brazilian bidders that submitted pre-qualification documents. Also in November, a federal court in Brazil granted a preliminary injunction requested by a citizen connected to a Maranho labor union suspending the process to transfer the ownership interest in CEMAR. Although the schedule announced by the intervenor reflected a closing for the transfer of control of CEMAR to a third party on December 20, 2002, the closing did not occur due to the failure of the potential buyer and certain creditors to reach agreement on the restructuring of CEMAR's debts. The deadline for the sale process was extended to February 17, 2003, the same day the initial term of the intervention was scheduled to end. Currently, three injunctions applicable to the sale process are pending, all of which ANEEL has appealed. No conforming bids were submitted to ANEEL by the February 17 deadline due to the outstanding injunctions preventing the sale process from continuing. ANEEL publicly announced a 180 day extension to the initial intervention on February 14, citing the continuing unresolved financial crisis of CEMAR as the primary reason for the extension. PPL has not yet been notified by ANEEL of a revised schedule for the sale process. As a result of this action, PPL Global will continue its current policy of not consolidating CEMAR (as described below).

As of February 11, 2003, due to the inability to discharge their obligations under the continuing intervention, PPL-related officers and directors of CEMAR resigned from their respective positions.

Based on this series of events, PPL Global no longer controls or manages CEMAR and PPL Global has deconsolidated the financial assets and liabilities of CEMAR from its financial statements. The CEMAR investment is now accounted for using the cost method. As a result, in the third quarter of 2002, PPL Global recorded approximately $23 million of operating losses of CEMAR through August 21, 2002, the day ANEEL assumed control. Consistent with the cost method of accounting, PPL Global is no longer recording CEMAR's operating results. Although return of control to PPL Global is considered highly unlikely, PPL Global is evaluating the accounting treatment if control is returned in the future. At December 31, 2002, the negative investment was included in "Deferred Credits and Other Noncurrent Liabilities - Other." Any negative carrying value of the investment in CEMAR will be reversed upon the final sale or other disposition of the company.

The following major reductions in consolidated assets and liabilities resulted from the deconsolidation and recording of the cost investment of CEMAR:

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Assets	
Current Assets	$ 71
Property, Plant and Equipment - net	255
Regulatory and Other Noncurrent Assets	12
	338
Liabilities and Equity	
Current Liabilities	194
Long-term Debt	84
Deferred Credits and Other Noncurrent Liabilities	65
Shareowners' Common Equity	7
	350
Accumulated Loss in Excess of Investment	$ (12)

WPD/Teesside

WPD has a 15.4% equity interest in Teesside Power Limited, the owner of the 1,875 MW Teesside Power Station, located in northeast England. Through its European affiliates, Enron was an owner, operator and power purchaser of the station's output. As a result of Enron being placed into receivership in the U.K. and its default on obligations under the power purchase agreements, in the fourth quarter of 2001, WPD wrote off its entire equity investment in Teesside Power Limited. PPL Global's share of the impairment loss was $21 million and is included in "Write-down of international energy projects," a component of "Other Charges" on the Statement of Income.

In connection with the Enron bankruptcy and the probable resulting loss of Teesside cash flows, PPL and its subsidiaries evaluated the carrying value of WPD. Fair value, measured using discounted cash flows, was compared to the carrying value to determine whether impairment existed at December 31, 2001. Fair value was determined considering the loss of the value of the future cash flows from the Teesside Power Station and a forecasted reduction in future operating cash flows at WPD. The probability-weighted impairment loss was $117 million, after-tax. The pre-tax charge was $134 million, and was recorded as a charge to "Write-down of international energy projects."

In 2002, PPL Global recognized an $8 million tax benefit on the worthlessness of WPD's investment in Teesside.

Other

Late in 2002, PPL Global evaluated certain investments for impairment and recorded a $5 million impairment charge in connection with its investment in CGE, a $4 million impairment of a corporate joint venture's investment in Brazil, and a $4 million write-down of certain non-electrical assets in Bolivia.

Sales

Late in 2002, PPL Global sold its minority interests in small hydroelectric generating facilities in Bolivia and in Portugal to concentrate on its majority-owned electricity distribution companies in Chile, Bolivia, El Salvador and the U.K. PPL Global received approximately $15 million in total from the sales.

10. **Leases**

(PPL, PPL Energy Supply and PPL Montana)

Colstrip Generating Plant

In July 2000, PPL Montana sold its interest in the Colstrip generating plant to owner lessors who are leasing the assets back to PPL Montana under four 36-year operating leases. The proceeds from this sale approximated $410 million. PPL Montana recorded a deferred gain on the sale of approximately $8 million, which is being amortized into "Other operation and maintenance" in the Statement of Income over the term of the operating lease on a straight-line basis. PPL Montana used the sale proceeds to reduce outstanding debt and make distributions to PPL Generation.

PPL Montana leases a 50% interest in Colstrip Units 1 and 2 and a 30% interest in Unit 3, through four non-cancelable operating leases. These leases provide two renewal options based on the economic useful life of the generation assets. PPL Montana is required to pay all expenses associated with the operations of the generation units. The leases place certain restrictions on PPL Montana's ability to incur additional debt, sell assets and declare dividends and requires PPL Montana to maintain certain financial ratios related to cash

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flow and net worth. The amount outstanding under these leases at December 31, 2002 was $314 million. There are no residual value guarantees in these leases. However, upon an event of default or an event of loss, the lessee could be required to pay a termination value of amounts sufficient to allow the lessor to repay amounts owing on the lessor notes and make the lessor whole for its equity investment and anticipated return on investment. The events of default include payment defaults, breaches of representations or covenants, acceleration of other indebtedness of PPL Montana, change in control of PPL Montana and certain bankruptcy events. The termination value is estimated to be $551 million at December 31, 2002.

(PPL and PPL Energy Supply)

University Park and Sundance

In May 2001, a PPL Global subsidiary entered into a $1.06 billion operating lease arrangement, as lessee, for the development, construction and operation of several commercial power generation facilities. The lessor is a variable interest entity that was created for the sole purpose of owning the facilities and incurring the related financing costs. In February 2002, in connection with the December 2001 decision to cancel several development projects, the available commitment under this lease was reduced to $700 million to cover only the 540 MW gas-powered University Park project near University Park, Illinois, and the 450 MW gas-powered Sundance project near Coolidge, Arizona. In July 2002, these facilities were substantially completed and the initial lease term commenced. The first lease payment was made in August 2002. The commitment under this lease was further reduced to $660 million in September 2002. The lease terminates in June 2008. At the end of the lease term, the lessee has the option to extend the lease or purchase the facilities. If the lessee does not choose either of these options, then it must sell the assets on behalf of the lessor and guarantee a residual value of up to $545 million based on an estimated total lessor's investment of $657 million for both projects combined. If the financing is terminated early as a result of significant environmental damage, or an event of default, the lessee could be obligated to pay up to 100% of the lessor's investment in the facilities. These events of default include, subject to certain exceptions, payment or judgment defaults, breach of representations or covenants, defaults in other indebtedness, termination of the financing documents or loss of a required approval. The obligations of the lessee under this lease, including payment obligations, have been guaranteed by PPL Energy Supply.

Lower Mt. Bethel

In December 2001, a PPL Global subsidiary entered into a $455 million operating lease arrangement, as lessee, for the development, construction and operation of a 600 MW gas-fired combined-cycle generation facility located in Lower Mt. Bethel Township, Northampton County, Pennsylvania. The lessor is a variable interest entity that was created for the sole purpose of owning the facility and incurring the related financing costs. The initial lease term is approximately 10 years, beginning on the date of commercial operation, which is expected to occur in late 2003. At the end of the lease term, the lessee has the option to extend the lease or purchase the facility. If the lessee does not choose either of these options, then it must sell the assets on behalf of the lessor and guarantee a residual value estimated to be up to $321 million based on an estimated total lessor's investment of $455 million. The lessee could be obligated to pay up to 100% of the lessor's investment and other obligations in the facilities if the financing is terminated early as a result of a loss, destruction or condemnation of the project, or upon an event of default. These events of default during the construction period include a violation of environmental law, material environmental damage, revocation or failure to obtain environmental approval, defaults arising out of any fraudulent act, illegal act, misapplication of funds or willful misconduct, or if a bankruptcy event occurs. These events of default during the lease term include, subject to certain exceptions, payment or judgment defaults, breach of representations or covenants, defaults in other indebtedness, termination of the financing documents, or violations of environmental law, material environmental damage or loss of a required environmental approval. The total exposure as a result of any of these events of default occurring is estimated to be up to $512 million as of December 31, 2002. The maximum exposure is estimated to be up to $575 million as of the commencement of the lease based on current market conditions. The obligations of the lessee under this lease, including payment obligations, have been guaranteed by PPL Energy Supply.

The Air Quality Plan Approval issued by the Pennsylvania DEP for construction of the Lower Mt. Bethel facility has been appealed by the New Jersey DEP to the Pennsylvania DEP Environmental Hearing Board. The PPL Global subsidiary involved in the Lower Mt. Bethel lease financing has joined with the Pennsylvania DEP in opposing this appeal. In addition, in August 2002, the Northampton County Court of Common Pleas issued a decision concerning the permissible noise levels from the Lower Mt. Bethel facility when it becomes operational. Specifically, the court's decision addressed the noise measurement criteria and the point at which the noise levels are to be measured. PPL has appealed the court's decision to the Commonwealth Court, and an intervenor in the lawsuit has cross-appealed the court's decision. The Lower Mt. Bethel facility is expected to be operational in late 2003. PPL cannot predict the outcome of these matters or their ultimate impact on the Lower Mt. Bethel facility or on PPL Energy Supply, but such impact may be material.

Cancellation of Lease for Turbine Generator Units and Related Equipment

In November 2000, a PPL Global subsidiary entered into a $555 million operating lease arrangement for turbine generator units and related equipment (SCRs, transformers and spare engines). In June 2002, this operating lease was cancelled in connection with the December

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2001 decision to cancel several development projects. Prior to terminating the lease, certain equipment under this lease was either purchased by a PPL Global subsidiary or sold to another lessor.

Other Leases

(PPL and PPL Electric)

In March 2000, PPL Electric terminated its nuclear fuel lease and repurchased $154 million of nuclear fuel from the lessor energy trust. In July 2000, all nuclear fuel was transferred to PPL Susquehanna in connection with the corporate realignment.

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

In addition to the leasing arrangements discussed above, PPL and its subsidiaries also have leases for vehicles, office space, land, buildings, personal computers and other equipment. Rental expense for operating leases was as follows:

	PPL	PPL Energy Supply	PPL Electric	PPL Montana
2002	$ 62	$ 35	$ 14	$ 21
2001	52	26	14	21
2000	45	12	16	9

Total future minimum rental payments for all operating leases are estimated as follows:

	PPL	PPL Energy Supply	PPL Electric	PPL Montana
2003	$ 99	$ 76	$ 11	$ 47
2004	135	116	9	44
2005	131	116	7	39
2006	130	119	5	38
2007	130	121	4	36
Thereafter	795	777	10	458
	$ 1,420	$ 1,325	$ 46	$ 662

11. **Stock-Based Compensation**

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

Under the PPL Incentive Compensation Plan (ICP) and the Incentive Compensation Plan for Key Employees (ICPKE) (together, the "Plans"), restricted shares of PPL common stock as well as stock options to purchase shares and stock units may be granted to officers and other key employees of PPL, PPL Electric and other affiliated companies. Awards under the Plans are made by the Compensation and Corporate Governance Committee (CCGC) of the PPL Board of Directors, in the case of the ICP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE. Each Plan limits the number of shares available for awards to two percent of the outstanding common stock of PPL on the first day of each calendar year. The maximum number of options that can be awarded under each Plan to any single eligible employee in any calendar year is 1.5 million shares. Any portion of these options that has not been granted may be carried over and used in any subsequent year. If any award lapses, is forfeited or the rights to the participant terminate, the shares of common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued common stock, common stock held in treasury by PPL or common stock purchased on the open market (including private purchases) in accordance with applicable securities laws. At December 31, 2002, no stock units had been issued under the ICP or the ICPKE.

Restricted Stock

Restricted shares of PPL common stock are outstanding shares with full voting and dividend rights. However, the shares are subject to forfeiture or accelerated payout under Plan provisions for termination, retirement, disability and death of employees. Restricted shares vest fully if control of PPL changes, as defined by the Plans.

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A summary of restricted stock grants follows:

Restricted Stock Grants		Shares Granted	Weighted Average Fair Value
2002			
	PPL	147,735	$ 34.12
	PPL Energy Supply	82,211	34.45
	PPL Electric	18,860	33.71
	PPL Montana	2,830	33.74
2001			
	PPL	202,590	43.09
	PPL Energy Supply	141,289	42.68
	PPL Electric	19,410	44.79
	PPL Montana	1,630	45.09
2000			
	PPL	440,549	21.30
	PPL Energy Supply	227,858	21.52
	PPL Electric	25,790	20.46
	PPL Montana	25,308	24.45

Compensation expense related to restricted stock awards was $5 million, $6 million and less than $3 million for PPL for 2002, 2001 and 2000. At December 31, 2002, there were 624,711 restricted shares outstanding. These awards currently vest from three to twenty-five years from the date of grant.

Compensation expense related to restricted stock awards for PPL Energy Supply was approximately $3 million for both 2002 and 2001, and was not material in 2000. Such compensation expense for PPL Electric and PPL Montana was not material for these same years.

Stock Options

Under the Plans, stock options may also be granted with an option exercise price per share not less than the fair market value of PPL's common stock on the date of grant. The options are exercisable beginning one year after the date of grant, assuming the individual is still employed by PPL or a subsidiary, in installments as determined by the CCGC in the case of the ICP, and the CLC in the case of the ICPKE. Options outstanding at December 31, 2002 vest over a three-year period from the date of grant in equal installments. The CCGC and CLC have discretion to accelerate the exercisability of the options. All options expire no later than ten years from the grant date. The options become exercisable if control of PPL changes, as defined by the Plans.

A summary of stock option activity follows:

	2002		2001		2000	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
PPL						
Outstanding at beginning of year	2,255,051	$ 31.36	1,969,301	$ 23.64	626,020	$ 26.85
Granted	840,430	$ 33.49	922,860	$ 43.16	1,501,110	$ 22.45
Exercised	(62,710)	$ 22.82	(548,424)	$ 23.49	(56,590)	$ 26.84
Forfeited	(24,086)	$ 36.18	(88,686)	$ 31.31	(101,239)	$ 24.02
Outstanding at end of year	3,008,685	$ 32.09	2,255,051	$ 31.36	1,969,301	$ 23.64
Options exercisable at end of year	1,400,701		306,544		215,158	
Weighted-average fair value of options granted	$ 11.68		$ 10.42		$ 3.35	
PPL Energy Supply						
Outstanding at beginning of year	675,179	$ 31.64	655,755	$ 23.27	147,900	$ 26.85
Granted	304,480	$ 33.49	306,130	$ 43.16	583,330	$ 22.67
Exercised	(61,160)	$ 22.72	(167,446)	$ 23.92	(28,495)	$ 26.84
Forfeited	(14,950)	$ 37.07	(53,100)	$ 29.91	(46,980)	$ 25.05

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Transferred			(66,160)	$ 22.88		
Outstanding at end of year	903,549	$ 32.78	675,179	$ 31.64	655,755	$ 23.27
Options exercisable at end of year	381,657		88,436		69,463	
Weighted-average fair value of options granted	$ 11.68		$ 10.42		$ 3.35	
PPL Electric						
Outstanding at beginning of year	163,942	$ 34.92	105,400	$ 24.53	47,090	$ 26.84
Granted	77,570	$ 33.49	92,450	$ 43.16	58,310	$ 22.65
Exercised			(33,908)	$ 25.04		
Forfeited	(9,136)	$ 36.20				
Outstanding at end of year	232,376	$ 34.40	163,942	$ 34.92	105,400	$ 24.53
Options exercisable at end of year	95,561		16,924		15,699	
Weighted-average fair value of options granted	$ 11.68		$ 10.42		$ 3.37	
PPL Montana						
Outstanding at beginning of year	21,720	$ 26.18	100,420	$ 21.79	30,240	$ 26.85
Granted	9,390	$ 33.49	5,860	$ 43.16	73,180	$ 19.91
Exercised	(6,000)	$ 19.91			(3,000)	$ 26.85
Forfeited			(16,390)	$ 19.91		
Transferred			(68,170)	$ 22.68		
Outstanding at end of year	25,110	$ 30.41	21,720	$ 26.18	100,420	$ 21.79
Options exercisable at end of year	6,527		6,287		10,080	
Weighted-average fair value of options granted	$ 11.68		$ 10.42		$ 3.35	

The estimated fair value of each option granted was calculated using a modified Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

	2002	2001	2000
Risk-free interest rate	5.35%	5.46%	6.74%
Expected option life	10 yrs.	10 yrs.	10 yrs.
Expected stock volatility	39.11%	30.24%	19.79%
Dividend yield	3.34%	4.28%	5.70%

The following table summarizes information about stock options at December 31, 2002:

PPL

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/02	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Prices	Number Exercisable at 12/31/02	Weighted-Avg. Exercise Price
$19.00-$24.00	912,176	7.1	$22.45	571,196	$22.49
$25.00-$29.00	395,175	6.2	$26.85	395,175	$26.85
$30.00-$35.00	824,440	9.1	$33.49	36,030	$33.49
$40.00-$45.00	876,894	8.1	$43.16	398,300	$43.16

Total options outstanding had a weighted-average remaining life of 7.8 years at December 31, 2002.

PPL Energy Supply

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/02	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Prices	Number Exercisable at 12/31/02	Weighted-Avg. Exercise Price
$19.00-$24.00	237,160	7.1	$21.89	139,258	$22.08

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$25.00-$29.00	91,059	6.3	$26.85	91,059	$26.85
$30.00-$35.00	295,070	9.1	$33.49	32,740	$33.49
$40.00-$45.00	280,260	8.1	$43.16	118,600	$43.16

Total options outstanding had a weighted-average remaining life of 8.0 years at December 31, 2002.

PPL Electric

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/02	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Prices	Number Exercisable at 12/31/02	Weighted-Avg. Exercise Price
$19.00-$24.00	43,726	7.1	$22.65	28,496	$22.65
$25.00-$29.00	27,766	6.3	$26.84	27,766	$26.84
$30.00-$35.00	70,990	9.1	$33.49	3,290	$33.49
$40.00-$45.00	89,894	8.1	$43.16	36,009	$43.16

Total options outstanding had a weighted-average remaining life of 8.0 years at December 31, 2002.

PPL Montana

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/02	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Prices	Number Exercisable at 12/31/02	Weighted-Avg. Exercise Price
$19.00-$24.00	9,860	7.2	$19.91	4,573	$19.91
$30.00-$35.00	9,390	9.1	$33.49		
$40.00-$45.00	5,860	8.1	$43.16	1,954	$43.16

Total options outstanding had a weighted-average remaining life of 8.1 years at December 31, 2002.

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

PPL and its subsidiaries adopted the fair value method of accounting for stock-based compensation, as defined in SFAS 123, "Accounting for Stock-Based Compensation," under the prospective method as defined by SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" effective January 1, 2003. At December 31, 2002, PPL applied the intrinsic value method, permitted under SFAS 123 and defined in APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. See Note 1 for additional information related to the adoption of the fair value method.

12. **Retirement and Postemployment Benefits**

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

Pension and Other Postretirement Benefits

PPL and its subsidiaries sponsor various pension and other postretirement and postemployment benefit plans. PPL follows the guidance of SFAS 87, "Employers' Accounting for Pensions," and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," when accounting for these benefits.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to directors, executives and other key management employees through unfunded nonqualified retirement plans.

The majority of employees of PPL's subsidiaries will become eligible for certain health care and life insurance benefits upon retirement through contributory plans. Postretirement benefits under the PPL Retiree Health Plans (covering retirees of PPL Electric and various other affiliated PPL companies) and for the North Penn Gas Plans are paid from funded VEBA trusts sponsored by the respective companies.

At December 31, 2002, PPL Electric had a regulatory asset of $5 million relating to postretirement benefits that is being amortized and recovered in rates, with a remaining life of 10 years. PPL Electric also maintains an additional liability for the cost of health care of retired miners of former subsidiaries that had been engaged in coal mining. At December 31, 2002, the liability was $23 million. The liability is the net of $54 million of estimated future benefit payments offset by $31 million of available assets in a PPL Electric-funded VEBA trust.

PPL Energy Supply subsidiaries engaged in the mechanical contracting business make contributions to various union-sponsored multiemployer

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pension and health and welfare plans, depending on an employee's status. Contributions of $30 million, $21 million and $10 million were made in 2002, 2001 and 2000. The increase in contributions is primarily the result of the growing workforce at the mechanical contracting companies. The contribution rates have also increased from year to year.

In the third quarter 2002, PPL Global acquired a controlling interest in WPDH Limited and WPDL. Included in the fully consolidated financial results of PPL for 2002 is the impact of the various pension plans WPD sponsors in the U.K. The following disclosures distinguish between PPL's domestic and international pension plans for those items impacted:

Net pension and postretirement benefit costs (credits) were as follows:

	Pension Benefits					Postretirement Benefits		
	2002		2001		2000	2002	2001	2000
	Domestic	International	Domestic	International	Domestic			
PPL								
Service cost	$ 40	$ 13	$ 38	$ 1	$ 40	$ 5	$ 5	$ 5
Interest cost	99	98	91	3	86	26	22	22
Expected return on plan assets	(147)	(179)	(140)	(3)	(113)	(12)	(11)	(8)
Net amortization and deferral	(31)	3	(50)		(21)	15	12	12
Net periodic pension and postretirement costs prior to special termination benefits	(39)	(65)	(61)	1	(8)	34	28	31
Special termination benefits	62		3			4		
Net periodic pension and postretirement benefit cost/(credit)	$ 23	$ (65)	$ (58)	$ 1	$ (8)	$ 38	$ 28	$ 31
PPL Energy Supply								
Service cost	$ 2	$ 13	$ 2	$ 1	$ 2			
Interest cost	4	98	4	3	2	$ 1	$ 1	
Expected return on plan assets	(3)	(179)	(3)	(3)	(2)			
Net amortization and deferral		3						
Net periodic pension and postretirement benefit cost/(credit)	$ 3	$ (65)	$ 3	$ 1	$ 2	$ 1	$ 1	
PPL Montana								
Service cost	$ 2		$ 2		$ 2			
Interest cost	3		3		2	$ 1	$ 1	
Expected return on plan assets	(2)		(2)		(2)			

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Net periodic pension and postretirement benefit cost	$ 3	$ 3	$ 2	$ 1	$ 1

Net periodic pension cost charged (credited) to operating expense, excluding amounts charged to construction and other non-expense accounts, were:

	2002		2001		2000
	Domestic	Int'l	Domestic	Int'l	
Operating expense					
PPL (a)	$ (31)	$ (58)	$ (48)	$ 1	$ (6)
PPL Energy Supply (b)	(9)	(58)	(16)	1	(1)
PPL Electric (c)	(17)		(24)		(4)
PPL Montana	3		3		2

(a) Excludes the $62 million cost of special termination benefits, which are included separately on the Statement of Income as a component of the $75 million "Workforce reduction" charge.

(b) In addition to the specific plans sponsored by PPL Energy Supply, PPL Generation subsidiaries and PPL EnergyPlus are also allocated a portion of the costs of pension plans sponsored by PPL Services, included in the PPL total cost above, based on their participation in those plans.

(c) PPL Electric is also allocated a portion of the costs of pension plans sponsored by PPL Services, included in the PPL total cost above, based on participation in those plans.

In 2001, PPL changed its method of amortizing unrecognized gains or losses in the annual pension expense or income determined under SFAS 87, "Employers' Accounting for Pensions." Under the old method, the net unrecognized gains or losses in excess of 10% of the greater of the plan's projected benefit obligation or market-related value of plan assets were amortized on a straight-line basis over the estimated average future service period of plan participants. Under the new method, a second corridor is utilized for the net unrecognized gains or losses in excess of 30% of the plan's projected benefit obligation. The net unrecognized gains or losses outside the second corridor are now amortized on a straight-line method over a period equal to one-half of the average future service period of the plan participants. The new method is preferable under SFAS 87 because it provides more current recognition of gains and losses, thereby lessening the accumulation of unrecognized gains and losses.

The pro forma effect of retroactive application of this change in accounting principle would have had the following effect:

	Net Income		EPS	
	2001	2000	2001	2000
PPL	$ (10)	$ 7	$ (.07)	$ .05
PPL Energy Supply	(3)	3	N/A	N/A
PPL Electric	(5)	4	N/A	N/A

Retiree health and welfare benefits costs charged to operating expense, excluding amounts charged to construction and other non-expense accounts, were:

	2002	2001	2000
Operating Expense			
PPL	$ 27	$ 21	$ 25
PPL Energy Supply (a)	9	8	5
PPL Electric (b)	13	10	19
PPL Montana	1		

(a) In addition to the specific plans sponsored by PPL Energy Supply, PPL Generation subsidiaries and PPL EnergyPlus are also allocated a portion of the costs of postretirement medical plans sponsored by PPL Services, included in the PPL total cost above, based on the their participation in those plans.

(b) PPL Electric is also allocated a portion of the costs of postretirement medical plans sponsored by PPL Services, included in the PPL total cost above, based on participation in those plans.

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Postretirement medical costs at December 31, 2002 were based on the assumption that health care costs would increase 12% in 2003, then the rate of increase would decline gradually to 5% in 2010 and thereafter. A one-percentage point change in the assumed health care cost trend assumption would have the following effects:

	One Percentage Point Increase	One Percentage Point Decrease
PPL		
Effect on service cost and interest cost components	$ 1	$ (1)
Effect on postretirement benefit obligation	$ 22	$ (18)
PPL Energy Supply		
Effect on postretirement benefit obligation	$ 1	$ (1)
PPL Montana		
Effect on postretirement benefit obligation	$ 1	$ (1)

The following assumptions were used in the valuation of the benefit obligations for PPL's plans:

PPL

Pension Benefits	2002		2001		2000
	Domestic	Int'l	Domestic	Int'l	Domestic
Discount rate	6.75%	5.75%	7.25%	10.24%	7.5%
Expected return on plan assets	9.0%	8.31%	9.2%	10.24%	9.2%
Rate of compensation increase	4.0%	3.75%	4.25%	7.12%	4.75%

Postretirement Medical Benefits

	2002	2001	2000
Discount rate	6.75%	7.25%	7.5%
Expected return on plan assets	7.80%	7.60%	7.6%
Rate of compensation increase	4.0%	4.25%	4.75%

PPL Energy Supply

Pension Benefits	2002		2001		2000
	Domestic	Int'l	Domestic	Int'l	Domestic
Discount rate	6.75%	5.75%	7.25%	10.24%	7.5%
Expected return on plan assets	8.71%	8.31%	8.89%	10.24%	9.2%
Rate of compensation increase	4.0%	3.75%	4.25%	7.12%	4.75%

Postretirement Medical Benefits

	2002	2001	2000
Discount rate	6.75%	7.25%	7.5%
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increase	4.0%	4.25%	4.75%

PPL Montana

Pension Benefits	2002	2001	2000
Discount rate	6.75%	7.25%	7.5%
Expected return on plan assets	9.0%	9.2%	9.2%
Rate of compensation increase	4.0%	4.25%	4.75%

Postretirement Medical Benefits

	2002	2001	2000
Discount rate	6.75%	7.25%	7.5%

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Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increase	4.0%	4.25%	4.75%

(PPL)

The funded status of the PPL plans was as follows:

	Pension Benefits				Postretirement Medical Benefits	
	2002		2001		2002	2001
	Domestic	International	Domestic	International		
Change in Benefit Obligation						
Benefit Obligation, January 1	$ 1,279	$ 37	$ 1,192		$ 330	$ 311
Service cost	40	13	38	$ 1	5	5
Interest cost	99	98	91	3	26	22
Participant contributions		4		1	1	1
Plan amendments	80	39	4		21	
Actuarial (gain)/loss	76	(53)	10	4	59	12
Special termination benefits	62				4	
Acquisition/divestitures		1,970		30		
Settlements/curtailments		(30)				
Actual expense paid	(1)		(4)			
Net benefits paid	(77)	(128)	(52)	(2)	(23)	(21)
Currency conversion		176				
Benefit Obligation, December 31	1,558	2,126	1,279	37	423	330
Change in Plan Assets						
Plan assets at fair value, January 1	1,633	21	1,794		155	149
Actual return on plan assets	(182)	(335)	(107)	(2)	(11)	(6)
Employer contributions	3	1	2	1	41	32
Participant contributions		4		1	1	1
Acquisition/divestitures		2,050		23		
Settlements/curtailments		(21)				
Actual expense paid	(1)		(4)			
Net benefits paid	(77)	(128)	(52)	(2)	(23)	(21)
Currency conversion		165				
Plan assets at fair value, December 31	1,376	1,757	1,633	21	163	155
Funded Status						
Funded Status of Plan	(182)	(369)	354	(16)	(260)	(17)
						5
Unrecognized actuarial (gain)/loss	(144)	497	(587)	8	123	42
Unrecognized prior service cost	178	34	110		39	23
Unrecognized transition assets	(31)		(36)		87	96
Currency conversion		26				
Net amount recognized at end of year	$ (179)	$ 188	$ (159)	$ (8)	$ (11)	$ (14)
Amounts recognized in the Balance Sheet consist of:						
Prepaid benefit cost	$ 1	$ 219	$ 1			

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Accrued benefit liability	(180)	(31)	(160)	$ (8)	$ (11)	$ (14)
Additional minimum liability	(29)	(453)	(14)			
Intangible asset	5	37	5			
Accumulated other comprehensive income	24	416	9			
Net amount recognized at end of year	$ (179)	$ 188	$ (159)	$ (8)	$ (11)	$ (14)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for PPL's domestic plans were $122 million, $110 million and $46 million as of December 31, 2002 and $79 million, $69 million and $26 million as of December 31, 2001.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for PPL's international plans were $2.1 billion, $2.0 billion and $1.8 billion, as of December 31, 2002 and $37 million, $27 million, and $21 million, as of December 31, 2001.

(PPL Energy Supply)

The funded status of the PPL Energy Supply plans was as follows:

	Pension Benefits				Postretirement Medical Benefits	
	2002		2001		2002	2001
	Domestic	International	Domestic	International		
Change in Benefit Obligation						
Benefit Obligation, January 1	$ 51	$ 37	$ 42		$ 5	$ 4
Service cost	2	13	2	$ 1		
Interest cost	4	98	4	3	1	1
Participant contributions		4		1		
Plan amendments		39	4			
Actuarial (gain)/loss	2	(53)	1	4	3	
Acquisitions/divestitures		1,970		30		
Settlements/curtailments		(30)				
Net benefits paid	(1)	(128)	(1)	(2)		
Net transfer out			(1)			
Currency conversion		176				
Benefit Obligation, December 31	58	2,126	51	37	9	5
Change in Plan Assets						
Plan assets at fair value, January 1	33	21	35			
Actual return on plan assets	(3)	(335)	(1)	(2)		
Employer contributions	1	1		1		
Participant contributions		4		1		
Acquisition/divestitures		2,050		23		
Settlements/curtailments		(21)				
Net benefits paid	(1)	(128)	(1)	(2)		
Currency conversion		165				
Plan assets at fair value, December 31	30	1,757	33	21		
Funded Status						
Funded Status of Plan	(28)	(369)	(18)	(16)	(9)	(5)

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Unrecognized actuarial loss	14	497	6	8	3	
Unrecognized prior service cost	4	34	5			
Currency conversion		26				
Net amount recognized at end of year	$ (10)	$ 188	$ (7)	$ (8)	$ (6)	$ (5)
Amounts recognized in the Balance Sheet consist of:						
Prepaid benefit cost	$ 1	$ 219	$ 1			
Accrued benefit liability	(11)	(31)	(8)	$ (8)	$ (6)	$ (5)
Additional minimum liability	(13)	(453)	(5)			
Intangible asset	3	37	3			
Accumulated other comprehensive income	10	416	2			
Net amount recognized at end of year	$ (10)	$ 188	$ (7)	$ (8)	$ (6)	$ (5)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for PPL Energy Supply's domestic plans were $51 million, $46 million and $23 million as of December 31, 2002 and $44 million, $38 million and $26 million as of December 31, 2001.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for PPL Energy Supply's international plans were $2.1 billion, $2.0 billion and $1.8 billion as of December 31, 2002, and $37 million, $27 million and $21 million as of December 31, 2001.

In addition to the plans sponsored by PPL Energy Supply, PPL Generation subsidiaries and PPL EnergyPlus are allocated a portion of the liabilities and costs of the pension and postretirement medical plans sponsored by PPL Services based on their participation in those plans. The pension liabilities assumed by PPL Energy Supply for these plans total $58 million at December 31, 2002. The postretirement medical liabilities assumed by PPL Energy Supply for these plans total $3 million at December 31, 2002.

(PPL Montana)

The funded status of the PPL Montana plans was as follows:

	Pension Benefits		Postretirement Medical Benefits	
	2002	2001	2002	2001
Change in Benefit Obligation				
Benefit Obligation, January 1	$ 41	$ 33	$ 5	$ 4
Service cost	2	2		
Interest cost	3	3	1	1
Plan amendments		3		
Actuarial gain	4	1	3	
Net transfer out		(1)		
Benefits paid	(1)			
Benefit Obligation, December 31	49	41	9	5
Change in Plan Assets				
Plan assets at fair value, January 1	26	28		
Actual return on plan assets	(3)	(2)		
Employer contributions	1			
Benefits paid	(1)			
Plan assets at fair value, December 31	23	26		
Funded Status				
Funded status of plan	(26)	(15)	(9)	(5)

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Unrecognized actuarial gain	15	6	3	
Unrecognized prior service cots	3	3		
Net amount recognized at end of year	$ (8)	$ (6)	$ (6)	$ (5)
Amounts recognized in the Balance Sheet consist of:				
Accrued benefit liability	$ (8)	$ (6)	$ (6)	$ (5)
Additional minimum liability	(13)	(5)		
Intangible asset	3	3		
Accumulated other comprehensive income	10	2		
Net amount recognized at end of year	$ (8)	$ (6)	$ (6)	$ (5)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets for PPL Montana were $49 million, $44 million and $23 million, as of December 31, 2002 and $41 million, $37 million and $26 million as of December 31, 2001.

(PPL Electric)

Although PPL Electric does not directly sponsor any pension or postretirement plans, PPL Electric is allocated a portion of the liabilities and costs of plans sponsored by PPL Services based on participation in those plans. At December 31, 2002, the recorded balance of PPL Electric's allocated share of the total pension liability was $71 million. At December 31, 2002, the balance in PPL Electric's allocated share of the total postretirement medical liability was $1 million.

Savings Plans *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

Substantially all employees of PPL's subsidiaries are eligible to participate in deferred savings plans (401(k)s). Contributions to the plans charged to operating expense approximated the following:

	2002	2001	2000
PPL	$ 11	$ 10	$ 9
PPL Energy Supply	6	5	4
PPL Electric	2	2	4
PPL Montana	1	1	1

Employee Stock Ownership Plan *(PPL, PPL Energy Supply and PPL Electric)*

PPL sponsors a non-leveraged ESOP, in which substantially all employees, excluding those of PPL Global, PPL Montana, PPL Gas Utilities and the mechanical contractors, are enrolled after one year of credited service. Dividends paid on ESOP shares are treated as ordinary dividends by PPL. Under existing income tax laws, PPL is permitted to deduct the amount of those dividends for income tax purposes and to contribute the resulting tax savings (dividend-based contribution) to the ESOP.

The dividend-based contribution is used to buy shares of PPL's common stock and is expressly conditioned upon the deductibility of the contribution for federal income tax purposes. Contributions to the ESOP are allocated to eligible participants' accounts as of the end of each year, based 75% on shares held in existing participants' accounts and 25% on the eligible participants' compensation.

Amounts charged as compensation expense for ESOP contributions approximated $5 million in 2002 and $4 million in each of 2001 and 2000. These amounts were offset by the dividend-based contribution tax savings and had no impact on PPL's earnings.

ESOP shares outstanding at December 31, 2002 totaled 5,021,544, or 3% of total common shares outstanding, and are included in all EPS calculations.

Postemployment Benefits *(PPL, PPL Energy Supply and PPL Electric)*

Certain PPL subsidiaries provide health and life insurance benefits to disabled employees and income benefits to eligible spouses of deceased

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employees. Postemployment benefits charged to operating expenses were not significant in 2002, 2001 or 2000.

Certain of PPL Global subsidiaries, including Emel, EC, Elfec and Vidivision, provide limited non-pension benefits to all current employees. All active employees are entitled to benefits in the event of termination or retirement in accordance with government sponsored programs. These plans generally obligate a company to pay one month's salary per year of service to employees in the event of involuntary termination. Under certain plans, employees with five or more years of service are entitled to this payment in the event of voluntary or involuntary termination. There is no limit on the number of years of service in the calculation of the benefit obligation.

The liabilities for these plans are accounted for under the guidance of EITF 88-1 "Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan" using what is commonly referred to as the "shut down" method, where a company records the undiscounted obligation as if it were payable at each balance sheet date. The combined liabilities for these plans at December 31, 2002 and 2001 were $6 million, and are recorded in "Deferred Credits and Noncurrent Liabilities - Other" on the Balance Sheet.

13. **Jointly-Owned Facilities**

(PPL and PPL Energy Supply)

At December 31, 2002, subsidiaries of PPL and PPL Energy Supply owned undivided interests in the following facilities:

	Ownership Interest	Electric Plant in Service	Other Property	Accumulated Depreciation	Construction Work in Progress
PPL Generation					
Generating Stations					
Susquehanna	90.00%	$ 4,213		$ 3,530	$ 59
Keystone	12.34%	74		47	18
Wyman	8.33%	15		3	
Conemaugh	16.25%	187		64	4
Merrill Creek Reservoir	8.37%		$ 22	13	

Additionally, PPL Montana has a 50% undivided leasehold interest in Colstrip Units 1 and 2, as well as a 30% undivided leasehold interest in Colstrip Unit 3.

Each PPL Generation subsidiary provided its own funding for its share of the facility. Each receives a portion of the total output of the generating stations equal to its percentage ownership. The share of fuel and other operating costs associated with the stations is reflected on the Statement of Income.

(PPL Montana)

PPL Montana is the operator of the jointly-owned coal-fired generating units comprising the Colstrip steam generation facility. At December 31, 2002 and 2001, PPL Montana has a 50% leasehold interest in Colstrip Units 1 and 2 and a 30% leasehold interest in Colstrip Unit 3 under operating leases (see Note 10 for additional information).

PPL Montana's share of direct expenses associated with the operation and maintenance of these facilities is included in the corresponding operating expenses on the Statement of Income. Each joint-owner in these facilities provides its own financing. As operator of all Colstrip Units, PPL Montana invoices each joint-owner for their respective portion of the direct expenses. The amount due from joint-owners was approximately $8 million and $6 million at December 31, 2002 and 2001.

At December 31, 2002, Montana Power continues to own a 30% leasehold interest in Colstrip Unit 4. As part of the purchase of generation assets from Montana Power, PPL Montana and Montana Power entered into a reciprocal sharing agreement to govern each party's responsibilities regarding the operation of Colstrip Units 3 and 4, and each party is responsible for 15% of the respective operating and construction costs, regardless of whether a particular cost is specified to Colstrip Unit 3 or 4. However, each party is responsible for its own fuel-related costs.

14. **Commitments and Contingent Liabilities**

Energy Purchases and Sales Commitments

Liability for Above Market NUG Contracts *(PPL, PPL Energy Supply and PPL Electric)*

In 1998, PPL Electric recorded a loss accrual for above market contracts with NUGs of $854 million, due to its generation business being

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deregulated. Effective January 1999, PPL Electric began reducing this liability as an offset to "Energy purchases" on the Statement of Income. This reduction is based on the estimated timing of the purchases from the NUGs and projected market prices for this generation. The final existing NUG contract expires in 2014. In connection with the corporate realignment, effective July 1, 2000, the remaining balance of this liability was transferred to PPL EnergyPlus. At December 31, 2002, the remaining liability associated with the above market NUG contracts was $427 million.

In the first quarter of 2002, PPL Energy Supply paid approximately $50 million to terminate the purchase commitment under an energy contract with one of the NUGs. The recorded liability associated with this NUG contract was $75 million. The excess of the liability over the termination payment resulted in a $25 million credit to "Energy purchases" on the Statement of Income.

Wholesale Energy Commitments *(PPL, PPL Energy Supply and PPL Montana)*

As part of the purchase of generation assets from Montana Power, PPL Montana agreed to supply electricity under two wholesale transition service agreements with Montana Power to serve its retail load not served by other providers or provided by Montana Power's remaining generation. The first agreement expired in December 2001, and the second agreement expired in June 2002. In addition, as part of its purchase of the generation assets from Montana Power, PPL Montana assumed a power purchase agreement and another power sales agreement. In accordance with purchase accounting guidelines, PPL Montana recorded liabilities of $118 million as the estimated fair value of these agreements at the acquisition date. These liabilities are being reduced over the terms of the agreements as adjustments to "Wholesale energy marketing" revenues and "Energy purchases" on the Statement of Income. The unamortized balance of these liabilities at December 31, 2002 was $64 million and is included on the Balance Sheet in "Deferred Credits and Other Noncurrent Liabilities - Other" for PPL, in "Current Liabilities - Other" and "Deferred Credits and Other Noncurrent Liabilities - Other" for PPL Energy Supply and in "Wholesale energy commitments" for PPL Montana.

On July 1, 2002, PPL EnergyPlus began to sell to NorthWestern an aggregate of 450 MW of energy to be supplied by PPL Montana. Under two five-year agreements, PPL EnergyPlus will supply 300 MW of around-the-clock electricity and 150 MW of unit-contingent on-peak electricity.

Legal Matters

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

PPL and its subsidiaries are involved in numerous legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the ultimate outcome of such matters, or whether such matters may result in material liabilities.

Tax Assessment Appeals *(PPL, PPL Energy Supply and PPL Montana)*

Pursuant to changes in PURTA enacted in 1999, PPL subsidiaries have filed a number of tax assessment appeals in various Pennsylvania counties where PPL facilities are located. These appeals challenge existing local tax assessments, which now comprise the basis for payment of the PURTA tax on PPL's properties. Also, as of January1, 2000, generation facilities are no longer taxed under PURTA, and these local assessments will be used directly to determine local real estate tax liability for PPL's power plants. In July 1999, PPL filed retroactive appeals for tax years 1998 and 1999, as permitted by the new law. In addition, PPL has filed appeals for 2000 and beyond, as permitted under normal assessment procedures. It is anticipated that assessment appeals may now be an annual occurrence.

Hearings on the pending appeals were held by the boards of assessment appeals in each county, and decisions have now been rendered by all counties. To the extent the appeals were denied or PPL was not otherwise satisfied with the results, PPL filed further appeals from the board decisions with the appropriate county Courts of Common Pleas.

Of the three pending proceedings in Pennsylvania, only the appeal concerning the assessed value of the Susquehanna nuclear station will result in annual local taxes exceeding $1 million. The county assessment of the Susquehanna station indicated a market value of $3.9billion. Based on this value, the annual local taxes for the Susquehanna station would have been about $70million. However, PPL was able to reach a settlement with the local taxing authorities in December 2000, for tax years 2000 and beyond. This settlement will result in the payment of annual local taxes of about $3 million. PPL and the local taxing authorities also reached a settlement concerning the 1998 and 1999 tax years which, if effectuated, would not result in any additional PURTA tax liability for PPL. This portion of the settlement with the local tax authorities is subject, however, to the outcome of claims asserted by certain intervenors which are described below.

In August 2000, over PPL's objections, the court permitted Philadelphia City and County, the Philadelphia School District and the Southeastern Pennsylvania Transportation Authority (SEPTA) (collectively, the "Philadelphia parties") to intervene in the case. The Philadelphia parties have intervened because they believe a change in the assessment of the plant will affect the amount they would collect under PURTA for the tax years 1998 and 1999. As part of the change in the law, the local real estate assessment determines what the 1998 and 1999 PURTA payments by PPL will be. In November 2000, the Philadelphia parties submitted their own appraisal report, which indicates that the taxable fair market value of the Susquehanna station under PURTA for 1998 and 1999 is approximately $2.3 billion. Based on this appraisal, PPL would have to

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pay up to an extra $213 million in PURTA taxes for tax years 1998 and 1999.

PPL's appeal of the Susquehanna station assessment for 1998 and 1999 was decided in its favor by the Luzerne County Court of Common Pleas. The Philadelphia parties appealed this decision to the Commonwealth Court, and PPL cross-appealed on the issue of the right of the Philadelphia parties to intervene. As a result of these proceedings and appeals, it is possible that a final determination of market value and the associated tax liability for 1998 and 1999 may not occur for several years.

See "Review of the Financial Condition and Results of Operation" for a description of the July 1, 2000 corporate realignment in which PPL Electric's generating plants in Pennsylvania were transferred to various PPL affiliates.

PPL Montana is currently protesting certain property tax assessments by the Montana Department of Revenue (MDOR) on its generation facilities. The tax liabilities in dispute are approximately $1.7 million for 2000, $1.8 million for 2001 and $8.6 million for 2002. PPL Montana's dispute with respect to most of the 2002 tax liability is based on the assessed value used by the MDOR for PPL Montana's hydroelectric facilities versus the assessed value used for the facilities of another hydroelectric generator in the state. The state tax appeals board is scheduled to hear the 2000 and 2001 disputes in early 2004, while the hearing for the 2002 dispute is expected to be later in 2004. In response to these tax disputes, the 2003 Montana legislature has either introduced or proposed several bills to further tax PPL Montana, including, but not limited to, bills that would increase the portion of the current wholesale electrical transaction tax paid by the company and increase PPL Montana's annual property taxes from approximately $15 million per year to an amount approaching $30 million per year. PPL Montana cannot predict the outcome of the tax assessment disputes or the likelihood that any such proposed legislation would ultimately become law.

Montana Power Shareholders' Litigation *(PPL, PPL Energy Supply and PPL Montana)*

In August 2001, a purported class-action lawsuit was filed by a group of shareholders of Montana Power against Montana Power, the directors of Montana Power, certain advisors and consultants of Montana Power and PPL Montana. The plaintiffs allege, among other things, that Montana Power was required to, and did not, obtain shareholder approval of the sale of Montana Power's generation assets to PPL Montana in 1999. Although most of the claims in the complaint are against Montana Power, its board of directors, and its consultants and advisors, two claims are asserted against PPL Montana. In the first claim, plaintiffs seek a declaration that because Montana Power shareholders did not vote on the 1999 sale of generating assets to PPL Montana, that sale "was null and void ab initio." The second claim alleges that PPL Montana was privy to and participated in a strategy whereby Montana Power would sell its generation assets to PPL Montana without first obtaining Montana Power shareholder approval, and that PPL Montana has made net profits in excess of $100 million as the result of this alleged illegal sale. In the second claim, plaintiffs request that the court impose a "resulting and/or constructive trust" on both the generation assets themselves and all profits, plus interest on the amounts subject to the trust. In November 2001, PPL Montana and the other defendants filed a motion to dismiss the plaintiffs' complaint on the basis that it fails to state a claim upon which relief may be granted, and the plaintiffs filed a motion for the lawsuit to be certified by the court as a class-action. In August 2002, the court denied this motion to dismiss, except as to certain matters not relating to PPL Montana, and granted the plaintiffs' motion for the certification of the lawsuit. In January 2003, the case was removed to the U.S. District Court in Montana. PPL, PPL Energy Supply and PPL Montana cannot predict the outcome of this matter.

Montana Hydroelectric Initiative *(PPL, PPL Energy Supply and PPL Montana)*

On November 5, 2002, a proposed Montana Hydroelectric Security Act initiative was defeated on a statewide ballot by a better than 2 to 1 margin. Among the stated purposes of the initiative was to create an elected Montana public power commission to determine whether purchasing hydroelectric dams in Montana would be in the public interest. Such a commission could have decided to acquire any or all of the hydroelectric dams owned by PPL Montana either pursuant to a negotiated purchase or an acquisition at fair market value through the power of condemnation. PPL Montana had vigorously opposed the initiative along with several other Montana groups and individuals.

Energy West Litigation *(PPL Montana)*

In July 2001, PPL Montana filed an action in state court and a responsive pleading in federal court, both related to a breach of contract by Energy West Resources, Inc. (Energy West), a Great Falls, Montana-based energy aggregator. PPL Montana is seeking a judgment that Energy West violated the terms of the contract under which it supplied energy to Energy West during the period July 1, 2000 through June 30, 2002. PPL Montana is claiming damages of approximately $18 million. All litigation in this matter has been consolidated in the U.S. District Court for the District of Montana, Great Falls Division, and the liability phase of the trial concluded in December 2002. In the event that the federal court rules in PPL Montana's favor, the trial will then move into a damages phase. PPL, PPL Energy Supply and PPL Montana cannot predict the ultimate outcome of these proceedings.

NorthWestern Corporation Litigation *(PPL, PPL Energy Supply and PPL Montana)*

In connection with the acquisition of the Montana generation assets, the Montana Power APA, which was previously assigned to PPL Montana by PPL Global, includes a provision concerning the proposed purchase by PPL Montana of a portion of NorthWestern's interest in the 500-kilovolt Colstrip Transmission System (CTS) for $97 million. During 2002, PPL Montana had been in discussions with NorthWestern regarding the proposed purchase of the CTS and the claims that PPL Montana believes it has against NorthWestern arising from the Montana

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Power APA and related agreements. Notwithstanding such discussions, in September 2002, NorthWestern filed a lawsuit against PPL Montana in Montana state court seeking specific performance of PPL Montana's purchase of the CTS or, alternatively, damages for breach of contract. Pursuant to PPL Montana's application, the matter was removed to the U.S. District Court for the District of Montana, Butte Division. Following the removal of the matter to the federal court, PPL Montana moved to dismiss NorthWestern's claim for specific performance of PPL Montana's purchase of the CTS. NorthWestern subsequently asserted additional claims against PPL Montana arising under the Montana Power APA. In December 2002, NorthWestern filed a motion seeking summary judgment as to certain of its claims against PPL Montana. PPL Montana has opposed this summary judgment motion. The U.S. District Court has not yet ruled on either PPL Montana's motion to dismiss or NorthWestern's motion for summary judgment. PPL, PPL Energy Supply and PPL Montana cannot predict the outcome of this litigation.

Regulatory Issues

California ISO and Pacific Northwest *(PPL, PPL Energy Supply and PPL Montana)*

Through its subsidiaries, PPL has made approximately $18 million of sales to the California ISO, of which $17 million has not been paid to PPL subsidiaries. Given the myriad of electricity supply problems presently faced by the California electric utilities and the California ISO, PPL cannot predict whether or when it will receive payment. As of December 31, 2002, PPL has fully reserved for possible underrecoveries of payments for these sales.

Litigation arising out of the California electricity supply situation has been filed at the FERC and in California courts against sellers of energy to the California ISO. The plaintiffs and intervenors in these proceedings allege abuses of market power, manipulation of market prices, unfair trade practices and violations of state antitrust laws, among other things, and seek price caps on wholesale sales in California and other western power markets, refunds of excess profits allegedly earned on these sales of energy, and other relief, including treble damages and attorneys' fees. Certain of PPL's subsidiaries have intervened in the FERC proceedings in order to protect their interests, but have not been named by any plaintiffs in any of the court actions alleging abuses of market power, manipulation of market prices, unfair trade practices and violations of state antitrust laws. However, in April 2002, PPL Montana was named by a defendant in a consolidated court proceeding, which combined into one master proceeding several of the lawsuits alleging antitrust violations and unfair trade practices. Specifically, one of the original generators being sued by the various plaintiffs in the consolidated court proceeding filed a cross-complaint against 30 other generators and power marketers, including PPL Montana. This generator denies that any unlawful, unfair or fraudulent conduct occurred or caused any harm to the plaintiffs, and explains that the plaintiffs' claims are completely barred by federal law. Nonetheless, this generator alleges that it filed its complaint against the other generators and power marketers in order to assist the court in resolving the proceeding and asserts that if it is found liable, the other generators and power marketers, including PPL Montana, caused, contributed to and/or participated in the plaintiffs' alleged losses. This litigation, originally brought in state court in California, had been removed to federal court in California.

In addition, PPL Montana has been named as a defendant in a declaratory judgment action initiated by the State of California to prevent certain members of the California Power Exchange from seeking compensation for the state's seizure of certain energy contracts. PPL Montana is a member of the California Power Exchange, but it has no energy contracts with or through the California Power Exchange and has not sought compensation in connection with the state's seizure.

Attorneys general in several western states, including California, have begun investigations related to the electricity supply situation in California and other western states. The FERC has determined that all sellers of energy into markets operated by the California ISO and the California Power Exchange, including PPL Montana, should be subject to refund liability for the period beginning October 2, 2000 through June 20, 2001 and has initiated an evidentiary hearing concerning refund amounts. The FERC also is considering 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. The FERC Administrative Law Judge assigned to the Pacific Northwest proceeding has recommended that no refunds be ordered for such sales into the Pacific Northwest. The FERC presently is considering this recommendation. The FERC has been conducting an additional investigation of alleged price manipulation in power markets in California and the western U.S. In connection with this investigation, the FERC has served several sets of data requests on sellers of energy in those markets, including PPL Montana. PPL Montana sold only a small amount of electricity into the California market during 2000 and 2001, and it did not sell any electricity into the California market during 2002. In its response to a FERC data request concerning PPL Montana's California trading strategies, PPL Montana explained that it did not engage in the type of California trading strategies that have been attributed to Enron. In responses to FERC data requests concerning whether PPL Montana and PPL EnergyPlus engaged in so-called "wash trades" in the western U.S., PPL Montana and PPL EnergyPlus explained that they have not, and do not, engage in such trades.

While PPL believes that it has not engaged in any improper trading practices, PPL cannot predict whether, or the extent to which, any of its subsidiaries will be the target of any additional governmental investigations or named in other lawsuits or refund proceedings, the outcome of any such lawsuits or proceedings or whether the ultimate impact on PPL of the electricity supply situation in California and other western states will be material.

MPSC Order *(PPL, PPL Energy Supply and PPL Montana)*

In June 2001, the MPSC issued an order (MPSC Order) in which it found that Montana Power must continue to provide electric service to its

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customers at tariffed rates until its transition plan under the Montana Electricity Utility Industry Restructuring and Customer Choice Act is finally approved, and that purchasers of generating assets from Montana Power must provide electricity to meet Montana Power's full load requirements at prices to Montana Power that reflect costs calculated as if the generating assets had not been sold. PPL Montana purchased Montana Power's interests in two coal-fired plants and 11 hydroelectric units in 1999, and NorthWestern purchased Montana Power's electricity delivery business in the first quarter of 2002.

In July 2001, PPL Montana filed a complaint against the MPSC with the U.S. District Court in Helena, Montana, challenging the MPSC Order. In its complaint, PPL Montana asserted, among other things, that the Federal Power Act preempts states from exercising regulatory authority over the sale of electricity in wholesale markets, and requested the court to declare the MPSC action preempted, unconstitutional and void. In addition, the complaint requested that the MPSC be enjoined from seeking to exercise any authority, control or regulation of wholesale sales from PPL Montana's generating assets. In March 2002, the District Court dismissed PPL Montana's lawsuit on procedural grounds, ruling that the Eleventh Amendment to the U.S. Constitution prevented PPL Montana from bringing the action in federal court. The District Court noted that the action could be filed in a state court in Montana. PPL Montana appealed the District Court's ruling to the United States Court of Appeals for the Ninth Circuit. In July 2002, the MPSC filed an unopposed motion for summary disposition of the appeal, requesting the Ninth Circuit to reverse the District Court's ruling and send the case back to the District Court in light of a recent Eleventh Amendment decision by the U.S. Supreme Court. In October 2002, the Ninth Circuit granted the MPSC's unopposed motion, vacated the District Court's ruling and sent the case back to the District Court.

In January 2003, the MPSC voted 5-0 to rescind the MPSC Order in its entirety, without prejudice to future MPSC actions. At such time as the MPSC Order is no longer subject to appellate review, PPL Montana and the MPSC will file a stipulation providing for withdrawal of PPL's complaint, without prejudice to refile such complaint in the future.

PJM Capacity Transactions *(PPL, PPL Energy Supply and PPL Electric)*

In November 2001, the PJM Market Monitor publicly released a report prepared for the PUC entitled "Capacity Market Questions" relating to the pricing of installed capacity in the PJM daily market during the first quarter of 2001. The report concludes that PPL EnergyPlus (identified in the report as "Entity 1") was able to exercise market power to raise the market-clearing price above the competitive level during that period. PPL EnergyPlus does not agree with the Market Monitor's conclusions that it exercised market power; in addition, the Market Monitor acknowledged in his report that PJM's standards and rules did not prohibit PPL EnergyPlus' conduct. In November 2001, the PUC issued an Investigation Order directing its Law Bureau to conduct an investigation into PJM capacity market and the allegations in the Market Monitor's report. In June 2002, the PUC issued an investigation report alleging, among other things, that PPL had "unfairly manipulated electricity markets in early 2001," and that "there was an unlawful exercise of market power and market rules gaming by PPL" that was damaging to wholesale and retail electricity markets in Pennsylvania. The PUC stated that it was not authorized to, and was not attempting to, adjudicate the merits of PPL's defenses to these charges, but has referred the matter to the U.S. Department of Justice -- Antitrust Division, or DOJ, the FERC and the Pennsylvania Attorney General. PPL had previously responded to certain information requests of the DOJ in connection with a civil investigative demand regarding capacity transactions in PJM, and PPL has agreed to provide the Office of the Pennsylvania Attorney General with any information that it provided to the DOJ. In addition, in July 2002, PPL appealed the PUC order to the Commonwealth Court of Pennsylvania. Since the PUC clarified that its report has no precedential value and should be given no weight in any future proceedings, PPL consented to having its appeal dismissed by the Commonwealth Court. Accordingly, the Commonwealth Court dismissed the appeal in September 2002. Although PPL believes that the PUC's report is inaccurate, that its conclusions are groundless, and that PPL acted ethically and legally, in compliance with all applicable laws and regulations, PPL cannot predict the outcome or extent of any investigations, litigation or other proceedings related to this matter.

In September 2002, PPL was served with a complaint filed by Utilimax.com, Inc., which was a member of PJM, in the U.S. District Court for the Eastern District of Pennsylvania against PPL and PPL EnergyPlus alleging, among other things, violations of the federal antitrust laws in connection with the capacity transactions described in the PJM Market Monitor report. In addition, in December 2002, PPL was served with a complaint against PPL, PPL EnergyPlus and PPL Electric filed in the same court by a group of 14 Pennsylvania boroughs that apparently alleges, in broad terms, similar violations of the federal antitrust laws. These boroughs are wholesale customers of PPL Electric. Although PPL, PPL EnergyPlus and PPL Electric believe the claims under both complaints are without merit and intend to defend the actions vigorously, they cannot predict the outcome of these matters.

FERC Market-Based Rate Authority *(PPL and PPL Energy Supply)*

In December 1998, the FERC issued an order authorizing 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 of the date of the order, and every three years thereafter. PPL EnergyPlus filed its initial updated market analysis in December 2001. Several parties thereafter filed interventions and protests requesting that, in light of the PJM Market Monitor's report described above, PPL EnergyPlus be required to provide additional information demonstrating that it has met the FERC's market power tests necessary for PPL EnergyPlus to continue its market-based rate authority. PPL EnergyPlus has responded that the FERC does not require the economic test suggested by the intervenors and that, in any event, it would meet such economic test if required by the FERC. PPL EnergyPlus cannot predict the outcome of this matter.

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FERC Notice of Proposed Rulemaking *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

In July 2002, the FERC issued a Notice of Proposed Rulemaking entitled "Remedying Undue Discrimination through Open Access Transmission Service and Standard Electricity Market Design." The proposed rule is currently available for public comment, with a final rule expected in late 2003. The proposed rule contains a proposed implementation date of July 31, 2003. However, since the issuance of the proposed rule, the FERC has announced several delays in the comment deadlines. Thus, any implementation dates are likely to be later than originally projected. This far-reaching proposed rule, in its current form, purports to establish uniform transmission rules and establish a standard market design by, among other things:

- enacting standard transmission tariffs and uniform market mechanisms,
- monitoring and mitigating "market power,"
- managing transmission congestion through pricing and tradable financial rights,
- requiring independent operational control over transmission facilities,
- forming state advisory committees on regional transmission organizations and resource adequacy, and
- exercising FERC jurisdiction over all transmission service.

If adopted, this proposed rule may have a significant impact on PPL and its subsidiaries, which cannot be predicted at this time.

Montana Hydroelectric License Contingencies *(PPL Montana)*

PPL Montana has 11 hydroelectric facilities and one storage reservoir licensed by the FERC pursuant to the Federal Power Act under long-term licenses which expire on varying dates from 2009 through 2040. Pursuant to Section 8(e) of the Federal Power Act, the FERC approved the transfer from Montana Power to PPL Montana of all pertinent licenses and any amendments in connection with the Montana APA.

The Kerr Dam Project license was jointly issued by the FERC to Montana Power and the Confederated Salish and Kootenai Tribes of the Flathead Reservation in 1985, and required Montana Power to hold and operate the project for 30 years. The license required Montana Power, and subsequently PPL Montana as a result of the purchase of the Kerr Dam from Montana Power, to continue to implement a plan to mitigate the impact of the Kerr Dam on fish, wildlife and the habitat. Such implementation will require payments totaling approximately $6 million between 2003 and 2020.

PPL Montana entered into a Memorandum of Understanding (MOU) with state, federal and private entities related to the issuance in 2000 of the FERC renewal license for the nine dams for the Missouri-Madison project. The MOU requires PPL Montana to implement plans to mitigate the impact of its projects on fish, wildlife, habitat and to increase recreational opportunities. The MOU was created to maximize collaboration between the parties and possibilities for matching funds. Such implementation will require payments by PPL Montana totaling $20 million between 2002 and 2010.

U.K. Electricity Regulation *(PPL and PPL Energy Supply)*

The principal legislation governing the structure of the electricity industry in Great Britain is the Electricity Act 1989 (the "Electricity Act"), as amended by the Utilities Act 2000 (the "Utilities Act").

The provisions in the Utilities Act include the replacement of individual gas and electricity regulators with the Gas and Electricity Markets Authority (the "Regulator"). The principal objective of the Regulator is to protect the interests of consumers, wherever appropriate, by promoting effective competition in electricity generation and supply. There currently is no competition in electricity distribution.

Each distribution business constitutes a natural regional monopoly and is subject to control on the prices it can charge and the quality of supply it must provide. The operations of WPD are regulated under its distribution licenses, pursuant to which income generated is subject to an allowed revenue regulatory framework that provides economic incentives to minimize operating, capital and financing costs. Under the Electricity Act, WPD is under a statutory duty to connect any customer requiring electricity within their area and to maintain that connection. The allowed revenue that is recovered from electricity supply businesses through charges by the Distribution Network Operator (DNO) made for the use of the distribution network is regulated on the basis of the Retail Price Index (RPI) minus X formula. The allowed revenue is increased by RPI minus X during the tenure of each price control period. (RPI is a measure of inflation and equals the percentage change in the U.K. RPI between the six-month period of July to December in the previous year. The X factor is established by the Regulator following review and represents an annual efficiency factor.) The Regulator currently sets the Distribution Price Control Formula for five-year periods.

The current Distribution Price Control Formula permits DNOs, within a review period, to partially retain additional revenues due to increased distribution of units and to retain all increases in operating profit due to efficient operations and the reduction of expenses (including financing costs). The Regulator may reduce this increase in operating profit through a one-off price reduction in the first year of the new pricing regime, if the Regulator determines that it is not a function of efficiency savings, or, if genuine efficiency savings have been made, and the Regulator determines that customers should benefit through lower prices.

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In December 1999, the Regulator published final price proposals for distribution price control for the 12 DNOs in England and Wales. These proposals represented a reduction to distribution prices of 20% for WPD (South West) and 26% for WPD (South Wales) effective April 2000, followed by a reduction in real terms (i.e., before inflation is taken into account) of 3% each year from April 2001. This price control is scheduled to operate until March 2005.

Improvements in quality of supply form an important part of the final proposals. Revised targets for system performance, in terms of the security and availability of supply, were proposed with new targets for reductions in minutes lost and interruptions.

The Regulator has introduced a quality of service incentive plan for the period from April 2002 to March 2005. Companies will be penalized annually up to 2% of revenue for failing to meet their quality of supply targets for the incentive plan. The plan includes a mechanism for rewarding companies which exceed their targets based on their rate of improvement of performance during the period and a process for rewarding exceptional performance by specifying how the targets will be reset.

Distribution businesses must also meet the Guaranteed and Overall Standards of Performance, which are set by the Regulator to ensure an appropriate level of quality of supply. If a company fails to provide the level of service specified, it must make a fixed payment to the retail customer affected.

Environmental Matters - Domestic

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

Due to the environmental issues discussed below or other environmental matters, PPL subsidiaries may be required to modify, replace or cease operating certain facilities to comply with statutes, regulations and actions by regulatory bodies or courts. In this regard, PPL subsidiaries also may incur capital expenditures or operating expenses in amounts which are not now determinable, but which could be significant.

Air *(PPL, PPL Energy Supply and PPL Montana)*

The Clean Air Act deals, in part, with acid rain, attainment of federal ambient ozone standards and toxic air emissions in the U.S. PPL's subsidiaries are in substantial compliance with the Clean Air Act.

The Bush administration and certain members of Congress have made proposals regarding possible amendments to the Clean Air Act. These amendments could require significant further reductions in nitrogen oxide, sulfur dioxide and mercury and could possibly require measures to limit carbon dioxide.

The Pennsylvania DEP has finalized regulations requiring further seasonal (May-June) nitrogen oxide reductions to 80% from 1990 levels starting in 2003. These further reductions are based on the requirements of the Northeast Ozone Transport Region Memorandum of Understanding and two EPA ambient ozone initiatives: the September 1998 EPA State Implementation Plan (SIP) call (i.e., EPA's requirement for states to revise their SIPs) issued under Section 110 of the Clean Air Act, requiring reductions from 22 eastern states, including Pennsylvania; and the EPA's approval of petitions filed by Northeastern states, requiring reductions from sources in 12 Northeastern states and Washington, D.C., including PPL sources. The EPA's SIP-call was substantially upheld by the D.C. Circuit Court of Appeals on challenge. Although the Court extended the implementation deadline to May 2004, the Pennsylvania DEP has not changed its rules accordingly. PPL expects to achieve the 2003 nitrogen oxide reductions with the recent installation of SCR technology on the Montour units, and may install SCR technology on one or more Brunner Island units at a later date.

The EPA has also developed new standards for ambient levels of ozone and fine particulates in the U.S. These standards have been upheld following court challenges. The new particulates standard may require further reductions in sulfur dioxide and year-round nitrogen oxide reductions commencing in 2010-2012 at SIP-call levels in Pennsylvania for certain PPL subsidiaries, and at slightly less stringent levels in Montana. The revised ozone standard is not expected to have a material effect on facilities of PPL subsidiaries.

Under the Clean Air Act, the EPA has been studying the health effects of hazardous air emissions from power plants and other sources in order to determine what emissions should be regulated, and has determined that mercury and nickel emissions must be regulated. The EPA may determine that other hazardous air emissions from power plants should be regulated. In this regard, the EPA is expected to develop mercury and nickel regulations by 2004.

In 1999, the EPA initiated enforcement actions against several utilities, asserting that older, coal-fired power plants operated by those utilities have, over the years, been modified in ways that subject them to more stringent "New Source" requirements under the Clean Air Act. The EPA has since issued notices of violation and commenced enforcement activities against other utilities. Although the EPA has threatened to continue expanding its enforcement actions, the future direction of the "New Source" requirements is presently unclear. Therefore, at this time, PPL is unable to predict whether such EPA enforcement actions will be brought with respect to any of its affiliates' plants. However, the EPA regional offices that regulate plants in Pennsylvania (Region III) and Montana (Region VIII) have indicated an intention to issue information requests to

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all utilities in their jurisdiction. The Region VIII office issued such a request to PPL Montana's Corette plant in 2000, and the Region III office issued such a request to PPL Generation's Martins Creek plant in 2002. PPL and its subsidiaries have responded to both of these information requests. PPL cannot presently predict what, if any, action the EPA might take in this regard. Should the EPA or any state initiate one or more enforcement actions against PPL or its subsidiaries, compliance with any such enforcement actions could result in additional capital and operating expenses in amounts which are not now determinable, but which could be significant.

The EPA has finalized some changes to its "New Source" regulations, which do not significantly affect PPL's plants. However, the EPA is also proposing to further revise its regulations in a way that will require power plants to meet "New Source" performance standards and/or undergo "New Source" review for many maintenance and repair activities that are currently exempt.

The New Jersey DEP and some New Jersey residents have raised environmental concerns with respect to the Martins Creek plant, particularly with respect to sulfur dioxide emissions and the opacity of the plume. PPL Martins Creek is discussing these concerns with the New Jersey DEP. The cost of addressing New Jersey's sulfur dioxide concerns and opacity issues is not now determinable but could be significant.

Water/Waste *(PPL, PPL Energy Supply and PPL Montana)*

A final NPDES permit has been issued to the Brunner Island generating plant. The permit contains a provision requiring further studies on the thermal impact of the cooling water discharge from the plant. Depending on the outcome of these studies, the plant could be subject to capital and operating costs that are not now determinable, but which could be significant.

The EPA has significantly tightened the water quality standard for arsenic. The revised standard may require several PPL subsidiaries to further treat wastewater and/or take abatement action at their power plants, the cost of which is not now determinable, but which could be significant.

The EPA recently finalized requirements for new or modified water intake structures. These requirements will affect where generating facilities are built, will establish intake design standards, and could lead to requirements for cooling towers at new and modified power plants. Another new rule, expected to be finalized in 2004, will address existing structures. Each of these rules could impose significant operating costs on PPL subsidiaries, which are not now determinable, but which could be significant.

Superfund and Other Remediation

(PPL and PPL Electric)

In 1995, PPL Electric entered into a consent order with the Pennsylvania DEP to address a number of sites where it may be liable for remediation. This may include potential PCB contamination at certain PPL Electric substations and pole sites; potential contamination at a number of coal gas manufacturing facilities formerly owned or operated by PPL Electric; and oil or other contamination which may exist at some of PPL Electric's former generating facilities. As of December 31, 2002, work has been completed on over 90% of the sites included in the consent order.

In 1996, PPL Gas Utilities entered into a similar consent order with the Pennsylvania DEP to address a number of sites where subsidiaries of PPL Gas Utilities may be liable for remediation. The sites primarily include former coal gas manufacturing facilities. Subsidiaries of PPL Gas Utilities are also investigating the potential for any mercury contamination from gas meters and regulators. Accordingly, PPL Gas Utilities and Pennsylvania DEP have agreed to add 72 meter/regulation sites to the consent order. As of December 31, 2002, PPL Gas Utilities had addressed 15% of the sites under its consent order.

At December 31, 2002, PPL Electric and PPL Gas Utilities had accrued approximately $4 million and $10 million, representing the estimated amounts they will have to spend for site remediation, including those sites covered by each company's consent orders mentioned above. Depending on the outcome of investigations at sites where investigations have not been completed, the costs of remediation and other liabilities could be substantial.

(PPL, PPL Energy Supply and PPL Montana)

In conjunction with its 1999 sale of generating assets to PPL Montana, Montana Power prepared a Phase I and Phase II Environmental Site Assessment. The assessment identifies approximately $7 million of future capital expenditures through the year 2020 related to various groundwater remediation issues. Additional capital expenditures could be required in amounts which are not now determinable, but which could be significant.

In 1999, the Montana Supreme Court held in favor of several citizens' groups that the right to a clean and healthful environment is a fundamental right guaranteed by the Montana Constitution. The court's ruling could result in significantly more stringent environmental laws and regulations, as well as an increase in citizens' suits under Montana's environmental laws. The effect on PPL Montana of any such changes in laws or regulations or any such increase in legal actions is not currently determinable, but it could be significant.

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Under the Montana Power APA, PPL Montana is indemnified by Montana Power for any pre-acquisition environmental liabilities. However, this indemnification is conditioned on certain circumstances and subject to certain limitations set forth in the Montana Power APA, including circumstances under which PPL Montana and Montana Power would share in certain costs. As a result of the acquisition by NorthWestern of Montana Power's electricity delivery business, PPL Montana will pursue any such indemnification claims against NorthWestern.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional operating costs for PPL subsidiaries that cannot be estimated at this time.

Asbestos *(PPL and PPL Energy Supply)*

There have been increasing litigation claims throughout the U.S. based on exposure to asbestos against companies that manufacture or distribute asbestos products or that have these products on their premises. Certain of PPL's generation subsidiaries and certain of its energy services subsidiaries, such as those that have supplied, may have supplied or installed asbestos material in connection with the repair or installation of heating, ventilating and air conditioning systems, have been named as defendants in asbestos-related lawsuits. PPL cannot predict the outcome of these lawsuits or whether additional claims may be asserted against its subsidiaries in the future. PPL does not expect that the ultimate resolution of the current lawsuits will have a material adverse effect on its financial condition.

Electric and Magnetic Fields *(PPL, PPL Energy Supply and PPL Electric)*

Concerns have been expressed by some members of the public regarding the potential health effects of EMFs. These fields 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 focused attention on this issue. PPL and its subsidiaries support the current efforts to determine whether EMFs cause any human health problems and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities. PPL is unable to predict what effect, if any, the EMF issue might have on its operations and facilities either in the U.S. or abroad, and the associated cost, or what, if any, liabilities it might incur related to the EMF issue.

Lower Mt. Bethel *(PPL and PPL Energy Supply)*

See Note 10 for a discussion of air and noise issues associated with the development of the Lower Mt. Bethel project.

Environmental Matters - International

U.K. *(PPL and PPL Energy Supply)*

WPD's distribution businesses are subject to numerous regulatory and statutory requirements with respect to environmental matters. WPD believes it has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment. There are no material legal or administrative proceedings pending against WPD with respect to any environmental matter. See "Environmental Matters-Domestic-Electric and Magnetic Fields" for a discussion of EMFs.

Latin America *(PPL and PPL Energy Supply)*

Certain of PPL's affiliates have electric distribution operations in Latin America. PPL believes that these operations are in compliance in all material respects with all applicable laws and government regulations to protect the environment. PPL is not aware of any material administrative proceeding against these companies with respect to any environmental matter.

Other

Commitments - Acquisitions, Development and Lease Activities *(PPL and PPL Energy Supply)*

At December 31, 2002, PPL Global and its subsidiaries had approximately $1 million of outstanding purchase commitments related to domestic construction projects. In addition, a lessor had $47 million of purchase commitments for domestic construction projects for which a PPL subsidiary is the construction agent. PPL's exposure is limited to the guarantees under the operating lease. See Note 10 for additional information on guarantees under operating lease arrangements.

Nuclear Insurance *(PPL and PPL Energy Supply)*

PPL Susquehanna is a member of certain insurance programs which provide coverage for property damage to members' nuclear generating stations. Facilities at the Susquehanna station are insured against property damage losses up to $2.75 billion under these programs. PPL Susquehanna is also a member of an insurance program which 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. Effective April 1, 2002, this

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maximum assessment increased from $20 million to $40 million, to increase the insurer's capacity to cover catastrophic losses.

PPL Susquehanna's public liability for claims resulting from a nuclear incident at the Susquehanna station is limited to about $9.55 billion under provisions of The Price Anderson Amendments Act of 1988. 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 Amendments Act of 1988, PPL Susquehanna could be assessed up to $176 million per incident, payable at $20 million per year.

Guarantees and Other Assurances

(PPL, PPL Energy Supply and PPL Electric)

In the normal course of business, PPL, PPL Energy Supply and PPL Electric 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, thereby facilitating the extension of credit to accomplish the subsidiaries' intended commercial purposes.

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

PPL, PPL Energy Supply, PPL Electric and PPL Montana provide certain guarantees on behalf of third parties that are required to be disclosed in accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34." See Note 22 for a discussion of FIN 45 and the impact of adoption. The guarantees provided on behalf of third parties as of December 31, 2002 are discussed below.

(PPL)

PPL or its subsidiaries provide guarantees in the amount of approximately $20 million, as of December 31, 2002, related to debt of unconsolidated entities. The guarantees are reduced as the related debt balances decline, and they expire from June 2006 to April 2009.

(PPL and PPL Energy Supply)

As of December 31, 2002, PPL Energy Supply has letters of credit totaling $4 million issued under its $500 million credit facility on behalf of PPL and PPL Gas Utilities. These letters of credit expire in 2003 and 2004.

PPL Energy Supply provides a guarantee in the amount of approximately $11 million, as of December 31, 2002, related to debt of an unconsolidated entity. This guarantee is reduced as the debt balance declines, and it expires in April 2009.

PPL Generation has entered into certain partnership arrangements for the sale of coal to third parties. PPL Generation has also executed support agreements for the benefit of these third party purchasers pursuant to which it guarantees the partnerships' obligations in an amount up to its pro rata ownership interest in the partnerships. PPL Generation's maximum aggregate exposure under these support arrangements is approximately $9 million.

Certain PPL Generation subsidiaries provide residual value guarantees under the operating leases for the Sundance, University Park and Lower Mt. Bethel generating facilities. See Note 10 for further discussion of these residual value guarantees.

PPL Susquehanna is contingently obligated to pay $40 million related to potential retroactive premiums that could be assessed under its nuclear insurance program. See "Nuclear Insurance" for additional information. PPL Susquehanna also has payment obligations related to decommissioning its nuclear generation plant. See Note 6 for further discussion.

PPL EnergyPlus is party to a wide range of energy trading or purchase and sale agreements pursuant to which the parties indemnify each other for any damages arising from events that occur while the indemnifying party has title to the electricity or natural gas. For example, in the case of the party that is delivering the product, such party would be responsible for damages arising from events occurring prior to delivery. The overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated.

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. They have also guaranteed the payment of up to $44 million under a contract assigned as part of one of these sales. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties. These various indemnifications,

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guarantees and lease obligations vary in duration and in the maximum potential payment, which cannot be estimated but which in the aggregate could be material. To date, neither WPD nor any of its affiliates have made any significant payments with respect to these indemnifications, guarantees or lease obligations, and they do not expect any future payments to be significant.

Certain acquisition agreements relating to the acquisition of mechanical contractors contain provisions that require a PPL Energy Supply subsidiary to make guaranteed payments and/or contingent payments based upon the profitability of the business unit or if specified minimum revenue requirements are met. The maximum potential amount of these contingent payments outstanding at December 31, 2002 is not considered material.

(PPL and PPL Electric)

PPL Electric provides a guarantee in the amount of approximately $7 million, as of December 31, 2002, related to debt of an unconsolidated entity. The guarantee expires in June 2008.

PPL Electric also provides residual value guarantees to lessors under its operating leases for vehicles and other equipment. As of December 31, 2002, the maximum amount of the residual value guarantees for these leases was approximately $93 million.

(PPL, PPL Energy Supply and PPL Montana)

PPL Montana may be obligated under certain circumstances to pay a termination value to the lessor under the operating leases for the Colstrip generating plants. See Note 10 for further discussion of the termination value payment.

PPL Montana also provides residual value guarantees to the lessor under its operating lease for certain equipment. As of December 31, 2002, the maximum amount of the residual value guarantees for this lease was approximately $4 million.

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

The operating lease arrangements described above and the companies' or their subsidiaries' other lease arrangements include certain indemnifications in favor of the lessors (e.g., indemnifications for environmental matters) with terms that range in duration and scope and that are not explicitly defined. Where appropriate, an obligation for such indemnifications is recorded as a liability. Because the obligated amounts of these types of indemnifications often are not explicitly stated, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. As of December 31, 2002, none of PPL, PPL Energy Supply, PPL Electric or PPL Montana has recorded any liability on their financial statements in connection with these indemnification obligations, as they do not believe, based on information currently available, that it is probable that any amounts will be paid under these guarantees.

In connection with many of their financing transactions, PPL, PPL Energy Supply, PPL Electric and PPL Montana engage trustees or custodial, escrow or other agents to act for the benefit of the investors or to provide other agency services. PPL, PPL Energy Supply, PPL Electric and PPL Montana typically provide indemnification to these agents for any liability or expenses incurred by them in performing their obligations. No liability is recorded for these indemnifications because the companies believe that it is unlikely that they will be required to perform or otherwise incur any losses associated with these indemnification provisions.

PPL, PPL Energy Supply, PPL Electric and PPL Montana also have various guarantees in contracts that they enter into in the normal course of business. These guarantees are primarily in the form of indemnities that range in duration and coverage and that do not explicitly state the amount of the indemnification obligation. These guarantees would only result in immaterial increases in future costs and do not represent significant commitments or contingent liabilities of the indebtedness of others. To date, none of PPL, PPL Energy Supply, PPL Electric or PPL Montana has made any significant payments for these indemnification obligations.

PPL, on behalf of itself and its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage requires a $4 million deductible per occurrence and provides maximum aggregate coverage of approximately $175 million. This insurance may be applicable to certain obligations under the contractual arrangements discussed above.

15. **Related Party Transactions**

Intercompany Transactions *(PPL)*

The subsidiaries of PPL engage in intercompany transactions. These transactions include the sale of energy, intercompany financings and allocations of corporate costs. All significant intercompany transactions between PPL subsidiaries are eliminated in the consolidated financial statements of PPL.

PLR Contracts *(PPL Energy Supply and PPL Electric)*

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PPL Electric has power sales agreements with PPL EnergyPlus, effective January 1, 2002, to supply all of PPL Electric's PLR load through 2009. Under these contracts, PPL EnergyPlus will provide electricity at the predetermined capped prices that PPL Electric is authorized to charge its PLR customers. In 2002, these sales totaled $1.4 billion, including nuclear decommissioning recovery and amortization of an up-front contract payment. These sales totaled $1.3 billion in 2001 and $552 million in the last half of 2000, including nuclear decommissioning recovery, under the first PLR contract. These sales are included in the Statement of Income as "Energy purchases from affiliate" by PPL Electric and as "Wholesale energy marketing to affiliates" revenues by PPL Energy Supply.

Under the PLR contracts, PPL Electric is required to make performance assurance deposits with PPL EnergyPlus when the market price of electricity is less than the contract price by more than its contract collateral threshold. Conversely, PPL EnergyPlus is required to make performance assurance deposits with PPL Electric when the market price of electricity is greater than the contract price by more than its contract collateral threshold. At December 31, 2002, neither PPL Electric nor PPL EnergyPlus was required to make performance assurance deposits since the market price of electricity was within contract collateral thresholds.

In August 2001, PPL Electric made a $90 million payment to PPL EnergyPlus in connection with the PLR contracts. The upfront payment is being amortized by both parties over the term of the PLR contracts. The unamortized balance of this payment and other payments under the contract was $81 million at December 31, 2002. See Note 20 for additional information.

NUG Purchases *(PPL Energy Supply and PPL Electric)*

PPL Electric has a reciprocal contract with PPL EnergyPlus to sell electricity purchased under contracts with NUGs. PPL Electric purchases electricity from the NUGs at contractual rates and then sells the electricity at the same price to PPL EnergyPlus. These purchases totaled $160 million in 2002, $176 million in 2001 and $86 million in the last half of 2000. These amounts are included in the Statement of Income as "Wholesale electric to affiliate" revenues by PPL Electric, and as "Energy purchases from affiliates" by PPL Energy Supply.

Montana Retail Supply *(PPL Montana)*

PPL Montana had a Memorandum of Understanding (MOU) with PPL EnergyPlus regarding the supply of energy to satisfy PPL EnergyPlus' obligations under its retail contracts, which expired on December 31, 2002. PPL Montana expects to renew the MOU with substantially the same terms. Under the MOU, energy sales to PPL EnergyPlus were $68 million in 2002, $80 million in 2001 and $33 million in 2000. These amounts are included in "Wholesale energy marketing to affiliate" revenues on the Statement of Income.

Brokering and Contract Management Agreement *(PPL Montana)*

Under a wholesale sales brokering and contract management agreement between PPL Montana and PPL EnergyPlus, PPL Montana paid PPL EnergyPlus $7 million in 2002, $5 million in 2001 and $5 million in 2000. PPL Montana records this expense as "Other operation and maintenance" on the Statement of Income.

Allocations of Corporate Service Costs *(PPL Energy Supply, PPL Electric and PPL Montana)*

Corporate functions such as financial, legal, human resources and information services were transferred to PPL Services in the corporate realignment. PPL Services bills the respective PPL subsidiaries for the cost of such services when they can be specifically identified. The cost of these services that is not directly charged to PPL subsidiaries is allocated to certain of the subsidiaries based on the relative capital invested by PPL in these subsidiaries. PPL Services allocated the following charges to PPL Energy Supply, PPL Electric and PPL Montana (charges in 2000 are for the six months following realignment):

	2002	2001	2000
Direct expenses			
PPL Energy Supply	$ 88	$ 80	$ 19
PPL Electric	56	68	22
PPL Montana	12	7	4
Overhead costs			
PPL Energy Supply	38	39	14
PPL Electric	28	28	41
PPL Montana	4	3	

Intercompany Borrowings

(PPL Energy Supply)

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PPL Energy Supply, through its financing subsidiary, PPL Investment Corporation, had notes receivable from affiliates totaling $655 million at December 31, 2002, and $395 million at December 31, 2001. The largest note receivable was from PPL Energy Funding with interest equal to LIBOR plus 3%, with a $595 million balance at December 31, 2002. Interest earned on loans to affiliates, included in "Other Income - net," was $22 million, $57 million and $40 million in 2002, 2001 and 2000.

Interest expense with affiliate of $3 million in 2002 was associated with interest paid to PPL Electric on performance assurance deposits in connection with the PLR contracts. The decrease in interest expense with affiliate since 2000 reflects the contribution to PPL Energy Supply of PPL Energy Funding's notes receivable from PPL Global, thereby eliminating the associated intercompany interest expense.

(PPL Electric)

In December 2001, PPL Electric made two loans from excess cash to PPL Energy Funding in the aggregate principal amount of $350 million. One loan was a demand promissory note in the original principal amount of $150 million requiring interest to be paid monthly at an annual interest rate of 4.0%. The other loan was a one-year term promissory note in the original principal amount of $200 million requiring interest to be paid monthly at an annual interest rate of 6.5%. This loan was terminated during 2002. The outstanding balance of the $150 million loan at December 31, 2002 was $90 million. Intercompany interest income, included in "Other Income - net," was $9 million, $5 million and $22 million in 2002, 2001 and 2000.

(PPL Montana)

In the fourth quarter of 2002, PPL Montana entered into a $100 million three-year credit facility with another PPL Energy Supply subsidiary on market terms to meet its liquidity needs. At December 31, 2002, PPL Montana had outstanding borrowings of $26 million under this facility.

Trademark Royalties *(PPL Energy Supply)*

In the fourth quarter of 2002, a PPL subsidiary that owns PPL trademarks began billing certain affiliates who use these trademarks. PPL Energy Supply was allocated $8 million of this license fee in 2002.

Other *(PPL Energy Supply and PPL Electric)*

PPL Energy Supply owns no domestic transmission or distribution facilities, other than facilities to interconnect its generation with the electric transmission system. Therefore, PPL EnergyPlus and other PPL Generation subsidiaries must pay PPL Electric, the owner of a transmission system, to deliver the energy these subsidiaries supply to retail and wholesale customers in PPL Electric's franchised territory in eastern and central Pennsylvania.

16. **Other Income - Net**

(PPL)

The breakdown of PPL's Other Income was as follows:

	2002	2001	2000
Other Income			
Interest income	$ 28	$ 15	$ 13
Equity earnings	2	(2)	1
Gain by WPD on the disposition of property	6		
Miscellaneous	15	24	11
Total	51	37	25
Other Deductions			
Write-off regulatory asset - PA Pilot Program			12
Miscellaneous	18	20	20
Other Income - net	$ 33	$17	$(7)

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(PPL Energy Supply)

The breakdown of PPL Energy Supply's Other Income was as follows:

	2002	2001	2000
Other Income			
Affiliated interest income	$ 22	$ 57	$ 40
Interest income	17	6	2
Gain by WPD on the disposition of property	6		
Equity earnings	3	3	1
Miscellaneous	11	11	11
Total	59	85	56
Other Deductions			
Miscellaneous	11	11	14
Other Income - net	$ 48	$ 74	$ 42

(PPL Electric)

The breakdown of PPL Electric's Other Income was as follows:

	2002	2001	2000
Other Income			
Affiliated interest income	$ 9	$ 5	$ 22
Equity earnings			1
Interest income	8	7	6
Non-operating income - affiliates		5	
Miscellaneous		1	7
Total	17	18	36
Other Deductions			
Write-off regulatory asset - PA Pilot Program			12
Miscellaneous	1	2	7
Other Income - net	$ 16	$ 16	$ 17

17. **Derivative Instruments and Hedging Activities**

(PPL, PPL Energy Supply and PPL Montana)

PPL, PPL Energy Supply and PPL Montana adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001. Upon adoption and in accordance with the transition provisions of SFAS 133, PPL Energy Supply recorded a cumulative-effect credit of $11 million in earnings, included as an increase to "Wholesale energy marketing" revenues and a decrease to "Energy purchases" on the Statement of Income. PPL Energy Supply and PPL Montana also recorded cumulative-effect charges of $182 million and $156 million, respectively, in "Accumulated other comprehensive loss," a component of Member's Equity. As of December 31, 2002, the balances for PPL, PPL Energy Supply and PPL Montana in "Accumulated other comprehensive loss" related to unrealized gains and losses on qualifying derivatives were a net gain of $7 million, a net gain of $23 million and a net gain of $4 million, respectively, as a result of reclassifying part of the transition adjustment into earnings, changes in market prices and the adoption of DIG Issue C15 (see discussion in "Implementation Issues" below).

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Management of Market Risk Exposures

Market risk is the potential loss PPL may incur as a result of price changes associated with a particular financial or commodity instrument. PPL is exposed to market risk from:

- commodity price risk for energy and energy-related products associated with the sale of electricity from our generating assets, the purchase of fuel for the generating assets and energy trading activities;
- interest rate risk associated with variable-rate debt and the fair value of fixed-rate debt used to finance operations, as well as the fair value of debt securities invested in by PPL's nuclear decommissioning fund;
- foreign currency exchange rate risk associated with investments in affiliates in Latin America and Europe, as well as purchases of equipment in currencies other than U.S. dollars; and
- equity securities price risk associated with the fair value of equity securities invested in by PPL's nuclear decommissioning fund.

PPL has a comprehensive risk management policy approved by the Board of Directors to manage the market risk and counterparty credit risk. The RMC, comprised of senior management and chaired by the Vice President-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with risk policies and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, sensitivity analyses, and daily portfolio reporting, including open positions, mark-to-market valuations, and other risk measurement metrics. In addition, efforts are on-going to develop systems to improve the timeliness, quality and breadth of market and credit risk information.

PPL utilizes forward contracts, futures contracts, options and swaps as part of its risk management strategy to minimize unanticipated fluctuations in earnings caused by commodity price, interest rate and foreign currency volatility. All derivatives are recognized on the balance sheet at their fair value, unless they meet SFAS 133 criteria for exclusion (see discussion in "Implementation Issues" below).

Fair Value Hedges

PPL Energy Supply and PPL Montana enter into financial or physical contracts to hedge a portion of the fair value of firm commitments of forward electricity sales. These contracts range in maturity through 2006. Additionally, PPL and PPL Energy Supply enter into financial contracts to hedge fluctuations in market value of existing debt issuances. These contracts range in maturity through 2029.

PPL, PPL Energy Supply and PPL Montana recognized the following net gains/(losses), after-tax, resulting from firm commitments that no longer qualified as fair value hedges (reported in "Wholesale energy marketing" revenues and "Energy purchases" on the Statement of Income):

	2002	**2001**
PPL	$	$ 7
PPL Energy Supply		7
PPL Montana		

PPL, PPL Energy Supply and PPL Montana did not recognize any gains/(losses) resulting from the ineffective portion of fair value hedges for the twelve months ended December 31, 2002 or 2001.

Cash Flow Hedges

PPL Energy Supply and PPL Montana enter into financial and physical contracts, including forwards, futures and swaps, to hedge the price risk associated with electric, gas and oil commodities. Additionally, PPL and PPL Energy Supply enter into financial interest rate swap contracts to hedge interest expense associated with both existing and anticipated debt issuances. These contracts and swaps range in maturity through 2006. PPL and PPL Energy Supply also enter into foreign currency forward contracts to hedge exchange rates associated with firm commitments denominated in foreign currencies and to hedge the net investment of foreign operations. These forward contracts range in maturity through 2028.

Cash flow hedges may be discontinued because it is probable that the original forecasted transaction will not occur by the end of the originally specified time period. PPL, PPL Energy Supply and PPL Montana discontinued certain cash flow hedges which resulted in the following net gain/(loss), after tax, reclassifications (reported in "Wholesale energy marketing" revenues, "Energy purchases" and "Interest Expense" on the Statement of Income):

	2002	**2001**

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PPL	$ (9)	$ (14)
PPL Energy Supply		(14)
PPL Montana		7

Due to hedge ineffectiveness, PPL, PPL Energy Supply and PPL Montana reclassified the following net gains/(losses), after tax, (reported in "Wholesale energy marketing" revenues and "Energy purchases" on the Statement of Income):

	2002	2001
PPL	$ (2)	$
PPL Energy Supply	(2)	
PPL Montana		

As of December 31, 2002, the deferred net loss, after tax, on derivative instruments in "Accumulated other comprehensive income" expected to be reclassified into earnings during the next twelve months (excluding derivative activities of equity investments) was $4 million, $5 million and $8 million for PPL, PPL Energy Supply and PPL Montana.

The following table shows the change in accumulated unrealized gains or losses on derivatives in other comprehensive income for the following periods:

	2002	2001
PPL		
Beginning accumulated derivative gain	$ 23	
Cumulative effect of a change in accounting principle at January 1, 2001		$ (182)
Net change associated with current period hedging activities and other	9	221
Net change associated with C15 accounting change (a)	(11)	
Net change from reclassification into earnings	(14)	(16)
Ending accumulated derivative gain	$ 7	$ 23
PPL Energy Supply		
Beginning accumulated derivative gain	$ 46	
Cumulative effect of a change in accounting principle at January 1, 2001		$ (182)
Net change associated with current period hedging activities and other	(12)	
Net change associated with C15 accounting change (a)	(11)	226
Net change from reclassification into earnings		2
Ending accumulated derivative gain	$ 23	$ 46
PPL Montana		
Beginning accumulated derivative gain	$ 33	
Cumulative effect of a change in accounting principle at January 1, 2001		$ (156)
Net change associated with current period hedging activities and other	(23)	182
Net change from reclassification into earnings	(6)	7
Ending accumulated derivative gain	$ 4	$ 33

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(a) In June 2001, the FASB cleared DIG Issue C15, "Scope Exceptions: Normal Purchases and Normal Sales Exception for Certain Option-Type Contracts and Forward Contracts in Electricity," which extends the normal purchases and normal sales exception to electricity purchase and sale agreements meeting certain criteria. The mark-to-market value recorded in accumulated other comprehensive income as of December 31, 2002 is being amortized through the original delivery term of the contracts.

Implementation Issues

On June 29, 2001, the FASB issued definitive guidance on DIG Issue C15: "Scope Exceptions: Normal Purchases and Normal Sales Exception for Certain Option-Type Contracts and Forward Contracts in Electricity." Issue C15 provides additional guidance on the classification and application of SFAS 133 relating to purchases and sales of electricity utilizing forward contracts and options. This guidance became effective as of July 1, 2001. In December 2001, the FASB revised the guidance in Issue C15, principally related to the eligibility of options for the normal purchases and normal sales exception. The revised guidance was effective January 1, 2002.

Purchases and sales of forward electricity and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business would generally be considered "normal purchases and normal sales" under SFAS 133. These transactions, while within the scope of SFAS 133, are not required to be marked to fair value in the financial statements because they qualify for the normal purchases and sales exception. As of December 31, 2002 and December 31, 2001, "Accumulated other comprehensive income" included a net gain of an insignificant amount and $11 million, respectively, related to forward transactions classified as cash flow hedges prior to adoption of DIG Issue C15. This gain will be reversed from "Accumulated other comprehensive income" and recognized in earnings as the contracts deliver through 2008.

In December 2001, the FASB revised guidance on DIG Issue C16, "Scope Exceptions: Applying the Normal Purchases and Normal Sales Exception to Contracts that Combine a Forward Contract and a Purchased Option Contract." Issue C16 provides additional guidance on the classification and application of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," relating to purchases and sales of electricity utilizing forward contracts and options, as well as the eligibility of fuel contracts for the normal purchases and normal sales exception. The revised guidance was effective April 1, 2002. PPL had no financial statement impact from the revised guidance on fuel contracts classified as normal.

PPL adopted the final provisions of EITF 02-3 during the fourth quarter of 2002. As such, PPL now reflects its net realized and unrealized gains and losses associated with all derivatives that are held for trading purposes in the "Net energy trading margins" line on the Statement of Income. Non-derivative contracts that met the definition of energy trading activities as defined by EITF 98-10, "Accounting for Energy Trading and Risk Management Activities" are reflected in the financial statements using the accrual method of accounting. Under the accrual method of accounting, unrealized gains and losses are not reflected in the financial statements. Prior periods have been reclassified. PPL did not need to record a cumulative effect of this change in accounting principle, because all non-derivative energy-related trading contracts had been shown in the financial statements at their amortized cost. This reflected modeling reserves that incorporated the lack of independence in valuing contracts for which there were no external market prices.

The financial statement impact of netting energy trading activities is as follows:

	2002	2001	2000
PPL and PPL Energy Supply			
Prior classification			
Wholesale energy marketing	$ 596	$ 690	$ 1,186
Energy purchases	577	653	1,139
Net energy trading margins	$ 19	$ 37	$ 47

	2002	2001	2000
PPL Montana			
Prior classification			
Wholesale energy marketing	$ (3)	$ 101	$ 19
Energy purchases	(2)	95	11
Net energy trading margins	$ (1)	$ 6	$ 8

Credit Concentration

PPL, PPL Energy Supply and PPL Montana enter into contracts with many entities for the purchase and sale of energy. Most of these contracts

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are considered a normal part of doing business and, as such, the mark-to-market value of these contracts is not reflected in the financial statements. However, the mark-to-market value of these contracts is considered when committing to a new business from a credit perspective.

PPL, PPL Energy Supply and PPL Montana have credit exposures to energy trading partners. The majority of these exposures were the mark-to-market value of multi-year contracts for energy sales. Therefore, if these counterparties fail to perform their obligations under such contracts, the companies would not experience an immediate financial loss, but would experience lower revenues in future years to the extent that replacement sales could not be made at the same prices as sales under the defaulted contracts.

At December 31, 2002, PPL had a credit exposure of $162 million to energy trading partners. Five counterparties accounted for 58% of this exposure. No other individual counterparty accounted for more than 3% of the exposure. With one exception, each of the five primary counterparties had an investment grade credit rating from Standard & Poor's. The non-investment grade counterparty has agreed to accelerated payment provisions under its contracts with PPL Montana that substantially reduces PPL Montana's exposure.

At December 31, 2002, PPL Energy Supply had a credit exposure of $446 million to energy trading partners. Six counterparties accounted for 87% of this exposure. No other individual counterparty accounted for more than 1% of the exposure. The largest exposure, $351 million, was to PPL Electric, under the long-term contract to provide PPL Electric's PLR load. With one exception, the other five counterparties have an investment grade credit rating from Standard & Poor's. The non-investment grade counterparty has agreed to accelerated payment provisions under its contracts with PPL Montana that substantially reduces PPL Montana's exposure.

At December 31, 2002, PPL Montana had a credit exposure of $63 million to energy trading partners. Three counterparties accounted for 80% of this exposure. No other individual counterparty accounted for more than 2% of the exposure. With one exception, each of the three primary counterparties has an investment grade credit rating from Standard & Poor's. The non-investment grade counterparty has agreed to accelerated payment provisions under its contracts with PPL Montana that substantially reduces PPL Montana's exposure.

PPL, PPL Energy Supply and PPL Montana have the right to request collateral from each of these counterparties, except for one government agency, in the event their credit rating falls below investment grade. It is also the policy of PPL, PPL Energy Supply and PPL Montana to enter into netting agreements with all of their counterparties to minimize credit exposure.

Enron Bankruptcy

In connection with the December 2001 bankruptcy filings by Enron Corporation and its affiliates (collectively "Enron"), certain PPL subsidiaries terminated certain electricity, gas and other trading agreements with Enron. PPL Energy Supply and its subsidiaries' 2001 earnings exposure associated with termination of these contracts was approximately $8 million after-tax, and is recorded in "Wholesale energy marketing" and "Energy purchases" on the Statement of Income. Additionally, certain of these contracts with Enron extended through 2006, and were at prices more favorable to PPL Energy Supply than current market prices. However, there was no further accounting charge to be recorded.

In October 2002, certain PPL subsidiaries filed proofs of claim in Enron's bankruptcy proceedings, in an aggregate amount of approximately $50 million. PPL and its subsidiaries cannot predict the amounts, if any, that they will recover as a result of their claims in the Enron bankruptcy proceedings.

18. **Goodwill and Other Intangible Assets**

On January 1, 2002, PPL and its subsidiaries adopted SFAS 142, "Goodwill and Other Intangible Assets," which eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS 142 requires an annual impairment test of goodwill at the reporting unit level. A reporting unit is a segment or one level below a segment (referred to as a component). Intangible assets other than goodwill that are not subject to amortization are also required to undergo an annual impairment test. PPL changed the classification of certain intangible assets on the balance sheet upon adopting SFAS 142. Previously reported information has been restated to conform to the current presentation. The following information is disclosed in accordance with SFAS 142.

Acquired Intangible Assets

(PPL)

The carrying amount and the accumulated amortization of acquired intangible assets were as follows:

	December 31, 2002		December 31, 2001	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Land and transmission rights	$ 242	$ 89	$ 247	$ 86

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Emission allowances	41		36	
Licenses and other	42	6	33	4
	$ 325	$ 95	$ 316	$ 90

Current intangible assets are included in "Current Assets - Other," and long-term intangible assets are included in "Goodwill and other intangibles" on the Balance Sheet.

Amortization expense was approximately $5 million for 2002. Amortization expense is estimated at $5 million per year for 2003 through 2007.

(PPL Energy Supply)

The carrying amount and the accumulated amortization of acquired intangible assets were as follows:

	December 31, 2002		December 31, 2001	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Land and transmission rights	$ 49	$ 14	$ 49	$ 13
Emission allowances	41		36	
Licenses and other	42	6	33	4
	$ 132	$ 20	$ 118	$ 17

Current intangible assets are included in "Current Assets - Other," and long-term intangible assets are included in "Goodwill and other intangibles" on the Balance Sheet.

Amortization expense was approximately $2 million for 2002. Amortization expense is estimated at $2 million per year for 2003 through 2007.

(PPL Electric)

The carrying amount and the accumulated amortization of acquired intangible assets were as follows:

	December 31, 2002		December 31, 2001	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Land and transmission rights	$ 192	$ 74	$ 197	$ 72

Intangible assets are shown as "Intangibles" on the Balance Sheet.

Amortization expense was approximately $2 million for 2002. Amortization expense is estimated at $2 million per year for 2003 through 2007.

(PPL Montana)

The carrying amount and the accumulated amortization of acquired intangible assets were as follows:

	December 31, 2002		December 31, 2001	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Emission allowances	$ 18		$ 19	
Licenses and other	22	$ 1	15	
	$ 40	$ 1	$ 34	

Current intangible assets are included in "Prepayments and other," and long-term intangible assets are included in "Noncurrent Assets - Other" on the Balance Sheet.

Amortization expense was approximately $1 million for 2002. Amortization expense is estimated at $1 million per year for 2003 through 2007.

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Goodwill *(PPL and PPL Energy Supply)*

The changes in the carrying amounts of goodwill by segment were as follows:

	PPL Energy Supply				PPL
	Supply	**International**	**Total**	**Delivery(a)**	**Total**
Balance as of January 1, 2002	$ 72	$ 257	$ 329	$ 55	$ 384
Goodwill acquired	13	6	19		19
Interest in WPD goodwill (b)		225	225		225
Effect of foreign exchange rates		(4)	(4)		(4)
Impairment losses		(150)	(150)		(150)
Balance as of December 31, 2002	$ 85	$ 334	$ 419	$ 55	$ 474

(a) The Delivery segment is not part of PPL Energy Supply.
(b) See Note 9 for additional information.

Goodwill is included in "Goodwill and other intangibles" on the Balance Sheet.

The reporting units of the Supply, Delivery and International segments completed the transition impairment test in the first quarter of 2002. A transition goodwill impairment loss of $150 million was recognized in the Latin American reporting unit within the International segment, and is reported as a "Cumulative Effect of a Change in Accounting Principle" on the Statement of Income. The fair value of the reporting unit was estimated using the expected present value of future cash flows.

Reconciliation of Prior Periods to Exclude Amortization

(PPL and PPL Energy Supply)

The following table reconciles reported earnings for 2000 and 2001 to earnings adjusted to exclude amortization expense related to goodwill and equity method goodwill. Those expenses were no longer recorded in 2002 in accordance with SFAS 142. PPL and PPL Energy Supply were not affected by changes in amortization periods for other intangible assets.

	PPL For the Years Ended December 31,		
	2002	**2001**	**2000**
Reported net income before extraordinary item and cumulative effect of a change in accounting principle	$ 358	$ 169	$ 487
Add back: Goodwill amortization		13	11
Add back: Equity method goodwill amortization		3	3
Adjusted net income before extraordinary item and cumulative effect of a change in accounting principle	$ 358	$ 185	$ 501
Reported net income	$ 208	$ 179	$ 498
Add back: Goodwill amortization		13	11
Add back: Equity method goodwill amortization		3	3
Adjusted net income	$ 208	$ 195	$ 512
Basic EPS:			
Reported net income before extraordinary item and cumulative effect of a change in accounting principle	$ 2.35	$ 1.16	$ 3.38
Goodwill amortization		0.09	0.07
Equity method goodwill amortization		0.02	0.02
Adjusted net income before extraordinary item and cumulative effect of a change in accounting principle	$ 2.35	$ 1.27	$ 3.47
Reported net income	$ 1.37	$ 1.23	$ 3.45
Goodwill amortization		0.09	0.07
Equity method goodwill amortization		0.02	0.02
Adjusted net income	$ 1.37	$ 1.34	$ 3.54
Diluted EPS:			

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Reported net income before extraordinary item and cumulative effect of a change in accounting principle	$ 2.35	$ 1.15	$ 3.37
Goodwill amortization		0.09	0.07
Equity method goodwill amortization		0.02	0.02
Adjusted net income before extraordinary item and cumulative effect of a change in accounting principle	$ 2.35	$ 1.26	$ 3.46
Reported net income	$ 1.36	$ 1.22	$ 3.44
Goodwill amortization		0.09	0.07
Equity method goodwill amortization		0.02	0.02
Adjusted net income	$ 1.36	$ 1.33	$ 3.53

	PPL Energy Supply For the Years Ended December 31,		
	2002	**2001**	**2000**
Reported net income before cumulative effect of a change in accounting principle	$ 429	$ 171	$ 242
Add back: Goodwill amortization		12	9
Add back: Equity method goodwill amortization		3	3
Adjusted net income before cumulative effect of a change in accounting principle	$ 429	$ 186	$ 254
Reported net income	$ 279	$ 174	$ 242
Add back: Goodwill amortization		12	9
Add back: Equity method goodwill amortization		3	3
Adjusted net income	$ 279	$ 189	$ 254

(PPL Electric and PPL Montana)

PPL Electric and PPL Montana had no goodwill at December 31, 2002, 2001 and 2000. The adoption of SFAS 142 would not have affected prior period earnings of PPL Electric and PPL Montana.

19. **Corporate Realignment**

(PPL Energy Supply and PPL Electric)

On July 1, 2000, PPL and PPL Electric completed a corporate realignment in order to effectively separate PPL Electric's regulated transmission and distribution operations from its recently deregulated generation operations and to better position the companies and their affiliates in the new competitive marketplace. The realignment included PPL Electric's transfer of certain generation and related assets, and associated liabilities, to PPL and PPL Energy Funding at book value. The net book value of this transfer, recorded effective July 1, 2000, was $271 million.

This $271 million non-cash dividend to PPL had a significant impact on the consolidated assets and liabilities of PPL Electric. As indicated on the Statement of Cash Flows of PPL Electric, approximately $73 million of cash and cash equivalents of consolidated affiliates was divested as a result of the realignment distribution.

As a result of the corporate realignment, PPL Electric's principal businesses are the transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania, and the supply of electricity to retail customers in that territory as a PLR. Other subsidiaries of PPL and PPL Electric are generally aligned in the new corporate structure according to their principal business functions.

PPL Energy Funding contributed certain of these generating and unregulated marketing assets and liabilities at a net book value of approximately $1.6 billion to PPL Generation and PPL EnergyPlus.

PPL Energy Supply was subsequently formed as a subsidiary of PPL Energy Funding, to serve as the parent company for the unregulated subsidiaries. As a result of the corporate realignment, PPL Generation's principal business is owning and operating U.S. generating facilities through various subsidiaries; PPL EnergyPlus' principal business is wholesale and deregulated retail energy marketing; and PPL Global's principal businesses are the acquisition and development of both U.S. and international energy projects, and the ownership and operation of

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international projects.

The corporate realignment followed receipt of various regulatory approvals, including approvals from the IRS, the PUC, the FERC, and the NRC.

20. **Strategic Initiative**

(PPL and PPL Electric)

In August 2001, PPL completed a strategic initiative to confirm the structural separation of PPL Electric from PPL and PPL's other affiliated companies. This initiative enabled PPL Electric to reduce business risk by securing a supply contract adequate to meet its PLR obligations, enabled PPL Electric to lower its capital costs, enabled PPL EnergyPlus to lock in an electric supply agreement at current favorable prices, and enabled PPL to raise capital at attractive rates for its unregulated businesses, while allowing PPL to retain valuable advantages related to operating both energy supply and energy delivery businesses.

In connection with this initiative, PPL Electric:

- obtained a long-term electric supply contract to meet its PLR obligations, at prices generally equal to the pre-determined "capped" rates it is authorized to charge its PLR customers from 2002 through 2009 under the 1998 PUC settlement order;
- agreed to limit its businesses to electric transmission and distribution and activities relating to or arising out of those businesses;
- adopted amendments to its Articles of Incorporation and Bylaws containing corporate governance and operating provisions designed to reinforce its corporate separateness from affiliated companies;
- appointed an independent director to its Board of Directors and required the unanimous consent of the Board of Directors, including the consent of the independent director, to amendments to these corporate governance and operating provisions or to the commencement of any insolvency proceeding, including any filing of a voluntary petition in bankruptcy or other similar actions;
- appointed an independent compliance administrator to review, on a semi-annual basis, its compliance with the new corporate governance and operating requirements contained in its amended Articles of Incorporation and Bylaws; and
- adopted a plan of division pursuant to the Pennsylvania Business Corporation Law. The plan of division resulted in two separate corporations. PPL Electric was the surviving corporation and a new Pennsylvania corporation was created. Under the plan of division, $5 million of cash and certain of PPL Electric's potential liabilities were allocated to the new corporation. PPL has guaranteed the obligations of the new corporation with respect to such liabilities.

The enhancements to PPL Electric's legal separation from its affiliates are intended to minimize the risk that a court would order PPL Electric's assets and liabilities to be substantively consolidated with those of PPL or another affiliate of PPL in the event that PPL or another PPL affiliate were to become a debtor in a bankruptcy case.

At a special meeting of PPL Electric's shareowners held on July 17, 2001, the plan of division and the amendments to PPL Electric's Articles of Incorporation and Bylaws were approved, and became effective upon filing the articles of division and the plan of division with the Secretary of State of the Commonwealth of Pennsylvania. This filing was made in August 2001.

As part of the strategic initiative, PPL Electric solicited bids to contract with energy suppliers to meet its obligation to deliver energy to its customers from 2002 through 2009. In June 2001, PPL Electric announced that PPL EnergyPlus was the low bidder, among six bids examined, and was selected to provide the energy supply requirements of PPL Electric from 2002 through 2009. Under this contract, PPL EnergyPlus will provide electricity at pre-determined capped prices that PPL Electric is authorized to charge its PLR customers, and received a $90 million payment to offset differences between the revenues expected under the capped prices and projected market prices through the life of the supply agreement (as projected by PPL EnergyPlus at the time of its bid). The contract resulted in PPL EnergyPlus having an eight-year contract at current market prices. PPL has guaranteed the obligations of PPL EnergyPlus under the new contract.

In July 2001, the energy supply contract was approved by the PUC and accepted for filing by the FERC.

Also in July 2001, PPL Electric filed a shelf registration statement with the SEC to issue up to $900 million in debt. In August 2001, PPL Electric sold $800 million of senior secured bonds under this registration statement. The offering consisted of two series of bonds: $300 million of 5-7/8% Series due 2007 and $500 million of 6-1/4% Series due 2009. PPL Electric used a portion of the proceeds from these debt issuances to make the $90 million up-front payment to PPL EnergyPlus, and $280 million was used to repurchase a portion of its common stock from

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PPL. The remainder of the proceeds was used for general corporate purposes.

Taken collectively, the steps in the strategic initiative are intended to protect the customers of PPL Electric from volatile energy prices and facilitate a significant increase in leverage at PPL Electric, while lowering its cost of capital. PPL's shareowners also benefited from this initiative because it provided low-cost capital to the higher-growth, unregulated side of PPL's business.

21. **Workforce Reduction**

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

In an effort to improve operational efficiency and reduce costs, PPL and its subsidiaries completed a workforce reduction in June 2002 that will eliminate up to 598 employees, or about 7% of PPL's U.S. workforce, at a cost of $74 million. The program was broad-based and impacted all employee groups except certain positions that are key to providing high-quality service to PPL's electricity delivery customers. Linemen, electricians and line foremen, for example, were not affected by the reductions. An additional $1 million workforce reduction charge was recorded in September 2002, when plans, specific to PPL Global and PPL Montana subsidiaries, were finalized which are expected to impact 26 employees. These additional reductions increased PPL's total charge for workforce reductions to $75 million for the elimination of up to 624 positions. Annual savings in operating expenses associated with the workforce reduction are estimated to be approximately $50 million.

PPL recorded the cost of the program as a one-time charge of $75 million included in the Statement of Income as "Workforce reduction." This charge reduced net income by $44 million after-taxes. The program provides primarily for enhanced early retirement benefits and/or one-time special pension separation allowances based on an employee's age and years of service. These features of the program will be paid from the PPL Retirement Plan pension trust and increased PPL's pension and postretirement benefit liabilities by $65 million. The remaining $10 million of costs relate primarily to severance payments and outplacement costs which will be paid by PPL, and are included on the Balance Sheet under "Current Liabilities."

As of December 31, 2002, 354 PPL employees were terminated and have received $7 million of non-pension benefits. The remaining $3 million liability for non-pension benefits will be paid over the next six months.

PPL Energy Supply will eliminate up to 221 employees and recorded a one-time charge of $41 million, which reduced net income by $24 million. Included in the charge was a $10 million allocation of the costs associated with the elimination of employees of PPL Services.

PPL Electric will eliminate up to 260 employees and recorded a one-time charge of $33 million, which reduced net income by $19 million. Included in the charge was a $6 million allocation of the costs associated with the elimination of employees of PPL Services.

PPL Montana plans to eliminate up to nine employees and recorded an insignificant one-time charge in the second half of the year.

22. **New Accounting Standards**

SFAS 142 *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

See Note 18 for a discussion of SFAS 142, "Goodwill and Other Intangible Assets," and the impact of adoption.

SFAS 143

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

In 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations," which addresses the accounting for obligations associated with the retirement of tangible long-lived assets. SFAS 143 requires legal obligations associated with the retirement of long-lived assets to be recognized as a liability in the financial statements. The initial obligation should be measured at the estimated fair value. An equivalent amount should be recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability should be increased, through the recognition of accretion expense in the income statement, for changes in the obligation due to the passage of time. SFAS 143 is effective for fiscal years beginning after June 15, 2002.

(PPL and PPL Energy Supply)

PPL and PPL Energy Supply adopted SFAS 143 effective January 1, 2003. Application of the new rules resulted in an increase in net property, plant and equipment of $32 million, reversal of the previously recorded decommissioning liability of $296 million, recognition of asset retirement obligations of $229 million, recognition of a deferred tax liability of $41 million and a cumulative effect of adoption that increased net income and equity by $58 million. Accretion and depreciation expenses resulting from the application of SFAS 143 are expected to be approximately $12 million in 2003. PPL and PPL Energy Supply identified various legal obligations to retire long-lived assets, the largest of which relates to the decommissioning of the Susquehanna station. PPL and PPL Energy Supply identified and recorded other asset retirement

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obligations related to significant interim retirements at the Susquehanna station, various environmental requirements for coal piles, ash basins and other waste basin retirements.

(PPL Electric)

PPL Electric adopted SFAS 143 effective January 1, 2003. PPL Electric did not record any asset retirement obligations upon adoption.

(PPL Montana)

PPL Montana adopted SFAS 143 effective January 1, 2003. PPL Montana recorded asset retirement obligations associated with various environmental requirements for coal piles, ash basins and other waste basin retirements. The impact of these asset retirement obligations was not material.

SFAS 144 *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

In 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." For long-lived assets to be held and used, SFAS 144 retains the requirements of SFAS 121 to recognize an impairment loss only if the carrying amount is not recoverable from undiscounted cash flows and to measure an impairment loss as the difference between the carrying amount and fair value of the asset. For long-lived assets to be disposed of by sale, SFAS 144 establishes a single accounting model based on the framework established in SFAS 121. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of segments of a business. SFAS 144 also broadens the reporting of discontinued operations. PPL and its subsidiaries adopted SFAS 144 on January 1, 2002, with no material impact on the financial statements.

SFAS 145 *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The most relevant provision of SFAS 145 is the rescission of SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt, an Amendment of APB Opinion No. 30," which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of any related income tax effect. As a result of the rescission, the criteria in APB Opinion No. 30 will now be used to classify those gains and losses. The provisions of SFAS 145 related to the rescission of SFAS 4 shall be applied in fiscal years beginning after May 15, 2002, with early application encouraged. PPL and its subsidiaries adopted these provisions during the fourth quarter of 2002. All prior periods were restated, as necessary. The provisions related to the amendment of SFAS 13, "Accounting for Leases," were adopted for transactions occurring after May 15, 2002. The adoption of SFAS 145 did not have a material impact on PPL or its subsidiaries. However, SFAS 145 may impact the accounting treatment of future extinguishments of debt and lease transactions.

SFAS 146 *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires the recognition of a liability for costs associated with exit or disposal activities when the liability is incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 also establishes that the initial liability should be measured at its estimated fair value. The provisions of SFAS 146 are effective for exit or disposal activities initiated after December 31, 2002, with earlier application encouraged. PPL and its subsidiaries adopted SFAS 146 effective January 1, 2003. The initial adoption did not have an impact on PPL or its subsidiaries. However, SFAS 146 may impact the accounting treatment of future disposal or exit activities.

SFAS 148 *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123." SFAS 148 provides three transition methods for adopting the fair value method of accounting for stock-based compensation as prescribed under SFAS 123 and enhances the required disclosures effective for fiscal years ending after December 15, 2002. SFAS 148 also requires certain disclosures in financial reports issued for interim periods beginning after December 15, 2002.

PPL and its subsidiaries elected to adopt the fair value method of accounting for stock-based compensation as of January 1, 2003, which will require PPL and its subsidiaries to begin recording compensation expense for stock option awards over the period the awards vest. PPL and its subsidiaries have chosen to apply the prospective method of transition permitted by SFAS 148, which provides that PPL and its subsidiaries will recognize expense for all stock-based compensation awards granted, modified or settled on or after January 1, 2003. Consequently, the

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initial adoption of the fair value method of accounting for stock-based compensation under SFAS 123, as well as the adoption of SFAS 148, did not have an immediate impact on the financial results of PPL or its subsidiaries.

See Note 1 for the annual disclosures required by SFAS 148.

EITF 02-3 *(PPL, PPL Energy Supply and PPL Montana)*

See Note 17 for a discussion of EITF 02-3 and the impact of adoption.

FIN 45 *(PPL, PPL Energy Supply, PPL Electric and PPL Montana)*

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34." FIN 45 clarifies that upon issuance of certain types of guarantees, the guarantor must recognize an initial liability for the fair value of the obligation it assumes under the guarantee. FIN 45 does not provide detailed guidance on the offsetting entry to be made when recognizing the liability or on measuring the obligation subsequent to its initial recognition. The offsetting entry will be dependent upon the circumstances under which the guarantee is issued, and the initial liability should typically be reduced as the guarantor is released from risk under the guarantee. FIN 45 also requires a guarantor to make significant new disclosures for virtually all guarantees. The provisions relating to the initial recognition and measurement of guarantee obligations must be applied on a prospective basis to guarantees issued or modified after December 31, 2002. PPL and its subsidiaries adopted FIN 45 effective January 1, 2003. The initial adoption did not have an impact on PPL or its subsidiaries. However, FIN 45 may impact the accounting treatment of future guarantee obligations. The disclosure provisions are effective for financial statements of interim and annual periods ending after December 15, 2002. See Notes 10 and 14 for disclosure of guarantees and other assurances existing as of December 31, 2002.

FIN 46

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

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 clarifies that variable interest entities, as defined therein, that do not disperse risks among the parties involved should be consolidated by the entity that is determined to be the primary beneficiary. FIN 46 also requires certain disclosures to be made by the primary beneficiary and by an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after January 31, 2003. For variable interest entities in which an enterprise holds a variable interest that was acquired before February 1, 2003, FIN 46 must be adopted no later than the first fiscal year or interim period beginning after June 15, 2003. FIN 46 may be applied by restating previously issued financial statements with a cumulative effect adjustment as of the beginning of the first year restated. Restatement is encouraged but not required.

(PPL and PPL Energy Supply)

PPL Energy Supply expects that FIN 46 will apply to the leases for its Sundance, University Park and Lower Mt. Bethel generating facilities. See Note 10 for further discussion of these leases and disclosure required by FIN 46. PPL Energy Supply is currently evaluating the restructuring of these leases. If PPL Energy Supply elects not to restructure these leases, PPL Energy Supply believes that it will be required to consolidate the financial statements of the variable interest entities that own the leased facilities. The principal impact from such consolidation would be the inclusion of the generating facilities as assets and the lease debt as liabilities in the consolidated balance sheets of PPL and PPL Energy Supply. Additionally, PPL and PPL Energy Supply would be required to recognize a cumulative effect of a change in accounting principle in connection with the initial consolidation of these variable interest entities. Such amount is currently estimated to be approximately $13 million, assuming FIN 46 is applied to these entities effective July 1, 2003 and prior year financial statements are not restated.

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SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
PPL Corporation
(Millions of Dollars)

Column A	Column B	Column C Additions		Column D	Column E
Description	Balance at Beginning of Period	Charged to Income	Other	Deductions	Balance At End of Period
Year Ended December 31, 2002					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts	**$ 125**	**$ 32**	**$ 7** (a)	**$ 52** (b)	**$ 112**
Obsolete inventory - Materials and supplies	**1**				**1**
Mark-to-market valuation reserves	**7**			**4**	**3**
Year Ended December 31, 2001					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts	70	98		43	125 (c)
Obsolete inventory - Materials and supplies	4			3	1
Mark-to-market valuation reserves	2	5			7
Year Ended December 31, 2000					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts	22	47	26 (d)	25	70
Obsolete inventory - Materials and supplies	3	5		4	4
Mark-to-market valuation reserves		2			2

(a) Includes the reserve recorded upon the acquisition of a controlling interest in WPD.
(b) Includes the removal of reserves upon the deconsolidation of CEMAR.
(c) Includes reserves for customer accounts receivable, California ISO, the Enron bankruptcy and other.
(d) Includes the reserve recorded upon the acquisition and consolidation of CEMAR.

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SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
PPL Energy Supply, LLC
(Millions of Dollars)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Other	Deductions	Balance At End of Period
Year Ended December 31, 2002					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts	**$ 104**	**$ 5**	**$ 7** (a)	**$ 28** (b)	**$ 88**
Obsolete inventory - Materials and supplies	**1**				**1**
Mark-to-market valuation reserves	**7**			**4**	**3**
Year Ended December 31, 2001					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts	52	67		15	104 (c)
Obsolete inventory - Materials and supplies	4			3	1
Mark-to-market valuation reserves	2	5			7
Year Ended December 31, 2000					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts	3	24	26 (d)	1	52
Obsolete inventory - Materials and supplies		4			4
Mark-to-market valuation reserves		2			2

(a) Includes the reserve recorded upon the acquisition of a controlling interest in WPD.
(b) Includes the removal of reserves upon the deconsolidation of CEMAR.
(c) Includes reserves for customer accounts receivable, California ISO, the Enron bankruptcy and other.
(d) Includes the reserve recorded upon the acquisition and consolidation of CEMAR.

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SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
PPL Electric Utilities Corporation
(Millions of Dollars)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Other	Deductions	Balance At End of Period
Year Ended December 31, 2002					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts	**$ 19**	**$ 25**		**$ 21**	**$ 23**
Year Ended December 31, 2001					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts	16	30		27	19
Year Ended December 31, 2000					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts	18	22		24	16
Obsolete inventory - Materials and supplies	2	1		3	

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SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
PPL Montana, LLC
(Millions of Dollars)

Column A	Column B	Column C Additions		Column D	Column E
Description	Balance at Beginning of Period	Charged to Income	Other	Deductions	Balance At End of Period
Year Ended December 31, 2002					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts	**$ 47**				**$ 47 (a)**
Obsolete inventory - Materials and supplies	**1**				**1**
Mark-to-market valuation reserves	**1**			**$ 1**	
Year Ended December 31, 2001					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts	18	$ 30		1	47 (a)
Obsolete inventory - Materials and supplies	2			1	1
Mark-to-market valuation reserves		1			1
Year Ended December 31, 2000					
Reserves deducted from assets in the Balance Sheet					
Uncollectible accounts		18			18
Obsolete inventory - Materials and supplies		2			2

(a) Includes reserves for customer accounts receivable, California ISO, the Enron bankruptcy and other.

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QUARTERLY FINANCIAL, COMMON STOCK PRICE AND DIVIDEND DATA (Unaudited)
PPL Corporation and Subsidiaries
(Millions of Dollars, except per share data)

	For the Quarters Ended (a)			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**
2002				
Operating revenues				
As previously reported	**$ 1,275**	**$ 1,301**	**$ 1,462**	
Net presentation of energy trading margins (b)	**(64)**	**(139)**	**14**	
Consolidation of WPD (c)	**140**	**126**		
	1,351	**1,288**	**1,476**	**$ 1,314**
Operating income				
As previously reported	**319**	**87**	**394**	
Consolidation of WPD (c)	**83**	**85**		
	402	**172**	**394**	**272**
Net income (loss) before cumulative effect of a change in accounting principle	**147**	**(27)**	**122**	**116**
Net income (loss)	**(3)**	**(27)**	**122**	**116**
Basic earnings per common share: (d)				
Net income (loss) before cumulative effect of a change in accounting principle	**1.00**	**(0.18)**	**0.81**	**0.71**
Net income (loss)	**(0.02)**	**(0.18)**	**0.81**	**0.71**
Diluted earnings per common share: (d)				
Net income (loss) before cumulative effect of a change in accounting principle	**1.00**	**(0.18)**	**0.80**	**0.71**
Net income (loss)	**(0.02)**	**(0.18)**	**0.80**	**0.71**
Dividends declared per common share (e)	**0.36**	**0.36**	**0.36**	**0.36**
Price per common share				
High	**$ 39.85**	**$ 39.95**	**$ 37.60**	**$ 36.26**
Low	**31.40**	**28.97**	**26.00**	**26.47**
2001				
Operating revenues				
As previously reported	$ 1,566	$ 1,411	$ 1,225	
Net presentation of energy trading margins (b)	(153)	(184)	51	
	1,413	1,227	1,276	$ 1,161
Operating income	454	248	337	(190)
Net income (loss) before cumulative effect of a change in accounting principle	222	117	152	(322)
Net income (loss)	222	117	152	(312)
Basic earnings per common share: (d)				
Net income before cumulative effect of a change in accounting principle	1.53	0.80	1.04	(2.20)
Net income	1.53	0.80	1.04	(2.13)
Diluted earnings per common share: (d)				
Net income before cumulative effect of a change in accounting principle	1.52	0.80	1.04	(2.19)
Net income	1.52	0.80	1.04	(2.12)
Dividends declared per common share (e)	0.265	0.265	0.265	0.265
Price per common share				
High	$ 46.75	$ 62.36	$ 56.50	$ 37.65
Low	33.88	44.03	30.99	31.20

(a) Quarterly results can vary depending on weather and the forward pricing of power. In addition, earnings in 2002 and 2001 were affected by unusual items. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

(b) The net presentation of energy trading margins is shown retroactively for the first and second quarters of each year. The third quarter adjustment reflects a revision to the net energy trading margins from those used in the September 2002 Form 10-Q.

(c) The first and second quarters of 2002 have been restated to reflect the retroactive consolidation of WPD.

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(d) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.

(e) PPL has paid quarterly cash dividends on its common stock in every year since 1946. The dividends declared per share in 2002 were $1.44 and in 2001 were $1.06. The most recent regular quarterly dividend paid by PPL was 36 cents per share (equivalent to $1.44 per annum) paid January 1, 2003. In February 2003, PPL announced an increase to its quarterly common stock dividend, payable April 1, 2003, to 38.5 cents per share (equivalent to $1.54 per annum.) Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, financial requirements and other factors.

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QUARTERLY FINANCIAL DATA (Unaudited)
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	For the Quarters Ended (a)			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**
2002				
Operating revenues	**$ 697**	**$ 651**	**$ 715**	**$ 685**
Operating income	**89**	**39**	**87**	**60**
Net income (loss)	**20**	**(8)**	**24**	**3**
2001				
Operating revenues	$ 700	$ 625	$ 687	$ 682
Operating income	121	92	96	110
Net income before cumulative effect of a change in accounting principle	34	21	26	33
Net income	34	21	26	38

(a) PPL Electric's business is seasonal in nature with peak sales periods generally occurring in the winter and summer months. In addition, earnings in several quarters were affected by several unusual items. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation and PPL Montana, LLC

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

PPL Corporation

Information for this item will be set forth in the sections entitled "Nominees for Directors," "Board Committees - audit Committee," "Directors Continuing in Office" and "Section 16(a) Beneficial Ownership Reporting Compliance" in PPL's 2003 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December31, 2002, and which information is incorporated herein by reference. Information required by this item concerning the executive officers of PPL is set forth at the end of Part I of this report.

PPL Energy Supply, LLC

Item 10 is omitted as PPL Energy Supply meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

PPL Electric Utilities Corporation

Information for this item will be set forth in the sections entitled "Nominees for Directors," and "Directors Continuing in Office" in PPL Electric's 2003 Notice of Annual Meeting and Information Statement, which will be filed with the SEC not later than 120 days after December31, 2002, and which information is incorporated herein by reference. Information required by this item concerning the executive officers of PPL Electric is set forth at the end of Part I of this report.

PPL Montana, LLC

Item 10 is omitted as PPL Montana meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

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ITEM 11. EXECUTIVE COMPENSATION

PPL Corporation

Information for this item will be set forth in the sections entitled "Compensation of Directors," "Summary Compensation Table," "Option Grants in Last Fiscal Year" and "Retirement Plans for Executive Officers" in PPL's 2003 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December31, 2002, and which information is incorporated herein by reference.

PPL Energy Supply, LLC

Item 11 is omitted as PPL Energy Supply meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

PPL Electric Utilities Corporation

Information for this item will be set forth in the sections entitled "Compensation of Directors," "Summary Compensation Table," "Option Grants in Last Fiscal Year" and "Retirement Plans for Executive Officers" in PPL Electric's 2003 Notice of Annual Meeting and Information Statement, which will be filed with the SEC not later than 120 days after December31, 2002, and which information is incorporated herein by reference.

PPL Montana, LLC

Item 11 is omitted as PPL Montana meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

PPL Corporation

Information for this item will be set forth in the sections entitled "Stock Ownership" and "Proposal 2: Approval of Incentive Compensation Plan for Key Employees - Equity Compensation Plan Information" in PPL's 2003 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December31, 2002, and which information is incorporated herein by reference.

PPL Energy Supply, LLC

Item 12 is omitted as PPL Energy Supply meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

PPL Electric Utilities Corporation

Information for this item will be set forth in the section entitled "Stock Ownership" in PPL Electric's 2003 Notice of Annual Meeting and Information Statement, which will be filed with the SEC not later than 120 days after December31, 2002, and which information is incorporated herein by reference.

PPL Montana, LLC

Item 12 is omitted as PPL Montana meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

PPL Corporation

None.

PPL Energy Supply, LLC

Item 13 is omitted as PPL Energy Supply meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

PPL Electric Utilities Corporation

None.

PPL Montana, LLC

Item 13 is omitted as PPL Montana meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

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ITEM 14. CONTROLS AND PROCEDURES

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation and PPL Montana, LLC

(a) Evaluation of disclosure controls and procedures.

The registrants' principal executive officers and principal financial officers, based on their evaluation of the registrants' disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934) as of February 5, 2003, have concluded that the registrants' disclosure controls and procedures are adequate and effective to ensure that material information relating to the registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period in which this annual report has been prepared.

(b) Change in internal controls.

The registrants' principal executive officers and principal financial officers have concluded that there were no significant changes in the registrants' internal controls or in other factors that could significantly affect these controls subsequent to February 5, 2003, the date of their most recent evaluation of such controls, and that there were no significant deficiencies or material weaknesses in the registrants' internal controls.

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PART IV
ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation and PPL Montana, LLC

(a) The following documents are filed as part of this report:

1. Financial Statements - Refer to the "Index to Item 8. Financial Statements and Financial Statement Schedules" for an index of the financial statements included in this report.
2. Supplementary Data and Supplemental Financial Statement Schedule - included in response to Item 8.
   Schedule II - Valuation and Qualifying Accounts and Reserves for the Three Years Ended December 31, 2002
   All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.
3. Exhibits
   Exhibit Index on page 187.

(b) Reports on Form 8-K:

The following Reports on Form 8-K were filed during the three months ended December 31, 2002:

Report dated October 17, 2002 - PPL

Item 9.	Regulation FD Disclosure Reported earnings for the third quarter of 2002 and reaffirmed earnings forecast from core operations.
Item 7.	Financial Statements and Exhibits Press release regarding PPL's results for the third quarter of 2002 and reaffirmation of earnings forecast from core operations.

Amended Report dated September 6, 2002 - PPL and PPL Energy Supply (filed November 19, 2002)

Item 2. Acquisition or Disposition of Assets
Announced the acquisition of Mirant's 49% indirect equity interest in WPDH Limited and WPDL for an aggregate amount of approximately $236 million. This amendment to the Form 8-K was filed to provide the Financial Information in accordance with Item 7 of Form 8-K.

Item 7. Financial Statements, Pro Forma Information and Exhibits
The following exhibits were provided:

Audited Consolidated Financial Information of WPDH Limited
Audited Consolidated Financial Information of WPDL
Unaudited Pro Forma Consolidated Financial Information of PPL
Unaudited Pro Forma Consolidated Financial Information of PPL Energy Supply

Report dated November 21, 2002 - PPL

Item 5. Other Events
In connection with a proposed issuance and sale of common stock, par value $0.01 per share, PPL announced the filing of a prospectus supplement to its Registration Statement on Form S-3.

Item 7. Financial Statements and Exhibits
Exhibit - Sales Agency Agreement between PPL and Salomon Smith Barney Inc.

Report dated December 17, 2002 - PPL

Item 5. Other Events
In connection with a proposed issuance and sale of common stock, par value $0.01 per share, PPL announced an amendment to the Sales Agency Agreement that increases the amount of shares from $40 million to $100 million.

Item 7. Financial Statements and Exhibits
Exhibit - Amended Sales Agency Agreement between PPL and Salomon Smith Barney, Inc.

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SHAREOWNER AND INVESTOR INFORMATION

Annual Meetings: The annual meeting of shareowners of PPL Corporation is held each year on the fourth Friday of April. The 2003 meeting for PPL Corporation will be held on Friday, April 25, 2003, at Lehigh University's Stabler Arena, at the Goodman Campus Complex located in Lower Saucon Township, outside Bethlehem, Pennsylvania. The 2003 meeting for PPL Electric will be held on Tuesday, April 22, 2003, at the offices of the company at Two North Ninth Street, Allentown, Pennsylvania.

Proxy and Information Statement Material: A proxy statement and information statement and notice of PPL's and PPL Electric's annual meetings are mailed to all shareowners of record as of February 28, 2003.

Dividends: Subject to the declaration of dividends on PPL common stock by the PPL Board of Directors or its Executive Committee and PPL Electric preferred stock by the PPL Electric Board of Directors, dividends are paid on the first day of April, July, October and January. Dividend checks are mailed in advance of those dates with the intention that they arrive as close as possible to the payment dates. The 2003 record dates for dividends are expected to be March 10, June10, September 10, and December 10.

Direct Deposit of Dividends: Shareowners may choose to have their dividend checks deposited directly into their checking or savings account. Quarterly dividend payments are electronically credited on the dividend date, or the first business day thereafter.

Dividend Reinvestment Plan: Shareowners may choose to have dividends on their PPL common stock or PPL Electric preferred stock reinvested in PPL common stock instead of receiving the dividend by check.

Certificate Safekeeping: Shareowners participating in the Dividend Reinvestment Plan may choose to have their common stock certificates forwarded to PPL for safekeeping.

Lost Dividend or Interest Checks: Dividend or interest checks lost by investors, or those that may be lost in the mail, will be replaced if the check has not been located by the 10th business day following the payment date.

Transfer of Stock or Bonds: Stock or bonds may be transferred from one name to another or to a new account in the name of another person. Please contact Investor Services regarding transfer instructions.

Bondholder Information: Much of the information and many of the procedures detailed here for shareowners also apply to bondholders. Questions related to bondholder accounts should be directed to Investor Services.

Lost Stock or Bond Certificates: Please contact Investor Services for an explanation of the procedure to replace lost stock or bond certificates.

PPL Annual Report: Published and mailed in mid-March to all shareowners of record.

Shareowner News: An easy-to-read newsletter containing current items of interest to shareowners -- published and mailed at the beginning of each quarter.

Periodic Mailings: Letters regarding new investor programs, special items of interest, or other pertinent information are mailed on a non-scheduled basis as necessary.

Duplicate Mailings: The annual report and other investor publications are mailed to each investor account. If you have more than one account, or if there is more than one investor in your household, you may contact Investor Services to request that only one publication be delivered to your address. Please provide account numbers for all duplicate mailings.

Shareowner Information Line: Shareowners can get detailed corporate and financial information 24 hours a day using the Shareowner Information Line. They can hear timely recorded messages about earnings, dividends and other company news releases; request information by fax; and request printed materials in the mail.

The toll-free Shareowner Information Line is 1-800-345-3085.

Other PPL publications, such as the annual and quarterly reports to the Securities and Exchange Commission (Forms 10-K and 10-Q) will be mailed upon request.

Shareowners can also obtain information free of charge from PPL's Internet home page (www.pplweb.com). Shareowners can access PPL Securities and Exchange Commission filings, stock quotes and historical performance. Visitors to our website can provide their E-mail address and indicate their desire to receive future earnings or news releases automatically.

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Investor Services: For any questions you have or additional information you require about PPL and its subsidiaries, please call the Shareowner Information Line, or write to:

Manager-Investor Services
PPL Services Corporation
Two North Ninth Street
Allentown, PA 18101

Internet Access: For updated information throughout the year, check out our home page at http://www.pplweb.com. You may also contact Investor Services via E-mail at invserv@pplweb.com.

Registered shareowners can access account information by visiting shareowneronline.com.

Listed Securities:
New York Stock Exchange

PPL Corporation:
Common Stock (Code: PPL)

PPL Electric Utilities Corporation:
4-1/2% Preferred Stock
(Code: PPLPRB)
4.40% Series Preferred Stock
(Code: PPLPRA)

PPL Capital Funding Trust I:
7.75% PEPS SMUnits
(Code: PPLPRE)

Philadelphia Stock Exchange

PPL Corporation:
Common Stock

Fiscal Agents:
Stock Transfer Agents and Registrars
Wells Fargo Bank Minnesota, N.A.
Shareowner Services
161 North Concord Exchange
South St. Paul, MN 55075-1139

PPL Services Corporation
Investor Services Department

Dividend Disbursing Office and Dividend Reinvestment Plan Agent
PPL Services Corporation
Investor Services Department

Mortgage Bond Trustee
Deutsche Bank Trust Company Americas
Attn: Security Transfer Unit
648 Grassmere Park Road
Nashville, TN 37211

Indenture Trustee
JPMorgan Chase Bank
450 West 33rd Street
New York, NY 10001

Bond Interest Paying Agent
PPL Services Corporation
Investor Services Department

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Corporation

(Registrant)

By /s/ William F. Hecht
William F. Hecht -
Chairman, President
and Chief Executive
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

	TITLE
By /s/ William F. Hecht William F. Hecht - Chairman, President and Chief Executive Officer	Principal Executive Officer and Director
By /s/ John R. Biggar John R. Biggar - Executive Vice President and Chief Financial Officer	Principal Financial Officer and Director
By /s/ Joseph J. McCabe Joseph J. McCabe - Vice President and Controller	Principal Accounting Officer

Directors:

Frederick M. Bernthal
John W. Conway
E. Allen Deaver
Stuart Heydt
W. Keith Smith
Susan M. Stalnecker

By /s/ William F. Hecht
William F. Hecht, Attorney-in-fact

Date: March 3, 2003

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Energy Supply, LLC

(Registrant)

By /s/ William F. Hecht
William F. Hecht -
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

	TITLE
By /s/ William F. Hecht William F. Hecht - President	Principal Executive Officer and Manager
By /s/ James E. Abel James E. Abel - Treasurer	Principal Financial Officer and Manager
By /s/ Joseph J. McCabe Joseph J. McCabe - Controller	Principal Accounting Officer and Manager

Managers:
/s/ John R. Biggar
John R. Biggar
/s/ Lawrence E. De Simone
Lawrence E. De Simone
/s/ Robert J. Grey
Robert J. Grey
Date: March 3, 2003

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Electric Utilities Corporation

(Registrant)

By /s/ Michael E. Bray
Michael E. Bray -
Vice Chairman and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

	TITLE
By /s/ Michael E. Bray Michael E. Bray - Vice Chairman and President	Principal Executive Officer and Director
By /s/ James E. Abel James E. Abel - Treasurer	Principal Financial Officer
By /s/ Joseph J. McCabe Joseph J. McCabe - Vice President and Controller	Principal Accounting Officer

Directors:

/s/ William F. Hecht William F. Hecht	/s/ Dean A. Christiansen Dean A. Christiansen	/s/ James H. Miller James H. Miller
/s/ John R. Biggar John R. Biggar	/s/ Lawrence E. De Simone Lawrence E. De Simone	/s/ Roger L. Petersen Roger L. Petersen
/s/ Paul T. Champagne Paul T. Champagne	/s/ Robert J. Grey Robert J. Grey	

Date: March 3, 2003

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Montana, LLC

(Registrant)

By /s/ James H. Miller
James H. Miller -
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

	TITLE
By /s/ James H. Miller James H. Miller - President	Principal Executive Officer and Manager
By /s/ James E. Abel James E. Abel - Treasurer	Principal Financial Officer and Manager
By /s/ Charles S. Baker Charles S. Baker - Controller	Principal Accounting Officer

Managers:
/s/ Albert J. Fioravanti
Albert J. Fioravanti
/s/ Bradley E. Spencer
Bradley E. Spencer
Date: March 3, 2003

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CERTIFICATION

I, WILLIAM F. HECHT, the principal executive officer of PPL Corporation (the "registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant for the year ended December 31, 2002;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 3, 2003

/s/William F. Hecht
William F. Hecht
Chairman, President and Chief Executive Officer
PPL Corporation

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CERTIFICATION

I, JOHN R. BIGGAR, the principal financial officer of PPL Corporation (the "registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant for the year ended December 31, 2002;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 3, 2003

/s/John R. Biggar
John R. Bigger
Executive Vice President and Chief Financial Officer
PPL Corporation

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CERTIFICATION

I, WILLIAM F. HECHT, the principal executive officer of PPL Energy Supply, LLC (the "registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant for the year ended December 31, 2002;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 3, 2003

/s/William F. Hecht
William F. Hecht
President
PPL Energy Supply, LLC

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CERTIFICATION

I, JAMES E. ABEL, the principal financial officer of PPL Energy Supply, LLC (the "registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant for the year ended December 31, 2002;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 3, 2003

/s/James E. Abel
James E. Abel
Treasurer
PPL Energy Supply, LLC

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CERTIFICATION

I, MICHAEL E. BRAY, the principal executive officer of PPL Electric Utilities Corporation (the "registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant for the year ended December 31, 2002;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 3, 2003

/s/Michael E. Bray
Michael E. Bray
President
PPL Electric Utilities Corporation

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CERTIFICATION

I, JAMES E. ABEL, the principal financial officer of PPL Electric Utilities Corporation (the "registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant for the year ended December 31, 2002;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 3, 2003

/s/James E. Abel
James E. Abel
Treasurer
PPL Electric Utilities Corporation

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CERTIFICATION

I, JAMES H. MILLER, the principal executive officer of PPL Montana, LLC (the "registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant for the year ended December 31, 2002;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 3, 2003

/s/James H. Miller
James H. Miller
President
PPL Montana, LLC

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CERTIFICATION

I, JAMES E. ABEL, the principal financial officer of PPL Montana, LLC (the "registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant for the year ended December 31, 2002;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 3, 2003

/s/James E. Abel
James E. Abel
Treasurer
PPL Montana, LLC

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EXHIBIT INDEX

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [_] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

3(a)-1	- Articles of Incorporation of PPL Corporation (Exhibit B to Proxy Statement of PPL Electric Utilities Corporation and Prospectus of PPL Corporation, dated March 9, 1995)
3(a)-2	- Articles of Amendment of PPL Corporation (Exhibit 3.2 to PPL Corporation Form S-3 (Registration Statement Nos. 333-54504, 333-54504-01 and 333-54504-02))
3(a)-3	- Amended and Restated Articles of Incorporation of PPL Electric Utilities Corporation (Exhibit 3(a)-3 to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for year ended December 31, 2001)
3(a)-4	- Certificate of Formation of PPL Energy Supply, LLC (Exhibit 3.1 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
3(a)-5	- Certificate of Formation of PPL Montana, LLC (Exhibit 3.1 to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))
3(b)-1	- Bylaws of PPL Corporation (Exhibit 3(ii)(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 1998)
3(b)-2	- Bylaws of PPL Electric Utilities Corporation (Exhibit 3(b)-2 to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for year ended December 31, 2001)
3(b)-3	- Limited Liability Company Agreement of PPL Energy Supply, LLC, dated March 20, 2001 (Exhibit 3.2 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
3(b)-4	- Limited Liability Company Agreement and Bylaws of PPL Montana, LLC, effective as of December 17, 1999 (Exhibit 3.2 to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))
4(a)-1	- Amended and Restated Employee Stock Ownership Plan, effective January 1, 2000 (Exhibit 4(a) to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2000)
4(a)-2	- Amendment No. 1 to said Employee Stock Ownership Plan, effective January 1, 2000 (Exhibit 4(a)-2 to PPL Corporation Form 10-K Report (File No.1-11459) for year ended December 31, 2001)
*4(a)-3	- Amendment No. 2 to said Employee Stock Ownership Plan, dated October 8, 2002
4(b)-1	- Mortgage and Deed of Trust, dated as of October 1, 1945, between PPL Electric Utilities Corporation and Bankers Trust Company (as successor Trustee) (Exhibit 2(a)-4 to Registration Statement No. 2-60291)
4(b)-2	- Supplement, dated as of July 1, 1954, to said Mortgage and Deed of Trust (Exhibit 2(b)-5 to Registration Statement No. 219255)
4(b)-3	- Supplement, dated as of July 1, 1991, to said Mortgage and Deed of Trust (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 29, 1991)
4(b)-4	- Supplement, dated as of May 1, 1992, to said Mortgage and Deed of Trust (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated June 1, 1992)
4(b)-5	- Supplement, dated as of November 1, 1992, to said Mortgage and Deed of Trust (Exhibit 4(b)-29 to PPL Electric Utilities Corporation Form 10-K Report (File 1-905) for the year ended December 31, 1992)
4(b)-6	- Supplement, dated as of February 1, 1993, to said Mortgage and Deed of Trust (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated February 16, 1993)
4(b)-7	- Supplement, dated as of April 1, 1993, to said Mortgage and Deed of Trust (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated April 30, 1993)
4(b)-8	- Supplement, dated as of October 1, 1993, to said Mortgage and Deed of Trust (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 29, 1993)
4(b)-9	- Supplement, dated as of February 15, 1994, to said Mortgage and Deed of Trust (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 11, 1994)
4(b)-10	- Supplement, dated as of March 1, 1994, to said Mortgage and Deed of Trust (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 11, 1994)
4(b)-11	- Supplement, dated as of March 15, 1994, to said Mortgage and Deed of Trust (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 30, 1994)
4(b)-12	- Supplement, dated as of September 1, 1994, to said Mortgage and Deed of Trust (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K (File No. 1-905) dated October 3, 1994)
4(b)-13	- Supplement, dated as of October 1, 1994, to said Mortgage and Deed of Trust (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 3, 1994)
4(b)-14	- Supplement, dated as of August 1, 1995, to said Mortgage and Deed of Trust (Exhibit 6(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 1995)
4(b)-15	- Supplement, dated as of April 1, 1997 to said Mortgage and Deed of Trust (Exhibit 4(b)-17 to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for the year ended December 31, 1997)
4(b)-16	- Supplement, dated as of May 5, 1998, to said Mortgage and Deed of Trust (Exhibit 4.3 to PPL Electric Utilities Corporation Form 8-K Report (File No. I-905) dated May 1, 1998)

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4(b)-17 - Supplement, dated as of June 1, 1999, to said Mortgage and Deed of Trust (Exhibit 4(b)-19 to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for the year ended December 31, 1999)

4(b)-18 - Supplement, dated as of August 1, 2001, to said Mortgage and Deed of Trust (Exhibit 4.5 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 21, 2001)

4(b)-19 - Supplement, dated as of January 1, 2002, to said Mortgage and Deed of Trust (Exhibit 4(b)-19 to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2001)

*4(b)-20 - Supplement, dated as of February 1, 2003, to said Mortgage and Deed of Trust

4(c)-1 - Indenture, dated as of November 1, 1997, among PPL Corporation, PPL Capital Funding, Inc. and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 12, 1997)

4(c)-2 - Supplement, dated as of November 1, 1997, to said Indenture (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 12, 1997)

4(c)-3 - Supplement, dated as of March 1, 1999, to said Indenture (Exhibit 4.3 to Registration Statement Nos. 333-87847, 333-87847-01 and 333-87847-02)

4(c)-4 - Supplement, dated as of October 1, 1999, to said Indenture (Exhibit 4(c)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 1999)

4(c)-5 - Supplement, dated as of June 1, 2000, to said Indenture (Exhibit 4 to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2000)

4(d)-1 - Junior Subordinated Indenture, dated as of April 1, 1997, between PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to Registration Statement No. 333-20661)

4(d)-2 - Amended and Restated Trust Agreement, dated as of April 8, 1997, among PPL Electric Utilities Corporation, JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Property Trustee, Chase Manhattan Bank (Delaware), as Delaware Trustee, and John R. Biggar and James E. Abel, as Administrative Trustees (Exhibit 4.4 to Registration Statement No. 333-20661)

4(d)-3 - Guarantee Agreement, dated as of April 8, 1997, between PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.6 to Registration Statement No. 333-20661)

4(e)-1 - Amended and Restated Trust Agreement, dated as of June 13, 1997, among PPL Electric Utilities Corporation, JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Property Trustee, Chase Manhattan Bank (Delaware), as Delaware Trustee, and John R. Biggar and James E. Abel, as Administrative Trustees (Exhibit 4.4 to Registration Statement No. 333-27773)

4(e)-2 - Guarantee Agreement, dated as of June 13, 1997, between PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.6 to Registration Statement No. 333-27773)

4(f)-1 - Subordinated Indenture, dated as of May 9, 2001, between PPL Capital Funding, Inc., PPL Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 9, 2001)

4(f)-2 - Supplement, dated as of May 9, 2001, to said Subordinated Indenture (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 9, 2001)

4(f)-3 - Trust Securities Guarantee Agreement, dated as of May 9, 2001 (Exhibit 4.10 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 9, 2001)

4(f)-4 - Amended and Restated Trust Agreement, dated as of May 9, 2001, among PPL Corporation, PPL Capital Funding, Inc., JPMorgan Chase Bank (formerly The Chase Manhattan Bank) as Property Trustee, Chase Manhattan Bank USA National Association, as Delaware Trustee, John R. Biggar and James E., Abel, as Administrative Trustees, and the several Holders of the Trust Securities (Exhibit 4.8 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 9, 2001)

4(g)-1 - Indenture, dated as of August 1, 2001, by PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 21, 2001)

4(g)-2 - Supplement, dated as of August 1, 2001, to said Indenture (Exhibit 4.2 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 21, 2001)

*4(g)-3 - Supplement, dated as of February 1, 2003, to said Indenture

4(h)-1 - Indenture, dated as of October 1, 2001, by PPL Energy Supply, LLC and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))

4(h)-2 - Supplement, dated as of October 1, 2001, to said Indenture (Exhibit 4.2 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))

4(h)-3 - Registration Rights Agreement between PPL Energy Supply, LLC and the Initial Purchasers (Exhibit 4.5 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))

10(a) - $300 million 364-Day Credit Agreement, dated as of June 25, 2002, among PPL Energy Supply, LLC and the banks named therein (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2002)

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10(b)	- $300 million Three-Year Credit Agreement, dated of as June 25, 2002, among PPL Energy Supply, LLC and the banks named therein (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2002)
10(c)	- $400 million 364-Day Credit Agreement, dated as of June 25, 2002, among PPL Electric Utilities Corporation and the banks named therein (Exhibit 10(c) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2002)
*10(d)	- Credit Agreement dated as of October 31, 2002, among PPL Montana, LLC and PPL Investment Corporation
10(e)	- $150 Million Credit and Reimbursement Agreement, dated as of April 25, 2001, among PPL Montana, LLC and the banks named therein (Exhibit 10(d) to PPL Montana, LLC Form 10-Q Report (File No. 333-50350) for the quarter ended June 30, 2001)
10(f)	- Generation Supply Agreement, dated as of June 20, 2001, between PPL Electric Utilities Corporation and PPL EnergyPlus, LLC (Exhibit 10.5 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
10(g)	- Master Power Purchase and Sale Agreement, dated as of October 15, 2001, between The Montana Power Company and PPL Montana, LLC (Exhibit 10(g) to PPL Montana, LLC Form 10-K Report (File No. 333-50350) for year ended December 31, 2002)
10(h)	- Amended and Restated Parent Guaranty, dated as of November 30, 2000, by PPL Corporation in favor of Large Scale Distributed Generation Statutory Trust (Exhibit 10(h) to PPL Corporation Form 10-K Report (File No. 1-11495) for year ended December 31, 2001)
10(i)	- Amended and Restated PPL Energy Supply, LLC Guarantee, dated as of July 17, 2001, in favor of Large Scale Distributed Generation II Statutory Trust (Exhibit 10.6 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
10(j)	- Guaranty, dated as of December 21, 2001, from PPL Energy Supply, LLC in favor of LMB Funding, Limited Partnership (Exhibit 10(j) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for year ended December 31, 2001)
10(k)	- Pollution Control Facilities Agreement, dated as of May 1, 1973, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 5(z) to Registration Statement No. 2-60834)
10(l)	- Amended and Restated Operating Agreement of the PJM Interconnection, L.L.C., dated February 6, 2002 (Exhibit 10(l) to PPL Corporation Form 10-K Report (File No. 1-11495) for year ended December 31, 2001)
[_]10(m)	- Amended and Restated Directors Deferred Compensation Plan, dated February 14, 2000 (Exhibit 10(h) to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2000)
*[_]10(m)-1	- Amendment No. 1 to Amended and Restated Directors Deferred Compensation Plan, dated December 18, 2002
[_]10(n)-1	- Amended and Restated Officers Deferred Compensation Plan, effective February 14, 2000 (Exhibit 10(i)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2000)
[_]10(n)-2	- Amendment No. 1 to said Officers Deferred Compensation Plan, effective July 1, 2000 (Exhibit 10(i)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2000)
[_]10(n)-3	- Amendment No. 2 to said Officers Deferred Compensation Plan, effective July 1, 2000 (Exhibit 10(i)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2000)
[_]10(n)-4	- Amendment No. 3 to said Officers Deferred Compensation Plan, effective January 1, 2001 (Exhibit 10(n)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2001)
[_]10(n)-5	- Amendment No. 4 to said Officers Deferred Compensation Plan, effective August 17, 2001 (Exhibit 10(n)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2001)
[_]10(o)-1	- Amended and Restated Supplemental Executive Retirement Plan, effective October 1, 1999 (Exhibit 10(j)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2000)
[_]10(o)-2	- Amendment No. 1 to said Supplemental Executive Retirement Plan, effective July 1, 2000 (Exhibit 10(j)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2000)
[_]10(o)-3	- Amendment No. 2 to said Supplemental Executive Retirement Plan, effective January 1, 2001 (Exhibit 10(o)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2001)
[_]10(o)-4	- Amendment No. 3 to said Supplemental Executive Retirement Plan, effective August 17, 2001 (Exhibit 10(o)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2001)
*[_]10(p)	- Incentive Compensation Plan, amended and restated effective January 1, 2003
*[_]10(q)	- Incentive Compensation Plan for Key Employees, amended and restated effective January 1, 2003 (to be submitted for approval at the 2003 Annual Meeting of PPL Corporation shareholders)
[_]10(r)	- Short-Term Incentive Plan (Schedule B to Proxy Statement of PPL Corporation, dated March 12, 1999)
[_]10(s)	- Form of Severance Agreement entered into between PPL Corporation and the Executive Officers listed in this Form 10-K Report (Exhibit 10(r) to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2001)
[_]10(t)	- Form for Retention Agreement entered into between PPL Corporation and Messrs. Champagne, De Simone, Miller and Petersen (Exhibit 10(s) to PPL Corporation Form 10-K Report (File No. 1-11459) for year ended December 31, 2001)
*[_]10(u)	- Agreement dated January 15, 2003 between PPL Corporation and Mr. Miller regarding Supplemental Pension Benefits
10(v)	- Equity Contribution Agreement, among PPL Corporation, PPL Montana, LLC, and The Chase Manhattan Bank, as Trustee (Exhibit 10.15 to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))
10(w)	- Facility Lease Agreement (BA 1/2) between PPL Montana, LLC and Montana OL3, LLC (Exhibit 4.7a to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))

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10(x)	- Facility Lease Agreement (BA 3) between PPL Montana, LLC and Montana OL4, LLC (Exhibit 4.8a to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))
10(y)	- Services Agreement, dated as of July 1, 2000, among PPL Corporation, PPL Energy Funding Corporation and its direct and indirect subsidiaries in various tiers, PPL Capital Funding, Inc., PPL Gas Utilities Corporation, PPL Services Corporation and CEP Commerce, LLC (Exhibit 10.20 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
*10(z)	- Pollution Control Facilities Loan Agreement, dated as of February 1, 2003, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority
*12(a)	- PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(b)	- PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(c)	- PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(d)	- PPL Montana, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*21(a)	- Subsidiaries of PPL Corporation
*21(b)	- Subsidiaries of PPL Electric Utilities Corporation
*23(a)	- Consent of PricewaterhouseCoopers LLP - PPL Corporation
*23(b)	- Consent of PricewaterhouseCoopers LLP - PPL Electric Utilities Corporation
*24	- Power of Attorney
*99(a)	- Certificate of PPL's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99(b)	- Certificate of PPL's principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99(c)	- Certificate of PPL Energy Supply's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99(d)	- Certificate of PPL Energy Supply's principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99(e)	- Certificate of PPL Electric's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99(f)	- Certificate of PPL Electric's principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99(g)	- Certificate of PPL Montana's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99(h)	- Certificate of PPL Montana's principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99(i)	- PPL Corporate Organization (Selected Subsidiaries)

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AMENDMENT NO. 2
TO
PPL EMPLOYEE STOCK OWNERSHIP PLAN

WHEREAS, PPL Electric Utilities Corporation has adopted the PPL Employee Stock Ownership Plan ("Plan") effective January 1, 1975; and

WHEREAS, the Plan was amended and restated effective January 1, 2000, and subsequently amended by Amendment No. 1; and

WHEREAS, the Company desires to further amend the Plan;

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective July 1, 2000, the WHEREAS clause and Article 2 are amended as follows:

WHEREAS, PPL Services Corporation ("PPL") adopted the PPL Employee Stock Ownership Plan, effective July 1, 2000, on behalf of various affiliated companies; and

NOW, THEREFORE, effective July 1, 2000, except as may be provided to the contrary herein, the PPL Employee Stock Ownership Plan is amended as hereinafter set forth:

2.7 **"Deferred Savings Plan"** shall mean the PPL Deferred Savings Plan.

2.22 **"Participating Company"** shall mean PPL (prior to February14, 2000, PP&L, Inc.), PPL EnergyPlus, LLC (prior to February 14, 2000, PP&L EnergyPlus Co., LLC) and each other Affiliated Company which is authorized by the Board to adopt this Plan by action of its board of directors, as Listed in Appendix A.

2.26 **"PPL"** shall mean PPL Services Corporation and its successors. Prior to February 14, 2000, "PPL" shall mean PP&L, Inc.

II. Except for the addition of PPL Telcom, LLC, effective February 5, 2001, and PPLSolutions, LLC, effective January 1, 2002, Appendix A is added effective July 1, 2000 to read:

Appendix A

Participating Company

Name	Effective Date
1. PPL Services Corporation	July 1, 2000
2. PPL Electric Utilities Corporation	January 1, 1975
3. PPL EnergyPlus, LLC	July 14, 1998
4. PPL Generation, LLC	July 1, 2000
5. PPL Brunner Island, LLC	July 1, 2000
6. PPL Holtwood, LLC	July 1, 2000
7. PPL Martins Creek, LLC	July 1, 2000
8. PPL Montour, LLC	July 1, 2000
9. PPL Susquehanna, LLC	July 1, 2000
10. PPLSolutions, LLC	January 1, 2002
11. PPL Telcom, LLC	February 5, 2001

III. Except for the addition of PPL Telcom, LLC, effective February 5, 2001, and PPLSolutions, LLC, effective January 1, 2002, Schedule A is amended to read:

Schedule A

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Effective July 1, 2000

A.For all Participating Companies, **"Compensation"** shall mean the annual compensation received by an Employee from a Participating Company as reported on Internal Revenue Service Form W-2 or a successor form plus the Employee's elective deferrals under the Employee Savings Plan or Deferred Savings Plan; provided, however, that Compensation shall not include bonuses or fringe benefits not normally included in compensation, such as tuition refunds, moving expenses, etc. and shall not, for purposes of allocation under Section 5.2(a), include any amount in excess of (i) for the 1975 and 1976 Plan Years, $16,000 and (ii) commencing with the 1977 Plan Year, the median annual compensation of all Participants during the Plan Year or $100,000, whichever is less. Such median compensation shall be determined as of the close of a Plan Year and shall be rounded to an even thousand dollars. Compensation shall also include the additional compensation listed below, for Participants in the Participating Company listed herein.

B.Effective January 1, 2000 only the following additional compensation for the following Participating Companies shall be included in Compensation, as defined in this Schedule A.

1.PPL Electric Utilities Corporation (formerly PP&L, Inc.), PPL EnergyPlus, LLC (formerly PP&L EnergyPlus Co., LLC), PPL Services Corporation, PPL Generation, LLC, PPL Brunner Island, LLC, PPL Holtwood, LLC, PPL Martins Creek, LLC, PPL Montour, LLC, PPL Susquehanna, LLC, PPL Telcom, LLC (effective 2/5/01) and PPLSolutions, LLC (effective 1/1/02);

a)Any single sum award paid from the variable compensation fund created annually with a percentage of annualized base salaries in accordance with the Managers Compensation Plan.

2.PPL EnergyPlus, LLC (formerly PP&L EnergyPlus Co., LLC):

a)Any sales incentive award paid as a single sum on an annual basis.

IV.Effective January 1, 2002, Schedule B is added to read:

SCHEDULE B
PROVISIONS RELATING TO ECONOMIC GROWTH AND
TAX RELIEF RECONCILIATION ACT OF 2001

B.1 Introduction .

(a)The inclusion of Sections B.1 through B.4 of this Schedule B in the Plan are intended to reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). The provisions contained herein are intended to constitute good faith compliance with the requirements of EGTRRA and are to be construed in accordance with EGTRRA and guidance issued thereunder. Except as otherwise provided, these provisions shall be effective beginning

(b)The inclusion of the remaining Sections of this Schedule are intended to reflect additional statutory and regulatory changes. Each such Section shall be effective as of the date provided therein.

(c)The provisions contained within this Schedule B shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Schedule B. Any term used herein without an initial capital letter shall have the definition given elsewhere in this Plan document or if none, shall have the meaning used in a provision of the Code to the extent such meaning is necessary for the Plan to comply with section 401(a) of the Code.

B.2 Modification Of Top Heavy Rules.

(a)This Section shall apply for purposes of determining whether the Plan is a Top Heavy Plan under section 416(g) of the Code for Plan Years beginning after December 31, 2001, and whether the Plan satisfies the minimum benefits requirements of section 416(c) of the Code for such years. This Section amends Article XI of the Plan.

(b)(1) Key Employee means any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the Determination Date was an officer of the employer having annual compensation greater than $130,000 (as adjusted under section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a 5-percent owner of the employer, or a 1-percent owner of the employer having annual compensation of more than $150,000. For this purpose, "annual compensation" means compensation within the meaning of section 415(c)(3) of the Code. The determination of who is a Key Employee will be made in accordance with section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

(2) The following Subparagraphs (A) and (B) shall apply for purposes of determining the present values of accrued benefits and the Accounts

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of Employees as of the Determination Date.

(A)The present values of accrued benefits and the Accounts of an Employee as of the Determination Date shall be increased by the distributions made with respect to the Employee under the Plan and any plan aggregated with the Plan under section 416(g)(2) of the Code during the 1-year period ending on the Determination Date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than Separation from Service, death, or disability, this provision shall be applied by substituting "5-year period" for "1-year period."

(B)The accrued benefits and Accounts of any individual who has not performed services for the employer during the 1-year period ending on the Determination Date shall not be taken into account.

(c)Matching Contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of section 416(c)(2) of the Code and the Plan. The preceding sentence shall apply with respect to Matching Contributions under the Plan or, if the Plan provides that the minimum contribution requirement shall be met in another plan, such other plan. Matching Contributions that are used to satisfy the minimum contribution requirements shall be treated as Matching Contributions for purposes of the actual contribution percentage test and other requirements of section 401(m) of the Code.

B.3 Direct Rollovers of Plan Distributions .

(a)This Section shall apply to distributions made after December 31, 2001.

(b)For purposes of the direct rollover provisions Section 7.10 of the Plan, a Participant or an alternate payee under a qualified domestic relations order who is the Spouse or former Spouse of a Participant, entitled to receive a distribution from the Plan, may also elect to have the Trustee transfer all or a portion of the amount to be distributed directly to an annuity contract described in section 403(b) of the Code and an eligible plan under section 457(b) of the Code that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. In the case of a distribution made after December 31, 2001, to a surviving Spouse, such surviving Spouse may elect to have the Trustee transfer all or a portion of the amount directly to any of the plans described in Section 7.7(a)(1) through (4).

B.4 Dividends on Stock . Effective for dividends paid by PPL Corporation in 2001 and thereafter, any cash dividends paid with respect to shares of Stock allocated to Participants' Accounts will be, as determined by PPL, (1) paid by PPL directly in cash to the Participants for whose benefit such Stock is held under the Plan (or paid to the Plan and distributed in cash to Participants not later than 90 days after the close of the Plan Year in which the dividend is paid to the Plan), (2) paid to the Plan and retained by the Trustee for credit to Participants' cash sub-accounts as of the Valuation Date immediately following receipt by the Trustee, or (3) at the election of each Participant who has cash dividends payable with respect to shares of Stock allocated to his Account, (A) paid in cash to the Participant as provided in Clause (1), or (B) paid to the Plan and retained by the Trustee for credit to the Participant's cash sub-account as provided in Clause (2). Any election under Clause (3) shall be in the form and manner prescribed by the Employee Benefit Plan Board.

B.5 Minimum Distribution Requirements . The provisions set forth in the attached Schedule of Minimum Distribution Requirements shall apply pursuant to its terms.

Schedule Of Minimum Distribution Requirements

Section 1. General Rules

1.1. Effective Date . The provisions of this Schedule will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.

1.2. Precedence . The requirements of this Schedule will take precedence over any inconsistent provisions of the Plan.

1.3. Requirements of Treasury Regulations Incorporated . All distributions required under this Schedule will be determined and made in accordance with the Treasury regulations under section 401(a)(9) of the Code.

1.4. TEFRA Section 242(b)(2) Elections . Notwithstanding the other provisions of this Schedule, distributions may be made under a designation made before January 1, 1984, in accordance with section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act (TEFRA) and the provisions of the Plan that relate to section 242(b)(2) of TEFRA.

Section 2. Time and Manner of Distribution.

2.1. Required Beginning Date . The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the

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Participant's required beginning date.

2.2. Death of Participant Before Distributions Begin . If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(a) If the Participant's surviving spouse is the Participant's sole designated beneficiary, then distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70 1/2, if later.

(b) If the Participant's surviving spouse is not the Participant's sole designated beneficiary, then distributions to the designated beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(c) If there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(d) If the Participant's surviving spouse is the Participant's sole designated beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse begin, this section 2.2, other than section 2.2(a), will apply as if the surviving spouse were the Participant.

For purposes of this section 2.2 and section 4, unless section 2.2(d) applies, distributions are considered to begin on the Participant's required beginning date. If section 2.2(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under section 2.2(a). If distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's required beginning date (or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under section 2.2(a)), the date distributions are considered to begin is the date distributions actually commence.

2.3. Forms of Distribution . Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the required beginning date, as of the first distribution calendar year distributions will be made in accordance with sections 3 and 4 of this Schedule. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of section 401(a)(9) of the Code and the Treasury regulations.

Section 3. Required Minimum Distributions During Participant's Lifetime.

3.1. Amount of Required Minimum Distribution For Each Distribution Calendar Year . During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(a) the quotient obtained by dividing the Participant's account balance by the distribution period in the Uniform Lifetime Table set forth in section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's age as of the Participant's birthday in the distribution calendar year; or

(b) if the Participant's sole designated beneficiary for the distribution calendar year is the Participant's spouse, the quotient obtained by dividing the Participant's account balance by the number in the Joint and Last Survivor Table set forth in section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the distribution calendar year.

3.2. Lifetime Required Minimum Distributions Continue Through Year of Participant's Death . Required minimum distributions will be determined under this section 3 beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Participant's date of death.

Section 4. Required Minimum Distributions After Participant's Death.

4.1. Death On or After Date Distributions Begin .

(a) *Participant Survived by Designated Beneficiary* . If the Participant dies on or after the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's designated beneficiary, determined as follows:

(1) The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(2) If the Participant's surviving spouse is the Participant's sole designated beneficiary, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar years after the year of the surviving spouse's death, the remaining life expectancy of the surviving spouse

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is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(3) If the Participant's surviving spouse is not the Participant's sole designated beneficiary, the designated beneficiary's remaining life expectancy is calculated using the age of the beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

(b) *No Designated Beneficiary* . If the Participant dies on or after the date distributions begin and there is no designated beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

4.2. Death Before Date Distributions Begin .

(a) *Participant Survived by Designated Beneficiary* . If the Participant dies before the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the remaining life expectancy of the Participant's designated beneficiary, determined as provided in section 4.1.

(b) *No Designated Beneficiary* . If the Participant dies before the date distributions begin and there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c) *Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin* . If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole designated beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under section 2.2(a), this section 4.2 will apply as if the surviving spouse were the Participant.

Section 5. Definitions.

5.1. Designated beneficiary . The individual who is designated as the beneficiary under Section 7.3 of the Plan and is the designated beneficiary under section 401(a)(9) of the Code and section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations.

5.2. Distribution calendar year . A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's required beginning date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin under section 2.2. The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's required beginning date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the distribution calendar year in which the Participant's required beginning date occurs, will be made on or before December 31 of that distribution calendar year.

5.3. Life expectancy . Life expectancy as computed by use of the Single Life Table in section 1.401(a)(9)-9 of the Treasury regulations.

5.4. Participant's account balance . The account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The account balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

5.5 Required beginning date. The date specified in Section 7.7 of the Plan.

V. Except as provided for in this Amendment No. 2, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 2 is executed this 8th day of October, 2002.

PPL SERVICES CORPORATION
By: /s/ Ronald Schwarz
Ronald Schwarz
Vice President-Human Resources

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PPL ELECTRIC UTILITIES CORPORATION
(formerly PP&L, Inc. and Pennsylvania Power & Light Company)
TO
DEUTSCHE BANK TRUST COMPANY AMERICAS
(formerly Bankers Trust Company,
successor to Morgan Guaranty Trust Company of New York,
formerly Guaranty Trust Company of New York)

As Trustee under PPL Electric Utilities Corporation's
Mortgage and Deed of Trust,
Dated as of October1, 1945

Seventieth Supplemental Indenture

Providing among other things for

First Mortgage Bonds, 3.125% Pollution Control Series due 2008

Dated as of February 1, 2003

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Seventieth Supplemental Indenture

SEVENTIETH SUPPLEMENTAL INDENTURE, dated as of the lst day of February, 2003 made and entered into by and between PPL ELECTRIC UTILITIES CORPORATION (formerly PP&L, Inc. and Pennsylvania Power & Light Company), a corporation of the Commonwealth of Pennsylvania, whose address is Two North Ninth Street, Allentown, Pennsylvania 18101 (hereinafter sometimes called the Company), and DEUTSCHE BANK TRUST COMPANY AMERICAS (formerly Bankers Trust Company), a corporation of the State of New York, whose address is 60 Wall Street, New York, New York 10005 (hereinafter sometimes called the Trustee), as Trustee under the Mortgage and Deed of Trust, dated as of October1, 1945 (hereinafter called the Mortgage and, together with any indentures supplemental thereto, hereinafter called the Indenture), which Mortgage was executed and delivered by Pennsylvania Power & Light Company to secure the payment of bonds issued or to be issued under and in accordance with the provisions of the Mortgage, reference to which said Mortgage is hereby made, this instrument (hereinafter called the 70 thSupplemental Indenture) being supplemental thereto.

WHEREAS, said Mortgage was or is to be recorded in various Counties in the Commonwealth of Pennsylvania, which Counties include or will include all Counties in which this 70 thSupplemental Indenture is to be recorded; and

WHEREAS, by amendment to its Articles of Incorporation filed in the Office of the Secretary of State of Pennsylvania on September12, 1997, the Company changed its name to PP&L, Inc.; and

WHEREAS, by an amendment to its Articles of Incorporation filed with the Office of the Secretary of State of Pennsylvania on February14, 2001, the Company changed its name to PPL Electric Utilities Corporation; and

WHEREAS, an instrument, dated August 5, 1994, was executed by the Company appointing Bankers Trust Company, as Trustee in succession to said Morgan Guaranty Trust Company of New York (resigned) under the Indenture, and by Bankers Trust Company accepting said appointment, which instrument was or is to be recorded in various Counties in the Commonwealth of Pennsylvania; and

WHEREAS, by an amendment to its Articles of Incorporation filed in the office of the Secretary of State of New York, effective April 15, 2002, the Trustee changed its name to Deutsche Bank Trust Company Americas; and

WHEREAS, by the Mortgage the Company covenanted that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectually the purposes of the Indenture and to make subject to the lien of the Indenture any property thereafter acquired and intended to be subject to the lien thereof; and

WHEREAS, the Company executed and delivered as supplements to the Mortgage, the following supplemental indentures:

Designation	**Dated as of**
First Supplemental Indenture	July 1, 1947
Second Supplemental Indenture	December 1, 1948
Third Supplemental Indenture	February 1, 1950
Fourth Supplemental Indenture	March 1, 1953
Fifth Supplemental Indenture	August 1, 1955
Sixth Supplemental Indenture	December 1, 1961
Seventh Supplemental Indenture	March 1, 1964
Eighth Supplemental Indenture	June 1, 1966
Ninth Supplemental Indenture	November 1, 1967
Tenth Supplemental Indenture	December 1, 1967
Eleventh Supplemental Indenture	January 1, 1969
Twelfth Supplemental Indenture	June 1, 1969
Thirteenth Supplemental Indenture	March 1, 1970
Fourteenth Supplemental Indenture	February 1, 1971
Fifteenth Supplemental Indenture	February 1, 1972
Sixteenth Supplemental Indenture	January 1, 1973
Seventeenth Supplemental Indenture	May 1, 1973
Eighteenth Supplemental Indenture	April 1, 1974
Nineteenth Supplemental Indenture	October 1, 1974
Twentieth Supplemental Indenture	May 1, 1975
Twenty-first Supplemental Indenture	November 1, 1975
Twenty-second Supplemental Indenture	December 1, 1976
Twenty-third Supplemental Indenture	December 1, 1977
Twenty-fourth Supplemental Indenture	April 1, 1979
Twenty-fifth Supplemental Indenture	April 1, 1980

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Twenty-sixth Supplemental Indenture	June 1, 1980
Twenty-seventh Supplemental Indenture	June 1, 1980
Twenty-eighth Supplemental Indenture	December 1, 1980
Twenty-ninth Supplemental Indenture	February 1, 1981
Thirtieth Supplemental Indenture	February 1, 1981
Thirty-first Supplemental Indenture	September 1, 1981
Thirty-second Supplemental Indenture	April 1, 1982
Thirty-third Supplemental Indenture	August 1, 1982
Thirty-fourth Supplemental Indenture	October 1, 1982
Thirty-fifth Supplemental Indenture	November 1, 1982
Thirty-sixth Supplemental Indenture	February 1, 1983
Thirty-seventh Supplemental Indenture	November 1, 1983
Thirty-eighth Supplemental Indenture	March 1, 1984
Thirty-ninth Supplemental Indenture	April 1, 1984
Fortieth Supplemental Indenture	August 15, 1984
Forty-first Supplemental Indenture	December 1, 1984
Forty-second Supplemental Indenture	June 15, 1985
Forty-third Supplemental Indenture	October 1, 1985
Forty-fourth Supplemental Indenture	January 1, 1986
Forty-fifth Supplemental Indenture	February 1, 1986
Forty-sixth Supplemental Indenture	April 1, 1986
Forty-seventh Supplemental Indenture	October 1, 1986
Forty-eighth Supplemental Indenture	March 1, 1988
Forty-ninth Supplemental Indenture	June 1, 1988
Fiftieth Supplemental Indenture	January 1, 1989
Fifty-first Supplemental Indenture	October 1, 1989
Fifty-second Supplemental Indenture	July 1, 1991
Fifty-third Supplemental Indenture	May 1, 1992
Fifty-fourth Supplemental Indenture	November 1, 1992
Fifty-fifth Supplemental Indenture	February 1, 1993
Fifty-sixth Supplemental Indenture	April 1, 1993
Fifty-seventh Supplemental Indenture	June 1, 1993
Fifty-eighth Supplemental Indenture	October 1, 1993
Fifty-ninth Supplemental Indenture	February 15, 1994
Sixtieth Supplemental Indenture	March 1, 1994
Sixty-first Supplemental Indenture	March 15, 1994
Sixty-second Supplemental Indenture	September 1, 1994
Sixty-third Supplemental Indenture	October 1, 1994
Sixty-fourth Supplemental Indenture	August 1, 1995
Sixty-fifth Supplemental Indenture	April 1, 1997
Sixty-sixth Supplemental Indenture	May 1, 1998
Sixty-seventh Supplemental Indenture	June 1, 1999
Sixty-eighth Supplemental Indenture	August 1, 2001
Sixty-ninth Supplemental Indenture	January 1, 2002

which supplemental indentures were or are to be recorded in various Counties in the Commonwealth of Pennsylvania; and

WHEREAS, the Company executed and delivered its Supplemental Indenture, dated July 1, 1954, creating a security interest in certain personal property of the Company, pursuant to the provisions of the Pennsylvania Uniform Commercial Code, as a supplement to the Mortgage, which Supplemental Indenture was filed in the Office of the Secretary of the Commonwealth of Pennsylvania on July 1, 1954, and all subsequent supplemental indentures were so filed; and

WHEREAS, in addition to the property described in the Mortgage, as heretofore supplemented, the Company has acquired certain other property, rights and interests in property; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, as supplemented, the following series of First Mortgage Bonds:

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Series	Principal Amount Issued	Principal Amount Outstanding
3% Series due 1975	$93,000,000	None
2-3/4% Series due 1977	20,000,000	None
3-1/4% Series due 1978	10,000,000	None
2-3/4% Series due 1980	37,000,000	None
3-1/2% Series due 1983	25,000,000	None
3-3/8% Series due 1985	25,000,000	None
4-5/8% Series due 1991	30,000,000	None
4-5/8% Series due 1994	30,000,000	None
5-5/8% Series due 1996	30,000,000	None
6-3/4% Series due 1997	30,000,000	None
6-1/2% Series due 1972	15,000,000	None
7% Series due 1999	40,000,000	None
8-1/8% Series due June 1, 1999	40,000,000	None
9% Series due 2000	50,000,000	None
7-1/4% Series due 2001	60,000,000	None
7-5/8% Series due 2002	75,000,000	None
7-1/2% Series due 2003	80,000,000	None
Pollution Control Series A	28,000,000	None
9-1/4% Series due 2004	80,000,000	None
10-1/8% Series due 1982	100,000,000	None
9-3/4% Series due 2005	125,000,000	None
9-3/4% Series due November 1, 2005	100,000,000	None
8-1/4% Series due 2006	150,000,000	None
8-1/2% Series due 2007	100,000,000	None
9-7/8% Series due 1983-1985	100,000,000	None
15-5/8% Series due 2010	100,000,000	None
11-3/4% Series due 1984	30,000,000	None
Pollution Control Series B	70,000,000	None
Pollution Control Series C	20,000,000	None
14% Series due December 1, 1990	125,000,000	None
15% Series due 1984-1986	50,000,000	None
14-3/4% Series A due 1986	30,000,000	None
14-3/4% Series B due 1986	20,000,000	None
16-1/2% Series due 1987-1991	$52,000,000	None
16-1/8% Series due 1992	100,000,000	None
16-1/2% Series due 1986-1990	92,500,000	None
13-1/4% Series due 2012	100,000,000	None
Pollution Control Series D	70,000,000	None
12-1/8% Series due 1989-1993	50,000,000	None
13-1/8% Series due 2013	125,000,000	None
Pollution Control Series E	37,750,000	None
13-1/2% Series due 1994	125,000,000	None
Pollution Control Series F	115,500,000	None
12-3/4% Series due 2014	125,000,000	None
Pollution Control Series G	55,000,000	None
12% Series due 2015	125,000,000	None
10-7/8% Series due 2016	125,000,000	None
9-5/8% Series due 1996	125,000,000	None
9% Series due 2016	125,000,000	None
9-1/2% Series due 2016	125,000,000	None
9-1/4% Series due 1998	125,000,000	None
9-5/8% Series due 1998	125,000,000	None
10% Series due 2019	125,000,000	None
9-1/4% Series due 2019	250,000,000	None
9-3/8% Series due 2021	150,000,000	None
7-3/4% Series due 2002	150,000,000	None
8-1/2% Series due 2022	150,000,000	None

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Pollution Control Series H	90,000,000	90,000,000
6-7/8% Series due 2003	100,000,000	None
7-7/8% Series due 2023	200,000,000	46,213,000
5-1/2% Series due 1998	150,000,000	None
6-1/2% Series due 2005	125,000,000	110,000,000
6% Series due 2000	125,000,000	None
6-3/4% Series due 2023	150,000,000	19,497,000
Pollution Control Series I	53,250,000	53,250,000
6.55% Series due 2006	150,000,000	146,000,000
7.30% Series due 2024	150,000,000	5,805,000
6-7/8% Series due 2004	150,000,000	24,767,000
7-3/8% Series due 2014	100,000,000	10,290,000
Pollution Control Series J	115,500,000	115,500,000
7.70% Series due 2009	200,000,000	325,000
Pollution Control Series K	55,000,000	55,000,000
Short-Term Series A	800,000,000	None
6 1/8% REset Put Securities Series due 2006	200,000,000	None
Short-Term Series B	600,000,000	None
5-7/8% Series due August 15, 2007	300,000,000	300,000,000
6-1/4% Series due August 15, 2009	500,000,000	500,000,000

which bonds are also sometimes called bonds of the First through Seventy-seventh, respectively; and

WHEREAS, Section 8 of the Mortgage provides that the form of each series of bonds (other than the First Series) issued thereunder shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof, and may also contain such provisions not inconsistent with the provisions of the Indenture as the Board of Directors may, in its discretion, cause to be inserted therein expressing or referring to the terms and conditions upon which such bonds are to be issued and/or secured under the Indenture; and

WHEREAS, Section 120 of the Mortgage provides, among other things, that any power, privilege or right expressly or impliedly reserved to or in any way conferred upon the Company by any provision of the Indenture, whether such power, privilege or right is in any way restricted or is unrestricted, may be in whole or in part waived or surrendered or subjected to any restriction if at the time unrestricted or to additional restriction if already restricted, and the Company may enter into any future covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may cure any ambiguity contained therein or in any supplemental indenture or may establish the terms and provisions of any series of bonds other than said First Series, by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to record in all of the States in which any property at the time subject to the lien of the Indenture shall be situated; and

WHEREAS, the Company now desires to create a new series of bonds and to add to its covenants and agreements contained in the Mortgage, as heretofore supplemented, certain other covenants and agreements to be observed by it and to alter and amend in certain respects the covenants and provisions contained in the Mortgage; and

WHEREAS, the execution and delivery by the Company of this 70 th Supplemental Indenture, and the terms of the bonds of the Seventy-eighth Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate Resolutions of said Board of Directors;

NOW, THEREFORE, THIS INDENTURE WITNESSETH: That PPL Electric Utilities Corporation, in consideration of the premises and of One Dollar to it duly paid by the Trustee at or before the ensealing and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustee and in order further to secure the payment both of the principal of and interest and premium, if any, on the bonds from time to time issued under the Indenture, according to their tenor and effect and the performance of all the provisions of the Indenture (including any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances as defined in Section 6 of the Mortgage) unto Deutsche Bank Trust Company Americas, as Trustee under the Indenture, and to its successor or successors in said trust, and to said Trustee and its successors and assigns forever, all property, real, personal and mixed, of the kind or nature specifically mentioned in the Mortgage, as heretofore supplemented, or of any other kind or nature, acquired by the Company after the date of the execution and delivery of the Sixty-ninth Supplemental Indenture (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted and except any which may not lawfully be mortgaged or pledged under the Indenture), now owned or, subject to the provisions of Section 87 of the Mortgage, hereafter acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) and wheresoever situated, including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing) all lands, power sites, flowage rights, water rights, water locations, water appropriations,

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ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants for the generation of electricity by steam, water and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water works, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, electric, gas and other machines, regulators, meters, transformers, generators, motors, electrical, gas and mechanical appliances, conduits, cables, water, steam heat, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture and chattels; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of electric current, gas, steam heat or water for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described;

TOGETHER with all and singular the tenements, hereditaments, prescriptions, servitudes, and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof;

IT IS HEREBY AGREED by the Company that, subject to the provisions of Section 87 of the Mortgage and to the extent permitted by law, all the property, rights, and franchises acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) after the date hereof, except any herein or in the Mortgage, as heretofore supplemented, expressly excepted, shall be and are as fully granted and conveyed hereby and as fully embraced within the lien hereof and the lien of the Indenture, as if such property, rights and franchises were now owned by the Company and were specifically described herein and conveyed hereby; and

IT IS HEREBY DECLARED by the Company that all the property, rights and franchises now owned or hereafter acquired by the Company have been, or are, or will be owned or acquired with the intention to use the same in carrying on the business or branches of business of the Company, and it is hereby declared that it is the intention of the Company that all thereof, except any herein or in the Mortgage, as heretofore supplemented, expressly excepted, shall (subject to the provisions of Section 87 of the Mortgage and to the extent permitted by law) be embraced within the lien of this 70 th Supplemental Indenture and the lien of the Indenture;

PROVIDED that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of this 70 th Supplemental Indenture and from the lien and operation of the Indenture, viz : (1) cash, shares of stock, bonds, notes and other obligations and other securities not hereafter specifically pledged, paid, deposited, delivered or held under the Indenture or covenanted so to be; (2) goods, wares, merchandise, equipment, apparatus, materials, or supplies held for the purpose of sale or other disposition in the usual course of business; fuel, oil and similar materials and supplies consumable in the operation of any of the properties of the Company; construction equipment acquired for temporary use; all aircraft, rolling stock, trolley coaches, buses, motor coaches, automobiles and other vehicles and materials and supplies held for the purposes of repairing or replacing (in whole or part) any of the same; all timber, minerals, mineral rights and royalties; (3) bills, notes and accounts receivable, judgments, demands and choses in action, and all contracts, leases and operating agreements not specifically pledged under the Indenture or covenanted so to be; the Company's contractual rights or other interest in or with respect to tires not owned by the Company; (4) the last day of the term of any lease or leasehold which may be or become subject to the lien of the Indenture; and (5) electric energy, gas, steam, ice, and other materials or products generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; provided, however, that the property and rights expressly excepted from the lien and operation of the Indenture in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event and as of the date that the Trustee or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XIII of the Mortgage by reason of the occurrence of a Default as defined in Section 65 thereof, as supplemented by the provisions of this Sixty-eighth Supplemental Indenture;

TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto Deutsche Bank Trust Company Americas, as Trustee, and its successors and assigns forever;

IN TRUST NEVERTHELESS for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as heretofore supplemented, this 70 th Supplemental Indenture being supplemental to the Mortgage;

AND IT IS HEREBY COVENANTED by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights,

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obligations and duties of the Company and the Trustee and the beneficiaries of the trust with respect to said property, and to the Trustee and its successors as Trustee of said property in the same manner and with the same effect as if the said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to the Trustee by the Mortgage as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustee and its successors in said trust under the Indenture, as follows:

ARTICLE I.
Seventy-eighth Series of Bonds

SECTION I. There shall be a series of bonds designated "First Mortgage Bonds, 3.125% Pollution Control Series due 2008" (herein sometimes referred to as the "Seventy-eighth Series"), each of which shall also bear the descriptive title First Mortgage Bonds, and the form thereof, which shall be established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Section specified. Bonds of the Seventy-eighth Series shall be limited to $90 million in aggregate principal amount, except as provided in Section 16 of the Mortgage, and shall be issued as fully registered bonds in denominations of One Thousand Dollars and in any multiple or multiples of One Thousand Dollars; each bond of the Seventy-eighth Series shall mature on November 1, 2008, shall bear interest at the rate of 3.125% per annum, payable semi-annually on May 1 and November 1 of each year; the principal of and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, and interest on each said bond to be also payable at the office of the Company in the City of Allentown, Pennsylvania, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts. Bonds of the Seventy-eighth Series shall be dated as in Section 10 of the Mortgage provided.

The bonds of the Seventy-eighth Series shall be issued by the Company, registered in the name of and delivered to JPMorgan Chase Bank, as trustee (the "2001 Trustee") under an Indenture dated as of August 1, 2001 (the "2001 Indenture"), to provide for the payment when due (whether at maturity, by acceleration or otherwise) of the principal and interest of the Securities (as defined in the 2001 Indenture) to be issued from time to time under the 2001 Indenture.

The bonds of the Seventy-eighth Series shall not be transferable by the 2001 Trustee, except to a successor trustee under the 2001 Indenture. Bonds of the Seventy-eighth Series so transferable to a successor trustee under the 2001 Indenture may be transferred at the principal office of the Trustee in the Borough of Manhattan, The City of New York.

Any payment or deemed payment by the Company under the 2001 Indenture of the principal of or premium, if any, or interest, if any on the securities which shall been authenticated and delivered under the 2001 Indenture (the "Senior Secured Bonds") on the basis of the issuance and delivery to the 2001 Trustee of bonds of the Seventy-eighth Series (other than by the application of the proceeds of a payment in respect of such bonds) shall, to the extent hereof, be deemed to satisfy and discharge the obligation of the Company, if any, to make a payment of principal of, or premium, or interest on such bonds, as the case may be, which is then due.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of or interest on the bonds of the Seventy-eighth Series as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the 2001 Trustee, signed by an authorized officer thereof, stating that the principal of or interest on specified bonds of the Seventy-eighth Series has become due and payable and has not been fully paid, and specifying the amount of funds required to make such payment.

(I) Each holder of a bond of the Seventy-eighth Series consents that the bonds of the Seventy-eighth Series shall be redeemable, in whole at any time, or in part from time to time, prior to maturity, without notice provided in Section 52 of the Mortgage, at the principal amount of the bonds to be redeemed, in each case, together with accrued interest to the date fixed for redemption, if, and at such times and in the same principal amounts as, the Senior Secured Bonds shall have become subject to mandatory or optional redemption.

(II) The bonds of the Seventy-eighth Series shall also be redeemable, in whole at any time, or in part from time to time, prior to maturity, at a redemption price equal to the principal amount thereof, together with accrued and unpaid interest to the date of payment of such principal amount, upon receipt by the Trustee of a written notice from the 2001 Trustee (i) delivered to the Trustee and the Company, (ii) signed by its President or any Vice President, (iii) stating that an Event of Default has occurred under the 2001 Indenture and is continuing and that, as a result, there then is due and payable a specified amount with respect to the Securities Outstanding under the 2001 Indenture, for the payment of which the 2001 Trustee has not received funds, and (iv) specifying the principal amount of the bonds of the Seventy-eighth Series to be redeemed. Delivery of such notice shall constitute a waiver by the 2001 Trustee of notice of redemption under the Indenture.

(III) At the option of the registered owner, any bonds of the Seventy-eighth Series, upon surrender thereof, for cancellation, at the office or agency of the Company in the Borough of Manhattan, The City of New York, shall be exchangeable for a like aggregate principal amount of bonds of the same series, interest rate, maturity and other terms of other authorized denominations.

Subject to the provisions of the third paragraph of this Section 1, Bonds of the Seventy-eighth Series shall be transferable, upon the surrender

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thereof for cancellation, together with a written instrument of transfer in form approved by the registrar duly executed by the registered owner or by his duly authorized attorney, at the office or agency of the Company in the Borough of Manhattan, The City of New York; provided that such transfer shall not result in any security being required to be registered under the Securities Act of 1933, as amended, and an opinion of counsel satisfactory to the Company to such effect shall have been provided to the Company.

The bonds of the Seventy-eighth Series shall not be redeemable by the application of cash deposited with the Trustee pursuant to the provisions of Section 64.

Upon any transfer or exchange of bonds of the Seventy-eighth Series, the Company may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge, as provided in Section 12 of the Mortgage, but the Company hereby waives any right to make a charge in addition thereto for any exchange or transfer of bonds of the Seventy-eighth Series.

ARTICLE II.
Miscellaneous Provisions

SECTION 2. The Company reserves the right to make such amendments to the Mortgage, as supplemented, as shall be necessary in order to delete subsection (I) of Section 39 of the Mortgage, and each holder of bonds of the Seventy-eighth Series hereby consents to such deletion without any other or further action by any holder of bonds of the Seventy-eighth Series.

SECTION 3. The terms defined in the Mortgage, as heretofore supplemented, shall, for all purposes of this Seventieth Supplemental Indenture, have the meanings specified in the Mortgage, as heretofore supplemented.

SECTION 4. Whenever in this 70 thSupplemental Indenture either of the parties hereto is named or referred to, this shall, subject to the provisions of Articles XVI and XVII of the Mortgage, be deemed to include the successors and assigns of such party, and all the covenants and agreements in this 70 thSupplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustee shall, subject as aforesaid, bind and inure to the respective benefits of the respective successors and assigns of such parties, whether so expressed or not.

SECTION 5. So long as any bonds of the Seventy-eighth Series and remain Outstanding, unless this provision shall have been waived in writing by the holders of a majority in aggregate principal amount of bonds of the Seventy-eighth Series Outstanding at the time of such consent, subdivision (c) of Section 65 of the Mortgage shall read as follows:

"(c) Failure to pay interest or premium, if any, upon or principal (whether at maturity as therein expressed or by declaration, or otherwise) of any Outstanding Qualified Lien Bonds or of any outstanding indebtedness secured by any mortgage or other lien (not included in the term Excepted Encumbrances) prior to the lien of this Indenture, existing upon any property of the Company which is subject to the lien and operation of this Indenture continued beyond the period of grace, if any, specified in such mortgage or Qualified Lien or other lien securing the same;"

SECTION 6. A breach of a specified covenant or agreement of the Company contained in this 70 thSupplemental Indenture shall become a Default under the Indenture upon the happening of the events provided in Section 65(g) of the Mortgage with respect to such a covenant or agreement.

SECTION 7. The Trustee hereby accepts the trusts herein declared, provided, created or supplemented and agrees to perform the same upon the terms and conditions herein and in the Mortgage, as heretofore supplemented, set forth and upon the following terms and conditions:

The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this 70 thSupplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. Each and every term and condition contained in Article XVII of the Mortgage, as heretofore amended by said First through Sixty-ninth Supplemental Indentures, shall apply to and form part of this 70 thSupplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this 70 thSupplemental Indenture.

SECTION 8. Nothing in this 70 thSupplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds and coupons Outstanding under the Indenture, any right, remedy or claim under or by reason of this 70 thSupplemental Indenture or by any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this 70 thSupplemental Indenture contained by or on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and coupons Outstanding under the Indenture.

SECTION 9. This 70 thSupplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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PPL ELECTRIC UTILITIES CORPORATION does hereby constitute and appoint JAMES E. ABEL, Treasurer of PPL ELECTRIC UTILITIES CORPORATION, to be its attorney for it, and in its name and as and for its corporate act and deed to acknowledge this 70 th Supplemental Indenture before any person having authority by the laws of the Commonwealth of Pennsylvania to take such acknowledgment, to the intent that the same may be duly recorded, and DEUTSCHE BANK TRUST COMPANY AMERICAS does hereby constitute and appoint Susan Johnson, a Vice President of DEUTSCHE BANK TRUST COMPANY AMERICAS, to be its attorney for it, and in its name and as and for its corporate act and deed to acknowledge this 70 thSupplemental Indenture before any person having authority by the laws of the Commonwealth of Pennsylvania to take such acknowledgment, to the intent that the same may be duly recorded.

IN WITNESS WHEREOF, PPL ELECTRIC UTILITIES CORPORATION has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President, one of its Vice Presidents or its Treasurer, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, in the City of Allentown, Pennsylvania, and DEUTSCHE BANK TRUST COMPANY AMERICAS has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by one of its Principals, Vice Presidents, Trust Officers or Associates, and its corporate seal to be attested by one of its Vice Presidents, Assistant Vice Presidents, Trust Officers or Associates, in The City of New York, as of the day and year first above written.

PPL ELECTRIC UTILITIES CORPORATION
By: /s/ James E. Abel
Name:James E. Abel
Title:Treasurer

Attest:

/s/ Diane M. Koch

Assistant Secretary

DEUTSCHE BANK TRUST COMPANY AMERICAS
By: /s/ Susan Johnson
Name:Susan Johnson
Title:Vice President

Attest:

/s/ Dorothy Robinson

Dorothy Robinson
Vice President

STATE OF NEW YORK)
)ss.:
COUNTY OF NEW YORK)

On this 12th day of February, 2003, before me, a notary public, the undersigned, personally appeared JAMES E. ABEL, who acknowledged himself to be the Treasurer of PPL ELECTRIC UTILITIES CORPORATION, a corporation and that he, as such Treasurer, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as Treasurer.

In witness whereof, I hereunto set my hand and official seal.

/s/ Susan Fields
Notary Public
Susan Fields
NOTARY PUBLIC, State of New York
No. 31-4980055
Qualified in New York County
Commission Expires April 8, 2003

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STATE OF NEW YORK)
)ss.:
COUNTY OF NEW YORK)

On this 11th day of February, 2003, before me, a notary public, the undersigned, personally appeared Susan Johnson, who acknowledged herself to be a Vice President of DEUTSCHE BANK TRUST COMPANY Americas, a corporation and that she, as such Vice President, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by herself as Vice President.

In witness whereof, I hereunto set my hand and official seal.

/s/Oneaka Hendricks
Notary Public
ONEAKA HENDRICKS
Notary Public, State of New York
Registration #01HE6063947
Qualified in Kings County
My Commission Expires Sept. 10, 2005

Deutsche Bank Trust Company Americas hereby certifies that its precise name and address as Trustee hereunder are:

DEUTSCHE BANK TRUST COMPANY AMERICAS

Corporate Trust and Agency Services
60 Wall Street, MS NYC60-2515
New York, New York 10005

DEUTSCHE BANK TRUST COMPANY AMERICAS
By: /s/ Susan Johnson
Name:Susan Johnson
Title:Vice President

Exhibit 4(g)-3

PPL ELECTRIC UTILITIES CORPORATION

TO

JPMORGAN CHASE BANK,
(formerly known as The Chase Manhattan Bank)
Trustee

Supplemental Indenture No. 2

Dated as of February 1, 2003

Supplemental to the Indenture
dated as of August 1, 2001

Establishing Terms of

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Senior Secured Bonds, 3.125% Pollution Control Series due 2008

Supplemental Indenture No. 2

SUPPLEMENTAL INDENTURE No. 2, dated as of the 1 stday of February, 2003 made and entered into by and between PPL ELECTRIC UTILITIES CORPORATION, a corporation of the Commonwealth of Pennsylvania, whose address is Two North Ninth Street, Allentown, Pennsylvania 18101 (hereinafter sometimes called the "Company"), and JPMORGAN CHASE BANK (formerly known as The Chase Manhattan Bank), a New York banking corporation, whose address is 4 New York Plaza, 15 thFloor, New York, New York 10004 (hereinafter sometimes called the "Trustee"), as Trustee under the Indenture, dated as of August 1, 2001 (hereinafter called the "Original Indenture"), this Supplemental Indenture No. 2 being supplemental thereto. The Original Indenture and any and all indentures and instruments supplemental thereto are hereafter sometimes collectively called the "Indenture."

Recitals of the Company

The Original Indenture was authorized, executed and delivered by the Company to provide for the issuance from time to time of its Securities (such term and all other capitalized terms used herein without definition having the meanings assigned to them in the Original Indenture), to be issued in one or more series as contemplated therein, and to provide security for the payment of the principal of and premium, if any, and interest, if any, on the Securities.

Pursuant to Article Three of the Original Indenture, the Company has established a third series of Securities, such series of Securities to be hereinafter sometimes called "Securities of the Third Series."

As contemplated in Section 301 of the Original Indenture, the Company wishes to establish the designation and certain terms of the Securities of the Third Series. The Company has duly authorized the execution and delivery of this Supplemental Indenture No. 2 to establish the designation and certain terms of the Securities of the Third Series and has duly authorized the issuance of such Securities; and all acts necessary to make this Supplemental Indenture No. 2 a valid agreement of the Company, and to make the Securities of the Third Series valid obligations of the Company, have been performed.

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE NO. 2 WITNESSETH, that, for and in consideration of the premises and of the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of the Holders of the Securities of the Third Series, as follows:

ARTICLE ONE.
THIRD SERIES OF SECURITIES

SECTION 101. The Securities of the Third Series shall be designated Senior Secured Bonds, 3.125% Pollution Control Series due 2008, and shall have the terms provided therefor in this Article One of this Supplemental Indenture No. 2, shall be limited in aggregate principal amount (except as contemplated in Section 301(b) of the Original Indenture) to $90,000,000, and shall have such terms as are hereby established for such Securities of the Third Series as contemplated in Section 301 of the Original Indenture. The form or forms and additional terms of the Securities of the Third Series shall be established in an Officer's Certificate of the Company, as contemplated by Section 301 of the Original Indenture.

SECTION 102. Covenants.

So long as any Securities of the Third Series shall remain Outstanding, each of the following shall be an additional covenant of the Company under the Indenture:

(a)The Company shall not declare any dividends on its shares of common stock or commit to make any other distribution on its shares of common stock (other than dividends and distributions payable in shares of its common stock), or purchase or redeem any shares of its common stock, other than with the proceeds of additional common stock financing (each such payment or distribution or purchase, a "Restricted Payment"), if and for so long as the average of the Interest Coverage Ratios for the four most recently ended fiscal quarters immediately preceding the date of declaration of any such Restricted Payment falls below 1.5. The Company shall not declare any cash dividend on shares of its common stock, or otherwise commit to making any other Restricted Payment, unless such dividend or other Restricted Payment is payable within 120 days of the date of declaration or other commitment.

(b)If the Company receives a Dividend Notice from the Independent Administrator, the Company shall not make any Restricted Payment until such time as the Company has delivered to the Independent Administrator an Exceptions Opinion, a Materiality Certificate, or a Correction Notice (in each case, as such terms are defined in the Compliance Administration Agreement), as contemplated by Section 10(d) of the Compliance Administration Agreement.

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(c)If and for so long as the average of the Interest Coverage Ratios for the four consecutive fiscal quarters immediately preceding any date of determination falls below 1.5, the Company shall initiate a filing for rate relief with the Pennsylvania Public Utility Commission ("PUC") within 90 days, unless the Company is not eligible for such rate relief under applicable law, regulation or orders or policies of the PUC then in effect.

(d)The Company will not issue additional Securities (other than (i) Securities issued to refund Outstanding Securities, outstanding bonds issued under the PPL 1945 Mortgage, or any other Class A Bonds and (ii)Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of such series pursuant to Section 304, 305, 306, 506 or 1306 of the Indenture), unless the Company shall have received Rating Agency Confirmations from each applicable Rating Agency, each to the effect that the issuance of such additional Securities will not result in the reduction or withdrawal of the ratings on the Company Senior Debt below the lower of (x) such Rating Agency's rating on such Company Senior Debt then in effect or (y) such Rating Agency's Threshold Rating.

(e)The Company shall not, subject to the requirements of applicable law, regulation and policies of applicable regulatory bodies, engage in any business, either directly or through subsidiaries of the Company, other than its electric transmission and distribution businesses and businesses related to or arising out of the electric transmission and distribution businesses.

(f)The Company will not consolidate with or merge with or into, or convey or otherwise transfer, or lease, as or substantially as an entirety, its Electric Utility Property to any Person, unless:

(i)the provisions of Section 1201 of the Indenture are complied with;

(ii)immediately after giving effect to such transaction, the Consolidated Net Worth of the Company or the Successor Company, as the case may be, is not less than that of the Company immediately prior to the transaction; and

(iii)the Company shall have received Rating Agency Confirmations from each applicable Rating Agency, each to the effect that the merger, consolidation or other transaction will not result in the reduction or withdrawal of the ratings on the Company Senior Debt below the lower of (x) such Rating Agency's rating on such Company Senior Debt then in effect or (y) such Rating Agency's Threshold Rating.

(g)The Company will not acquire tangible electric transmission and distribution assets of any other electric transmission and distribution company having a value in excess of 20% of the total assets of the Company and its consolidated subsidiaries as shown on the Company's most recent audited consolidated balance sheet unless the Company shall have received Rating Agency Confirmations from each applicable Rating Agency, each to the effect that the acquisition will not result in the reduction or withdrawal of the ratings on the Company Senior Debt below the lower of (x) such Rating Agency's rating on such Company Senior Debt then in effect or (y) such Rating Agency's Threshold Rating.

(h)After the date of the first authentication of Securities of the Third Series, the Company shall not issue additional Class A Bonds under the PPL 1945 Mortgage except for Class A Bonds (i) to replace mutilated, destroyed, lost or stolen Class A Bonds of the same series or to effect transfers, exchanges, or partial redemptions, payments or retirements of Class A Bonds; (ii) to be delivered to the Trustee under the Indenture; or (iii) to refund or refinance outstanding Class A Bonds.

(i)The Securities of the Third Series shall have the benefit of the covenant of the Company contained in Section 707 of the Indenture.

(j)The Company will comply in all material respects with Articles X and XI of its Amended and Restated Articles of Incorporation and Article IX of its Bylaws, in each case as such documents may be amended from time to time in accordance with the terms thereof.

(k)The Company will not solicit its affiliates to obtain, or accept from any of its affiliates, any guarantee by such affiliate of any obligation of the Company.

(l)The Company shall notify the Holders of the Securities of the Third Series of the discharge of the Lien of the Indenture pursuant to Section 1811 of the Original Indenture promptly after the recording of the instruments of discharge executed by the Trustee.

SECTION 103. Release of Mortgaged Property.

So long as any Securities of the Third Series shall remain Outstanding, any Expert's Certificate delivered pursuant to Section 1803(c) of the Original Indenture shall also state that (except in any case where a Governmental Authority has lawfully ordered the Company to divest itself of such property) such release is, in the judgment of the signers, desirable in the conduct of the business of the Company.

SECTION 104. Additional Condition to Release Date.

So long as any Securities of the Third Series shall remain Outstanding, it shall be a condition to the occurrence of the Release Date under Section 1811 of the Original Indenture, that the Company deliver to the Trustee Rating Agency Confirmations from each applicable Rating Agency, each to the effect that the discharge of the Lien of the Indenture will not result in the reduction or withdrawal of the ratings on the

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Company Senior Debt below the lower of (x) such Rating Agency's rating on such Company Senior Debt then in effect or (y) such Rating Agency's Threshold Rating.

SECTION 105. Events of Default.

So long as any Securities of the Third Series shall remain Outstanding, the occurrence and continuation of the following shall be an additional Event of Default under the Indenture: the Trustee shall receive a Noncompliance Notice from the Independent Administrator under the Compliance Administration Agreement, unless and until the Independent Administrator shall have informed the Trustee that such Noncompliance Notice is no longer in effect.

In the absence of actual receipt of a Noncompliance Notice as provided in this Section 105, nothing herein shall be deemed to charge the Trustee with knowledge of any failure by the Company or the Independent Administrator to comply with the Compliance Administration Agreement, or with any duty to inquire as to the Company's or the Independent Administrator's compliance therewith.

SECTION 106.Definitions. For purposes of this Article One,

"Company Senior Debt" shall mean the Company's Securities which have been issued under the Indenture, or if, at any time of determination, no Rating Agency shall have a rating on any such debt, the Company's senior secured long-term debt which is then so rated by a Rating Agency.

" **Compliance Administration Agreement** " shall mean that Compliance Administration Agreement between the Company and Global Securitization Services, LLC, as Independent Administrator as such agreement shall be amended or supplemented from time to time.

" **Consolidated Net Worth** " shall mean, with respect to any Person, the excess of such Person's consolidated assets over its consolidated liabilities, determined in accordance with generally accepted accounting principles;

" **Dividend Notice** " shall mean a notice from the Independent Administrator as contemplated by Section 10(d) of the Compliance Administration Agreement.

" **Funds from Operation** " means for any period with respect to the Company and its consolidated subsidiaries, the aggregate amount of consolidated net income of the Company and its consolidated subsidiaries (x) *plus* deferred income taxes, depreciation and amortization expense, preferred dividends, extraordinary expense items, any non-recurring or non-cash charges to net income (whether or not an extraordinary item) and any expense associated with intangible transition charges, and (y) *minus* any deferred investment tax credit, any extraordinary revenue items and any income associated with intangible transition charges, all computed in accordance with generally accepted accounting principles in effect on the date of original issue of the Securities of the Third Series;

" **Gross Interest Expense** " means for any period, the interest expense on indebtedness of the Company and its consolidated subsidiaries minus any interest expense associated with intangible transition debt;

" **Independent Administrator** " shall mean, initially, Global Securitization Services, LLC, as Administrator under the Compliance Administration Agreement, and its successors in such capacity from time to time.

" **Interest Coverage Ratio** " means the ratio of (i) the sum of Funds from Operation plus Gross Interest Expense to (ii) Gross Interest Expense;

" **Noncompliance Notice** " shall mean a notice from the Independent Administrator as contemplated by Section 11(a) of the Compliance Administration Agreement.

" **Rating Agency** " shall mean any of Fitch, Inc. ("Fitch"), Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's, a Division of The McGraw-Hill Companies ("S&P"), and, in each case, its respective successors and assigns, or absent a successor to any such Rating Agency, or if such entity shall cease to rate the Company Senior Debt, such other nationally recognized statistical rating organization as may be selected by the Company and designated a Rating Agency with respect to the Securities of the Third Series. Notwithstanding any provision of the Indenture, if any Rating Agency ceases to exist or to rate the Company Senior Debt, the Company may, but shall not be required to, so designate another nationally recognized statistical rating organization as a Rating Agency with respect to the Securities of the Third Series.

" **Rating Agency Confirmations** " shall mean written evidence of the ratings on the Company Senior Debt of each of the three Rating Agencies; provided that if any of such Rating Agencies ceases to exist or to rate the Company Senior Debt, "Rating Agency Confirmations" shall mean the written evidence of the ratings on the Company Senior Debt by any remaining Rating Agency or Rating Agencies.

" **Restricted Payment** " shall have the meaning set forth in Section 102; and

" **Threshold Rating** " shall mean, A- in the case of Fitch, A3 in the case of Moody's, and A- in the case of S&P, or, in each case, the equivalent rating if any such Rating Agency shall change its rating designations.

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SECTION 107.Satisfaction and Discharge. The Company hereby agrees that, if the Company shall make any deposit of money and/or Eligible Obligations with respect to any Securities of the Third Series, or any portion of the principal amount thereof, as contemplated by Section 801 of the Indenture, the Company shall not deliver an Officer's Certificate described in clause (z) in the first paragraph of said Section 801 unless the Company shall also deliver to the Trustee, together with such Officer's Certificate, either:

(a)an instrument wherein the Company, notwithstanding the satisfaction and discharge of its indebtedness in respect of such Securities, shall retain the obligation (which shall be absolute and unconditional) to irrevocably deposit with the Trustee or Paying Agent such additional sums of money, if any, or additional Eligible Obligations (meeting the requirements of Section 801), if any, or any combination thereof, at such time or times, as shall be necessary, together with the money and/or Eligible Obligations theretofore so deposited, to pay when due the principal of and premium, if any, and interest due and to become due on such Securities or portions thereof, all in accordance with and subject to the provisions of said Section 801; provided, however, that such instrument may state that the obligation of the Company to make additional deposits as aforesaid shall be subject to the delivery to the Company by the Trustee of a notice asserting the deficiency accompanied by an opinion of an in dependent public accountant of nationally recognized standing, selected by the Trustee, showing the calculation thereof (which opinion shall be obtained at the expense of the Company); or

(b)an Opinion of Counsel to the effect that the Holders of such Securities, or portions of the principal and amount thereof, will not recognize income, gain or loss for United States federal income tax purposes as a result of the satisfaction and discharge of the Company's indebtedness in respect thereof and will be subject to United States federal income tax on the same amounts, at the same times and in the same manner as if such satisfaction and discharge had not been effected.

SECTION 108.Trustee to Hold Class A Bonds In New York. So long as any Securities of the Third Series remain Outstanding, the Trustee shall hold in the State of New York all Class A Bonds delivered to and to be held by it pursuant to Sections 1602 and 1701 of the Indenture; provided that the Trustee may hold such Class A Bonds in another jurisdiction if it receives an Opinion of Counsel to the effect that the perfection and priority of the security interest, if any, created by the last sentence of such Section 1701 will continue in such other jurisdiction and notifies the Company of such change in jurisdiction.

ARTICLE TWO.

Miscellaneous Provisions

SECTION 101. This Supplemental Indenture No. 2 is a supplement to the Original Indenture. As supplemented by this Supplemental Indenture No. 2, the Indenture is in all respects ratified, approved and confirmed, and the Original Indenture and this Supplemental Indenture No. 2 shall together constitute the Indenture.

SECTION 102. The recitals contained in this Supplemental Indenture No. 2 shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness and makes no representations as to the validity or sufficiency of this Supplemental Indenture No. 2.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture No. 2 to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first written above.

PPL ELECTRIC UTILITIES CORPORATION
By /s/ James E. Abel
Name:James E. Abel
Title:Treasurer

Attest:

/s/ Diane M. Koch

Assistant Secretary

JPMORGAN CHASE BANK
By /s/ Alfia Monastra
Name:Alfia Monastra

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Title:Vice President

Attest:

/s/ Taeko Fukaishi

Taeko Fukaishi
Assistant Vice President

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On this 12th day of February, 2003, before me, a notary public, the undersigned, personally appeared James E. Abel, who acknowledged himself to be the Treasurer of PPL ELECTRIC UTILITIES CORPORATION, a corporation of the Commonwealth of Pennsylvania and that he, as such Treasurer, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as Treasurer.

In witness whereof, I hereunto set my hand and official seal.

/s/ Susan Fields
Notary Public
Susan Fields
NOTARY PUBLIC, State of New York
No. 31-4980055
Qualified in New York County
Commission Expires April 8, 2003

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On this 12th day of February, 2003, before me, a notary public, the undersigned, personally appeared Alfia Monastra, who acknowledged herself to be a Vice President of JPMORGAN CHASE BANK, a corporation and that she, as such Vice President, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by herself as Vice President.

In witness whereof, I hereunto set my hand and official seal.

JAMES M. FOLEY NO. 01FO6348400

Notary Public, State of New York By: /s/ James M. Foley
Qualified in New York County Notary Public
My Commission Expires Aug. 31, 2006

JPMorgan Chase Bank, hereby certifies that its precise name and address as Trustee hereunder are:

JPMorgan Chase Bank
Institutional Trust Services
4 New York Plaza, 15 th Floor
New York, New York 10004
Attn: International/Project Finance Group

JPMORGAN CHASE BANK

By: /s/ Alfia Monastra
Vice President

Exhibit 10(d)

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$100,000,000
CREDIT AGREEMENT
dated as of October 31, 2002
between
PPL INVESTMENT CORPORATION, as the Lender
and
PPL MONTANA, LLC, as the Borrower

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CREDIT AGREEMENT (this "Agreement") dated as of October 31, 2002 between PPL INVESTMENT CORPORATION, a Delaware corporation (the "Lender"), and PPL MONTANA, LLC, a Delaware limited liability company (the "Borrower").

The Borrower has requested the Lender, and the Lender has agreed, to provide a credit facility to the Borrower in an aggregate principal amount of up to $100,000,000 for the purpose and on the terms and conditions set out in this Agreement.

ARTICLE I
DEFINITIONS

Section 1.01 Definitions . All capitalized terms used in this Agreement which are not otherwise defined herein or therein shall have the respective meanings set forth below.

" Affiliates " means, with respect to any Person, any other Person who is directly or indirectly controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise.

" Agreement " means this Credit Agreement, as amended, restated, supplemented or modified from time to time.

" Applicable Percentage " means, for purposes of calculating (i) the applicable interest rate for any day for any Loans, or (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.06(a), the appropriate applicable percentage set forth below corresponding to the then current highest Borrower's Ratings; provided , that, in the event a rating differential of more than one level exists, the Borrower's Ratings shall be deemed to be one level above the lower of the two ratings:

	Borrower's Ratings (S&P/Moody's)	Applicable Percentage for Commitment Fee	Applicable Percentage for Loans
Category A:	A-/A3 or higher	.150%	.750%
Category B	BBB+/Baa1	.175%	.875%
Category C:	BBB/Baa2	.200%	1.125%
Category D:	BBB-/Baa3	.275%	1.500%
Category E:	BB+/Ba1 or lower or unrated	.325%	1.750%

; provided , further , that if the Borrower elects to convert the Loans to a Term Loan pursuant to Section 2.07(b), each percentage set forth above under "Applicable Percentage for Loans" shall increase by 25 basis points (.25%) from and after the Conversion Date.

" Applicable Utilization Fee " means on any day the appropriate applicable percentage set forth below corresponding to (a) the percentage of the Revolving Commitment outstanding represented by the aggregate Loans outstanding on such day and (b) the then current highest Borrower's Ratings; provided , that, in the event a rating differential of more than one level exists, the Borrower's Ratings shall be deemed to be one level above the lower of the two ratings:

	Ratings (S&P/Moody's)	Usage $\geq$ 33% of Revolving Commitment
Category A	A-/A3 or higher	.0875%
Category B	BBB +/Baa1	.100%
Category C	BBB/Baa2	.1125%
Category D	BBB -/Baa3	.1375%
Category E	BB +/Ba1 or lower or unrated	.1875%

; provided , further , that if the Borrower elects to convert the outstanding Revolving Loans to a Term Loan pursuant to Section 2.07(b), the Applicable Utilization Fee in effect from time to time will be due and payable by the Borrower from and after the Conversion Date without regard to the percentage of the Revolving Commitment represented by the aggregate Loans outstanding from time to time.

" Asset Sale " shall mean any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

" Availability Period " means the period from and including the Closing Date to but excluding the Revolving Termination Date.

" Bankruptcy Code " means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

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" Borrower " is defined in the introductory paragraph of this Agreement.

" Borrower's Rating " means the senior unsecured long-term debt rating of the Borrower from Moody's or S&P.

" Borrowing " means one or more Loans made by the Lender on a single date and having a single Interest Period.

" Business Day " means any day except a Saturday, Sunday or other day on which commercial banks in Allentown, Pennsylvania and New York, New York are authorized by law to close.

" Capital Lease " means any lease of property which, in accordance with GAAP, should be capitalized on the lessee's balance sheet.

" Capital Lease Obligations " means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

" Change of Control " means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the SEC under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding Voting Stock of PPL Montana Holdings, LLC or its successors or (ii) the failure at any time of PPL Montana Holdings, LLC or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

" Closing Date " means the date hereof.

" Commitment " means the commitment of the Lender to make Revolving Loans under Section 2.01 of this Agreement and to convert Revolving Loans into a Term Loan pursuant to Section 2.07(b) of this Agreement.

" Commitment Fee " has the meaning set forth in Section 2.06(a).

" Consolidated Capitalization " shall mean the sum of, without duplication, (A) the Consolidated Debt of the Borrower, and (B) the consolidated shareowners' equity (determined in accordance with GAAP) of the common, preference and preferred stockholders of the Borrower and minority interests recorded on the Borrower's consolidated financial statements (excluding therefrom the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Statement No. 133 in connection with forward contracts, futures contracts or other derivatives or commodity hedging agreements for the future delivery of electricity or capacity), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareholder equity attributable to assets securing Non-Recourse Debt.

" Consolidated Cash Interest Expense " means, for any period, the amount of Consolidated Interest Expense actually paid in cash.

" Consolidated Debt " means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition Consolidated Debt of the Borrower shall exclude Non-Recourse Debt.

" Consolidated Funds From Operations " means, for any period (a) Consolidated Net Income for such period, plus (b) Consolidated Interest Expense, plus (c) the amount of each non-cash item added to net income in determining Consolidated Operating Cash Flow for such period (including, without limitation, any non-cash item of expense, charge, provision or loss, but excluding any amounts added in respect of changes in current asset accounts and current liability accounts), minus (d) the amount of each non-cash item subtracted from net income in determining Consolidated Operating Cash Flow for such period (including, without limitation, any non-cash item of revenue, gain or income, but excluding any amounts subtracted in respect of changes in current asset accounts and current liability accounts).

" Consolidated Interest Expense " means, for any period, the gross interest expense (including, without limitation, that attributable to Capital Leases Obligations or a Synthetic Lease) of the Borrower and its Consolidated Subsidiaries determined on a consolidated basis for such period. For purposes of the foregoing, gross interest expense shall be determined after giving effect to any net payments made or received by the Borrower with respect to Interest Rate Protection Agreements, but without giving effect to the write-off of expenses associated with the termination of Interest Rate Protection Agreements.

" Consolidated Net Income " means, for any period, the net income (or net loss) of the Borrower and its Consolidated Subsidiaries, determined on a consolidated basis for such period.

" Consolidated Operating Cash Flow " means, for any period, the Borrower's net cash provided (used in) operating activities, as determined in accordance with GAAP and reflected in the Borrower's consolidated statement of cash flows in the Borrower's consolidated financial statements delivered to the Lender pursuant to Section 5.04, and any corresponding measure of net cash provided (used in) operating activities as the Borrower may provide in any future consolidated financial statements to be delivered to the Lender pursuant to Section 5.04.

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" Consolidated Subsidiary " means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

" Conversion Date " means the date selected by the Borrower to convert the outstanding Revolving Loans into a Term Loan pursuant to Section 2.07(b).

" Corporation " means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

" Credit Event " means a Borrowing or the arranging for the issuance, renewal or extension of a Letter of Credit.

" Debt " of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person with respect to deposits or advances of any kind, (iii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iv) all Guarantees by such Person of Debt of others, (v) all Capital Lease Obligations and Synthetic Leases of such Person, (vi) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof) and (vii) all obligations of such Person as an account party in respect of letters of credit and bankers' acceptances; provided , however , that "Debt" of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a "financial" or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

" Default " means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

" Dollars " and the sign "$" means lawful money of the United States of America.

" Environmental Laws " means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

" Environmental Liabilities " means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries, whether vested or unvested, contingent or fixed, actual or potential, which arise under or relate to matters covered by Environmental Laws.

" ERISA " means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

" ERISA Group " means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

" Event of Default " has the meaning set forth in Section 7.01.

" Financial Projections " means (a) any forward looking statement (within the meaning of the Securities Act of 1933 and the rules and regulations thereunder) and (b) any "prospective financial statement, financial forecast or financial projection" (as defined in guidelines published by the American Institute of Certified Public Accountants).

" GAAP " means United States generally accepted accounting principles applied on a consistent basis.

" Governmental Authority " means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

" Guarantee " of or by any person means any obligation, contingent or otherwise, of such person guaranteeing or having the economic effect of guaranteeing any Debt of any other person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or

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to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided , however , that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

" Hazardous Substances " means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

" Indemnitee " has the meaning set forth in Section 8.03(b).

" Interest Period " means, unless otherwise agreed to by the Borrower and the Lender, a period commencing on the first day of each calendar month and ending on the last day of such calendar month; provided , that no Interest Period shall end after the Revolving Termination Date or the Term Loan Maturity Date, as applicable.

" Interest Rate Protection Agreements " means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

" Internal Revenue Code " means the Internal Revenue Code of 1986, as amended, or any successor statute.

" Issuing Lender " has the meaning set forth in Section 3.03.

" Lender " is defined in the introductory paragraph of this Agreement.

" Lender Default " means the failure (which has not been cured) of the Lender to make available any Loan or Letter of Credit which in either case it is obligated to make available under the terms and conditions of this Agreement.

" Lender's Credit Facilities " has the meaning set forth in Section 3.03.

" Letter of Credit " means any letter of credit issued on the Borrower's behalf pursuant to this Agreement.

" Letter of Credit Commitment " means the lesser of (i) $100,000,000 and (ii) the aggregate Revolving Commitment.

" Letter of Credit Fee " has the meaning set forth in Section 2.06(b).

" Letter of Credit Liabilities " means the sum, without duplication, of (i) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time plus (ii) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time.

" Letter of Credit Request " has the meaning set forth in Section 3.02.

" Lien " means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

" Loan " means a loan made by the Lender to the Borrower pursuant to the terms of this Agreement.

" Loan Documents " means this Agreement and the Revolving Notes, collectively.

" London Interbank Offered Rate " means, for any Interest Period, the interest rate for deposits in Dollars for a one-month period which appears on Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days before the first day of such Interest Period; provided , however , if more than one rate is specified on Telerate page 3750, the applicable rate shall be the arithmetic means of all such rates. If for any reason such rate is not available, the term "London Interbank Offered Rate" means for any Interest Period, the rate per annum appearing on Reuters Screen LIBO Page as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days before the first day of such Interest Period for a period of time comparable to such Interest Period; provided , however , that if more than one such rate is specified on Reuters Screen LIBO Page, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason the London interbank offered rate is not available on either Telerate page 3750 or Reuters Screen LIBO Page, the term "London Interbank Offered Rate" means for any Interest Period, the rate per annum at which deposits in Dollars are offered to Wachovia Bank, National Association in the London interbank market at approximately 11:00 a.m. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Loan to which such Interest Period is to apply and for a period of time comparable to such Interest Period.

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" Margin Stock " means "margin stock" as such term is defined in Regulation U.

" Material Adverse Effect " means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under the Loan Documents or (iii) a material adverse effect on the validity or enforceability of the Loan Documents.

" Material Debt " means Debt (other than the Revolving Notes) of the Borrower and/or one or more of its Subsidiaries in a principal or face amount exceeding $40,000,000.

" Material Plan " means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of $25,000,000.

" Moody's " means Moody's Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Lender may select.

" Multiemployer Plan " means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

" Non-Recourse Debt " shall mean Debt that is nonrecourse to the Borrower or any Subsidiary.

" Notice of Borrowing " has the meaning set forth in Section 2.02.

" Notice of Term Loan Conversion " has the meaning set forth in Section 2.07(b).

" Obligations " means:

(i)all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan, fees payable under, or any Revolving Note issued pursuant to, this Agreement;

(ii)all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant this Agreement or any other Loan Document; and

(iii)all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 8.03 hereof or under any other similar provision of any other Loan Document;

together in each case with all renewals, modifications, consolidations or extensions thereof.

" Other Taxes " has the meaning set forth in Section 2.13(b).

" PBGC " means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

" Permitted Business " with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the date hereof, or any business reasonably related thereto.

" Person " means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

" Plan " means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

" Quarterly Date " means the last Business Day of each March, June, September and December.

" Reimbursement Obligations " means at any time all obligations of the Borrower to reimburse the Lender pursuant to Section 3.04 for amounts paid by the Lender to the Issuing Lenders in respect of drawings under Letters of Credit.

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" Revolving " means, when used with respect to (i) the Lender's Commitment, the Lender's Revolving Commitment, as such Revolving Commitment may be reduced from time to time pursuant to Sections 2.07 or 2.08, (ii) a Borrowing, a Borrowing made by the Borrower under Section 2.01, as identified in the Notice of Borrowing with respect thereto, (iii) a Loan, a Loan made under Section 2.01, and (iv) a Revolving Note, a promissory note, substantially in the form of Exhibit A hereto, issued at the request of the Lender evidencing the obligation of the Borrower to repay outstanding Revolving Loans.

" Revolving Outstandings " means at any time, the sum of (i) aggregate principal amount of the outstanding Revolving Loans plus (ii) the aggregate amount of outstanding Letter of Credit Liabilities.

" Revolving Termination Date " means December 31, 2005 (or, if such day is not a Business Day, the next preceding Business Day) or such earlier date upon which the Revolving Commitment shall have been terminated in its entirety in accordance with this Agreement.

" SEC " means the Securities and Exchange Commission.

" S&P " means Standard & Poor's Ratings Group, a division of McGraw Hill, Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Lender may select.

" Special Purpose Subsidiary " means any Wholly-Owned Subsidiary (regardless of the form of organization) of the Borrower formed solely for the purpose of, and which engages in no other activities except those necessary for, effecting financings related to Synthetic Leases.

" Subsidiary " means, any Corporation a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

" Synthetic Lease " means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

" Taxes " has the meaning set forth in Section 2.13(a).

" Term Loan " has the meaning set forth in Section 2.07(b).

" Term Loan Maturity Date " means the date 364 days after the Conversion Date.

" Unfunded Liabilities " means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

" United States " means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

" Voting Stock " means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

" Wholly-Owned Subsidiary " means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors' qualifying shares) are at the time directly or indirectly owned by such Person.

ARTICLE II
THE CREDITS

Section 2.01 Commitment to Lend . The Lender agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to the Borrower pursuant to this Section 2.01 from time to time during the Availability Period in amounts such that the Revolving Outstandings shall not exceed $100,000,000. Each Revolving Borrowing shall be in an aggregate principal amount of $100,000 or any larger multiple of $1,000 (except that any such Borrowing may be in the aggregate amount of the unused Revolving Commitments). Within the foregoing limits, the Borrower may borrow under this Section 2.01, repay, or, to the extent permitted by Section 2.09, prepay, Revolving Loans and reborrow under this Section 2.01.

Section 2.02 Notice of Borrowings . The Borrower shall give the Lender notice (a "Notice of Borrowing") specifying (i) the date of such Borrowing, which shall be a Business Day; and (ii) the aggregate amount of such Borrowing.

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Section 2.03 Irrevocability of Notice; Funding of Loans .

(a) *Irrevocability of Notice* . Upon the Lender's receipt of a Notice of Borrowing, such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) *Funding of Loans* . The Lender shall make available each Borrowing, in Federal or other funds immediately available in Billings, Montana, to the Borrower at its address referred to in Section 7.01 not later than 2:00 p.m. (Allentown, Pennsylvania time) on the date of each Borrowing.

Section 2.04 Noteless Agreement; Evidence of Indebtedness .

(a)The Lender shall maintain an account or accounts evidencing the indebtedness of the Borrower to the Lender resulting from each Loan made by the Lender from time to time, including (i) the amount of each Loan made hereunder and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to the Lender hereunder and (iii) the amount of any sum received by the Lender hereunder from the Borrower.

(b)The entries maintained in the accounts maintained pursuant to paragraph (a) above shall be *prima facie* evidence of the existence and amounts of the Obligations therein recorded; provided , however , that the failure of the Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(c)The Lender may request that its Revolving Loans be evidenced by a Revolving Note. In such event, the Borrower shall prepare, execute and deliver to the Lender a Revolving Note payable to the order of the Lender. Thereafter, the Revolving Loans evidenced by such Revolving Note and interest thereon shall at all times be represented by one or more Revolving Notes payable to the order of the payee named therein (or any assignee), except to the extent that either the Lender or an assignee subsequently returns any such Revolving Note for cancellation and requests that such Loans once again be evidenced as described in paragraph (a) above.

Section 2.05 Interest Rates .

(a) *Interest Rates* . Each Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the London Interbank Offered Rate for such Interest Period plus the Applicable Percentage Loans for such day plus the Applicable Utilization Fee for such day, if any. Such interest shall be payable for each Interest Period on the twentieth (20 th) Business Day of the immediately following Interest Period. Any overdue principal of or interest on any Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for such day plus (C) the Applicable Utilization Fee, if any.

(b) *Determination and Notice of Interest Rates* . The same interest rate shall apply to all outstanding Loans during an Interest Period. The Lender shall determine the interest rate applicable to all Loans during each Interest Period two Business Days before the first day of such Interest Period. The Lender shall give prompt notice to the Borrower of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any such notice shall, without the necessity of the Lender so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Lender shall give prompt notice to the Borrower of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.06 Fees .

(a) *Commitment Fee* . The Borrower shall pay to the Lender a fee (the "Commitment Fee") for each day at a rate per annum equal to the Applicable Percentage for the Commitment Fee for such day. The Commitment Fee shall accrue from and including the Closing Date to but excluding the last day of the Availability Period on the amount by which the Revolving Commitment exceeds the sum of its Revolving Outstandings on such day, and shall be payable on each Quarterly Date and on the Revolving Termination Date. Any Commitment Fee paid hereunder shall not be refundable under any circumstances.

(b) *Letter of Credit Fees* . The Borrower shall pay to the Lender a fee (the "Letter of Credit Fee") for each day at a rate per annum equal to the Applicable Percentage for the Letter of Credit Fee for such day plus the Applicable Utilization Fee for such day, if any. The Letter of Credit Fee shall accrue from and including the Closing Date to but excluding the last day of the Availability Period on the aggregate amount available for drawing under any Letters of Credit outstanding on such day. In addition, the Borrower shall pay to the Lender a fee (the "Fronting Fee") in respect of each Letter of Credit arranged for issuance by the Lender computed at the rate of .125% per annum on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and upon the first day after the Revolving Termination Date upon which no Letters of Credit remain outstanding. In addition, the Borrower agrees to pay to the Lender, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which the Lender pays to the applicable Issuing Lender in accordance with

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the Lender's Credit Facilities.

(c) *Payments*. Except as otherwise provided in this Section 2.06, accrued fees under this Section 2.06 in respect of Loans and Letter of Credit Liabilities shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Loans and Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.07 Adjustments of Commitments.

(a) *Optional Termination or Reductions of Commitments*. The Borrower may, upon at least three Business Days' notice to the Lender, (i) terminate the Revolving Commitment, if there are no Revolving Outstandings at such time or (ii) reduce from time to time by an aggregate amount of $5,000,000 or any larger multiple of $1,000,000, the amount by which the Revolving Commitment exceeds the Revolving Outstandings. If the Revolving Commitment is terminated in its entirety, all accrued fees shall be payable on the effective date of such termination.

(b) *Optional Conversion to Term Loan*. At any time on or within 10 days of the Revolving Termination Date when Revolving Loans are outstanding, at the Borrower's option upon written notice (a "Notice of Term Loan Conversion") to the Lender, the Borrower may elect to convert the then outstanding aggregate principal amount of Revolving Loans hereunder to a term loan (the "Term Loan"). The Notice of Term Loan Conversion shall (i) expressly state the date on which such conversion shall occur (such date being the "Conversion Date"), which date shall be a Business Day occurring on or before the Revolving Termination Date, (ii) be irrevocable once given and (iii) constitute a representation and warranty by the Borrower that the conditions contained in Section 5.01(b), (c) and (d) have been satisfied as of the date of such Notice of Term Loan Conversion and as of the Conversion Date, prior to and after giving effect to any such conversion. From and after the Conversion Date, (i) the Borrower's option to borrow Revolving Loans hereunder shall terminate, (ii) the Revolving Commitment shall be reduced to zero, (iii) the outstanding principal balance of all Revolving Loans shall convert to a Term Loan which shall be due and payable on the earlier of (a) the Term Loan Maturity Date and (b) the date on which all Loans shall become due and payable under Article VII and (iv) all references in this Agreement to "Revolving Loans" and "Revolving Notes" shall be deemed to be references to such Revolving Loans and the related Revolving Notes as so converted into a Term Loan, in each case as the context requires.

Section 2.08 Maturity of Loans; Mandatory Prepayments.

(a) *Scheduled Repayments and Prepayments of Loans; Overline Repayments*.

(i)The Revolving Loans shall mature on the Revolving Termination Date or the Term Loan Maturity Date, as applicable, and any Revolving Loans or Letter of Credit Liabilities then outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable.

(ii)If on any date the Revolving Outstandings exceed the Revolving Commitment, the Borrower shall prepay, and there shall become due and payable (together with accrued interest thereon), such date an aggregate principal amount of Loans equal to such excess. If the outstanding Revolving Loans have been repaid in full or the Revolving Termination Date shall have occurred and any Letter of Credit Liabilities remain outstanding, the Borrower shall cash collateralize any Letter of Credit Liabilities by depositing in a cash collateral account established and maintained (including the investments made pursuant thereto) by the Lender pursuant to a cash collateral agreement in form and substance satisfactory to the Lender such amounts as are necessary so that, after giving effect to the repayment of Revolving Loans and the cash collateralization of Letter of Credit Liabilities pursuant to this subsection, the aggregate Revolving Outstandings do not exceed the aggregate amount of the Revolving Commitments. In determining Revolving Outstandings for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that they are cash collateralized as contemplated by this Section 2.08(a)(ii).

Section 2.09 Optional Prepayments and Repayments. The Borrower may prepay any Borrowing, in each case in whole or in part at any time, or from time to time.

Section 2.10 General Provisions as to Payments. The Borrower shall make each payment of principal of and interest on the Loans and fees hereunder not later than 5:00 p.m. (Allentown, Pennsylvania time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in Allentown, Pennsylvania, to the Lender at its address referred to in Section 8.01. Whenever any payment of principal of or interest on Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

Section 2.11 Funding Losses. If the Borrower makes any payment of principal with respect to any Loan pursuant to the terms and provisions of this Agreement on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.05(b), or if the Borrower fails to borrow, convert or prepay any Loan after notice has been given in accordance with the provisions of this Agreement, the Borrower shall reimburse the Lender within 15 days after demand for any resulting loss or expense incurred by it, including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of

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margin for the period after any such payment or failure to borrow or prepay; provided, that the Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.12 Computation of Interest and Fees. All interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (excluding the first day but including the last day).

Section 2.13 Taxes.

(a) *Payments Net of Certain Taxes*. Any and all payments by the Borrower to the Lender or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income of, and gross receipts, franchise or similar taxes imposed on, the Lender by the jurisdiction (or subdivision thereof) under the laws of which the Lender is organized or in which its principal executive office is located, and (ii) any United States withholding tax imposed on such payments (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to the Lender, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.13(a)) the Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) *Other Taxes*. In addition, the Borrower agrees to pay any and all present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to any Loan Document or from the execution, delivery, registration or enforcement of, or otherwise with respect to, any Loan Document (collectively, "Other Taxes").

(c) *Indemnification*. The Borrower agrees to indemnify the Lender for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.13(c)), whether or not correctly or legally asserted, paid by the Lender and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by the Lender seeking indemnification pursuant to this Section 2.13(c). This indemnification shall be paid within 15 days after the Lender makes demand therefor.

(d) *Refunds or Credits*. If the Lender receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.13, it shall within 15 days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.13 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of the Lender and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of the Lender, the amount paid over to the Borrower (plus penalties, interest or other charges) to the Lender in the event the Lender is required to repay such refund or credit to such taxation authority.

ARTICLE iii
Letters of Credit

Section 3.01 Letters of Credit. The Lender agrees, on the terms and conditions set forth in this Agreement, to arrange for the issuance of Letters of Credit from time to time before the 5th day prior to the Revolving Termination Date for the account, and upon the request, of the Borrower and in support of such obligations of the Borrower that are acceptable to the Lender; provided, that, immediately after each Letter of Credit is issued, (A) the aggregate amount of the Letter of Credit Liabilities shall not exceed the Letter of Credit Commitment and (B) the Revolving Outstandings shall not exceed the Revolving Commitment.

Section 3.02 Method of Issuance of Letters of Credit. The Borrower shall give the Lender notice (a "Letter of Credit Request") of the requested issuance or extension of a Letter of Credit prior to 5:00 p.m. (Allentown, Pennsylvania time) on the Business Day immediately preceding the proposed date of the issuance or extension of Letters of Credit (or such shorter period as may be agreed by the Lender in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit and shall be subject to the same conditions as the original issuance of such Letter of Credit. No Letter of Credit shall have a term of more than one year; provided, that no Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Revolving Termination Date.

Section 3.03 Conditions to Issuance of Additional Letters of Credit. Any Letters of Credit shall be issued by the lenders (the "Issuing Lenders") under Lender's credit facilities (the "Lender's Credit Facilities"), and in addition to any terms and conditions set forth in this Agreement, the issuance of any such Letters of Credit shall be subject to the terms and conditions of the Lender's Credit Facilities. Lender shall

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have no obligation to arrange for the issuance of any Letter of Credit hereunder or to maintain any Letter of Credit if it is unable for any reason to obtain such Letter of Credit from the Issuing Lenders under the Lender's Credit Facilities or if it is unable to maintain any such Letter of Credit in accordance with the Lender's Credit Facilities (including if any such facility is terminated). In addition, the Lender's obligation to arrange for the issuance by the Issuing Lenders of any Letter of Credit shall also be subject to the conditions precedent that (i) the Borrower shall have executed and delivered such instruments and agreements relating to such Letter of Credit as the Lender and the Issuing Lenders shall have reasonably requested and (ii) the Borrower shall have confirmed on the date of (and after giving effect to) such issuance that (A) the aggregate amount of all Letter of Credit Liabilities will not exceed the Letter of Credit Commitment and (B) the aggregate Revolving Outstandings will not exceed the Revolving Commitment.

Section 3.04 Reimbursement Obligations. The Borrower understands that the Lender is obligated under the Lender's Credit Facilities to irrevocably and unconditionally reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit, together with any and all reasonable charges and expenses which the Issuing Lender may pay or incur relative to such drawing and certain interest amounts. The Borrower agrees to reimburse the Lender for any such amounts paid by the Lender to the applicable Issuing Lender at or before 5:00 p.m. (Allentown, Pennsylvania time) on the date the Lender reimburses the Issuing Lender. The Borrower shall also indemnify the Lender for any and all damages incurred by the Lender in connection with any Letter of Credit. In addition, the Borrower agrees to pay to the Lender interest, payable on demand, on any and all amounts not paid by the Borrower to the Lender when due under this Section 3.04, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at a rate per annum equal to the sum of 2% plus the rate applicable to Loans for such day. Each payment to be made by the Borrower pursuant to this Section 3.04 shall be made to the Lender in Federal or other funds immediately available to it at its address referred to Section 8.01.

Section 3.05 Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.04 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

(a)any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;

(b)any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;

(c)the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);

(d)the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), the Lender, any Issuing Lender or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;

(e)any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(f)payment under a Letter of Credit against presentation to the Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided , that the relevant Issuing Lender's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of such Issuing Lender; or

(g)any other act or omission to act or delay of any kind by the Lender or any Issuing Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Borrower's obligations hereunder.

ARTICLE IV
CONDITIONS TO CREDIT EVENTS

Section 4.01 Conditions to All Credit Events . The obligation of the Lender to make a Loan on the occasion of any Borrowing, and the obligation of the Lender to arrange for the issuance of any Letter of Credit, is subject to the satisfaction of the following conditions:

(a)receipt by the Lender of a Notice of Borrowing as required by Section 2.02 or a Letter of Credit Request as required by Section 3.02, as applicable;

(b)the fact that, immediately before and after giving effect to such Borrowing, no Default or Event of Default shall have occurred and be continuing;

(c)the fact that the representations and warranties of the Borrower contained in the Loan Documents shall be true and correct on and as of the

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date of such Credit Event;

(d)since December 31, 2001, there shall have been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, which materially adversely affects the ability of the Borrower to perform any of its obligations under the Loan Documents; and

(e)receipt by the Lender of such other assurances, certificates, documents, consents or opinions as the Lender may reasonably request, in each case in form and substance satisfactory to the Lender.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b), (c) and (d) of this Section.

ARTICLE V
REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01 Status . The Borrower is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and has the limited liability company authority to make and perform each Loan Document.

Section 5.02 Authority; No Conflict . The execution, delivery and performance by the Borrower of each Loan Document have been duly authorized by all necessary limited liability company action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its limited liability company agreement, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party.

Section 5.03 Legality; Etc . Each Loan Document (other than the Revolving Notes) constitutes the legal, valid and binding obligation of the Borrower, and the Revolving Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04 Financial Condition .

(a) *Audited Financial Statements* . The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2001 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by an independent certified public accounting firm reasonably acceptable to Lender, copies of which have been delivered to the Lender, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower as of such date and its consolidated results of operations and cash flows for such fiscal year.

(b) *Interim Financial Statements* . The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of September 30, 2002 and the related unaudited consolidated statements of income and cash flows for the three months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower as of such date and its consolidated results of operations and cash flows for such three-month period (subject to normal year-end audit adjustments).

(c) *Material Adverse Change* . Since December 31, 2001 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under the Loan Documents.

Section 5.05 Rights to Properties . The Borrower and its Subsidiaries have good and valid fee, leasehold, easement or other right, title or interest in or to all the properties necessary to the conduct of their business as conducted on the date hereof and as presently proposed to be conducted, except to the extent the failure to have such rights or interests would not have a Material Adverse Effect.

Section 5.06 Litigation . Except as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2001 or in any subsequent Form 10-Q or 8-K Report or otherwise furnished in writing to the Lender, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which, if adversely determined, would materially and adversely affect the ability of the Borrower to perform any of its obligations under the Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of the Loan Documents.

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Section 5.07 No Violation . No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulation U or X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.08 ERISA . Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.09 Governmental Approvals . No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of the Loan Documents, except such authorizations, consents and approvals as have been obtained prior to the Closing Date and are in full force and effect.

Section 5.10 Investment Company Act . The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 5.11Public Utility Holding Company Act . The Borrower is not a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

Section 5.12 Tax Returns and Payments . The Borrower and each of its Subsidiaries has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or its Subsidiaries, as the case may be, shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.13 Compliance with Laws . To the knowledge of the Borrower or any of its Subsidiaries, the Borrower and each of its Subsidiaries is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under the Loan Documents.

Section 5.14 No Default . No Default or Event of Default has occurred and is continuing.

Section 5.15 Environmental Matters .

(a)Except (i) as disclosed in or contemplated by the Borrower's Form 10-K Report to the SEC for the year ended December 31, 2001 or in any subsequent Form 10-Q or 8-K Report or otherwise furnished to the Lender in writing, or (ii) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could result from the matters referred to in clauses (a) through (c), inclusive, would not reasonably be expected to result in a Material Adverse Effect, to the Borrower's or any of its Subsidiaries' knowledge:

(i)no notice, notification, citation, summons, complaint or order has been issued, no complaint has been filed, no penalty has been assessed nor is any investigation or review pending or threatened by any governmental or other entity with respect to any (A) alleged violation by the Borrower or any of its Subsidiaries of any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii)no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii)no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

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(b)To the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

ARTICLE VI
COVENANTS

The Borrower agrees that so long as the Lender has any Commitment hereunder or any amount payable hereunder or under any Revolving Note remains unpaid:

Section 6.01 Information . The Borrower will deliver or cause to be delivered to the Lender:

(a) *Annual Financial Statements* . Within 120 days after the end of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) *Quarterly Financial Statements* . Within 60 days after the end of each of the first three quarters of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) *Officer's Certificate* . Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Sections 6.12 and 6.13 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default or Event of Default and, if any Default or Event of Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) *Default* . Forthwith upon acquiring knowledge of the occurrence of any Default or Event of Default, a certificate of any vice president, the treasurer or the controller of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) *Change in Borrower's Ratings* . Upon the president, any vice president, the treasurer, assistant treasurer or controller of the Borrower obtaining knowledge of any change in Borrower's Rating, a notice of such Borrower's Rating after giving effect to such change.

(f) *Securities Laws Filing* . Within 120 days after the end of each fiscal year, a copy of any Form 10-K Report to the SEC and within 60 days after the end of each of the first three quarters in each fiscal year, a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) *ERISA Matters* . If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a lien or the posting of a bond or other security, a copy of such notice, a certificate of the chief accounting officer of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) *Other Information* . From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or of any of its Subsidiaries as the Lender may reasonably request.

Section 6.02 Maintenance of Property; Insurance .

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(a) *Maintenance of Properties* . The Borrower will keep, and will cause each of its Subsidiaries to keep, all property useful and necessary in their respective businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) *Insurance* . The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower and its Subsidiaries operate.

Section 6.03 Conduct of Business and Maintenance of Existence . The Borrower will (i) continue, and will cause each of its Subsidiaries to continue, to engage only in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (ii) except as otherwise permitted in Section 6.08, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective limited liability company (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04 Compliance with Laws, Etc . The Borrower will comply, and will cause each of its Subsidiaries to comply, with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05 Books and Records . The Borrower (i) will keep, and will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (ii) will permit representatives of the Lender to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided , that, the rights created in this Section 5.05 to "visit", "inspect", "discuss" and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Lender agrees in writing to keep such matters confidential.

Section 6.06 Use of Proceeds . The proceeds of the Loans made under this Agreement will be used by the Borrower for general corporate purposes. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U.

Section 6.07 Restriction on Liens . The Borrower will not, nor will it permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Lien upon or with respect to any property or assets of any kind (real or personal, tangible or intangible) of the Borrower or any such Subsidiary (including, without limitation, their Voting Stock), except:

(a)Liens for taxes, assessments or governmental charges or levies not yet due or which are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books;

(b)Liens imposed by law, such as carriers', landlords', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure payment of obligations not more than 45 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books;

(c)Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;

(d)easements (including, without limitation, reciprocal easement agreements and utility agreements), rights-of-way, covenants, consents, reservations, encroachments, variances and other restrictions, charges or encumbrances (whether or not recorded) affecting the use of real property;

(e)judgment Liens arising from judgments which secure payment of legal obligations that would not constitute a Default under Section 7.01;

(f)any vendor's Liens, purchase money Liens or any other Lien on any property or asset acquired by the Borrower or any of its Subsidiaries after the date hereof existing on any such property or asset at the time of acquisition thereof (and not created in anticipation thereof); provided , that, in any such case no such Lien shall extend to or cover any other asset of the Borrower or such Subsidiaries, as the case may be;

(g)Liens, deposits and/or similar arrangements to secure the performance of bids, tenders or contracts (other than contracts for borrowed money), public or statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business by the Borrower or any of its Subsidiaries, including Liens to secure obligations under agreements relating to the

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purchase and sale of any commodity (including power purchase and sale agreements, any commodity hedge or derivative regardless of whether any such transaction is a "financial" or "physical transaction");

(h)Liens on assets of the Borrower and its Subsidiaries arising out of obligations or duties to any municipality or public authority with respect to any franchise, grant, license, permit or certificate.

(i)rights reserved to or vested in any municipality or public authority to control or regulate any asset of the Borrower or any of its Subsidiaries or to use such asset in a manner which does not materially impair the use of such asset for the purposes for which it is held by the Borrower or any of its Subsidiaries;

(j)irregularities in or deficiencies of title to any asset which do not materially adversely affect the use of such property by the Borrower or any of its Subsidiaries in the normal course of its business;

(k)any Lien on any property or asset of any corporation or other entity existing at the time such corporation or entity is acquired, merged or consolidated or amalgamated with or into the Borrower or any of its Subsidiaries and not created in contemplation of such event;

(l)any Lien on any asset securing Debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring, constructing or improving such asset; provided , that any such Lien attaches to such asset, solely to extent of the value of the obligation secured by such Lien, concurrently with or within 180 days after the acquisition, construction or improvement thereof:

(m)any Liens in connection with the issuance of tax-exempt industrial development or pollution control bonds or other similar bonds issued pursuant to Section 103(b) of the Internal Revenue Code of 1986, as amended, to finance all or any part of the purchase price of or the cost of constructing, equipping or improving property;

(n)rights of lessees arising under leases entered into by the Borrower or any of its Subsidiaries as lessor, in the ordinary course of business;

(o)any Liens on or reservations with respect to governmental and other licenses, permits, franchises, consents and allowances; any Liens on patents, patent licenses and other patent rights, patent applications, trade names, trademarks, copyrights, claims, credits, choses in action and other intangible property and general intangibles including, but not limited to, computer software;

(p)any Liens on automobiles, buses, trucks and other similar vehicles and movable equipment; marine equipment; airplanes, helicopters and other flight equipment; and parts, accessories and supplies used in connection with any of the foregoing;

(q)any Liens on furniture and furnishings; and computers and data processing, data storage, data transmission, telecommunications and other facilities, equipment and apparatus, which, in any case, are used primarily for administrative or clerical purposes;

(r)Liens securing letters of credit entered into in the ordinary course of business;

(s)Liens in addition to those permitted by clauses (a) through (s) on the property or assets of a Special Purpose Subsidiary arising in connection with the lease of such property or assets through one or more other Synthetic Lease financings;

(t)Liens by any Subsidiary of the Borrower for the benefit of the Borrower or any other Subsidiary;

(u)Liens on property which is the subject of a Capital Lease Obligation designating the Borrower or any of its Subsidiaries as lessee and all right, title and interest of the Borrower or any of its Subsidiaries in and to such property and in, to and under such lease agreement, whether or not such lease agreement is intended as a security; provided , that the aggregate fair market value of the obligations subject to such Liens shall not at any time exceed $500,000,000;

(v)Liens on property which is the subject of one or more leases designating the Borrower or any of its Subsidiaries as lessee and all right, title and interest of the Borrower or any of its Subsidiaries in and to such property and in, to and under any such lease agreement, whether or not any such lease agreement is intended as a security;

(w)Liens arising out of the refinancing, extension, renewal or refunding of any Debt or other obligation secured by any Lien permitted by clauses (a) through (w) of this Section; provided , that such Debt or other obligation is not increased and is not secured by any additional assets; and

(x)other Liens on assets or property of the Borrower or any of its Subsidiaries, other than Liens on the Voting Stock of the Borrower in its Subsidiaries, so long as the aggregate value of the obligations secured by such Liens does not exceed the greater of $250,000,000 or 15% of the total consolidated assets of the Borrower and its Consolidated Subsidiaries as of the most recent fiscal quarter of the Borrower for which financial statements are available.

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Section 6.08 Merger or Consolidation . The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (i) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default or Event Default, (ii) the surviving or resulting person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (iii) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting person, as the case may be, are anticipated to come from the utility or energy businesses and (iv) the surviving or resulting person, as the case may be, has senior long-term debt ratings from Moody's and S&P as available (or if the ratings of Moody's and S&P are not available, of such other rating agency as shall be acceptable to the Lender) at least equal to each Borrower's Rating at the end of the fiscal quarter immediately preceding the effective date of such consolidation or merger. No Subsidiary will merge or consolidate with any other Person if such Subsidiary is not the surviving or resulting Person, unless such other Person is (a) the Borrower or a successor of the Borrower permitted hereunder or (b) any other Person which is a Wholly-Owned Subsidiary of the Borrower or a successor of the Borrower permitted hereunder.

Section 6.09 Asset Sales . Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not, and shall not permit any of its Subsidiaries to, consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower's most recently ended full fiscal quarter; provided , however , that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower and its Subsidiaries; (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower or its Subsidiaries; (c)if the assets subject to any such Asset Sale are being transferred to a Wholly-Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within 12 months of such Asset Sale, invested or reinvested by the Borrower or any Subsidiary in a Permitted Business, (ii) are used by the Borrower or a Subsidiary to repay Debt of the Borrower or such Subsidiary, or (iii) are retained by the Borrower or its Subsidiaries; or (e) if, prior to any such Asset Sale, Moody's and S&P confirm the then current Borrower Ratings after giving effect to any such Asset Sale.

Section 6.10 Transactions with Affiliates . Neither the Borrower nor any of its Subsidiaries will enter into or permit to exist any arrangement or contract with any of their respective Affiliates unless such arrangement or contract (i) has been approved by a Governmental Authority or (ii) is fair and equitable to the Borrower or its Subsidiaries, as the case may be, and is an arrangement or contract of the kind which would be entered into by a prudent Person in the position of the Borrower or its Subsidiaries, as the case may be, with a Person which is not one of its Affiliates. In making any determination as to fairness, equity and prudence, effect shall be given to orders, rules or regulations or any administrative agency, regulatory authority or other governmental body having jurisdiction over the Borrower or its Subsidiaries.

Section 6.11 Restrictive Agreements . The Borrower will not permit any of its Subsidiaries to enter into or assume any agreement prohibiting or otherwise restricting the ability of any Subsidiary to pay dividends or other distributions on its respective equity and equity equivalents to the Borrower or any of its Subsidiaries.

Section 6.12 Consolidated Debt to Consolidated Capitalization Ratio . The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 65% at any time.

Section 6.13 Cash Interest Coverage Ratio . The Borrower's ratio of Consolidated Funds From Operations to Consolidated Cash Interest Expense shall not be less than 2.0 to 1.0 for the four most recently ended consecutive fiscal quarters of the Borrower (taken as a single accounting period).

Section 6.14 Indebtedness . The Borrower will not permit any of its Subsidiaries to incur, create, assume or permit to exist any Debt of such Subsidiaries except:

(a)Debt owing to the Borrower or another Subsidiary;

(b)Non-Recourse Debt; and

(c)other Debt, the aggregate principal amount of which does not exceed $500,000,000 at any time.

ARTICLE VII
DEFAULTS

Section 7.01 Events of Default . If one or more of the following events (each an "Event of Default") shall have occurred and be continuing:

(a)the Borrower shall fail to pay when due any principal of the Loans or any Reimbursement Obligations; or

(b)the Borrower shall fail to pay when due any interest on the Loans and Reimbursement Obligations, any fee or any other amount payable under any Loan Document for 5 days following the date such payment becomes due hereunder; or

(c)the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(a), (b) or (c), clause (ii) of Sections 6.05,

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and Sections 6.06, 6.08, 6.09, 6.12, 6.13 and 6.14; or

(d)the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d) for 10 days after any such failure; or

(e)the Borrower shall fail to observe or perform any covenant or agreement contained in any Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for 30 days after written notice thereof has been given to the defaulting party by the Lender; or

(f)any representation, warranty or certification made by the Borrower in any Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(g)the Borrower or any Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or

(h)the Borrower or any Subsidiary of the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(i)an involuntary case or other proceeding shall be commenced against the Borrower or any Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower or any Subsidiary under the Bankruptcy Code; or

(j)any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of $25,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of $25,000,000; or

(k)the Borrower or any of its Subsidiaries shall fail within 60 days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $20,000,000, entered against the Borrower or any such Subsidiary that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l)a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Lender may (A) by notice to the Borrower terminate the Commitment, and the Commitment shall thereupon terminate, and (B) by notice to the Borrower declare the Loans (together with accrued interest and accrued and unpaid fees thereon) to be, and the Loans shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower; provided , that, in the case of any Default or any Event of Default specified in clause 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Lender, the Commitment shall thereupon terminate and the Loans (together with accrued interest and accrued and unpaid fees thereon) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

ARTICLE VIII
MISCELLANEOUS

Section 8.01 Notices . Except as otherwise expressly provided herein, all notices and other communications shall have been duly given and shall be effective (i) when delivered, (ii) when transmitted via telecopy (or other facsimile device) to the number set out below, (iii) the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iv) the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or telecopy numbers set forth below, or at such other address as such party may specify by

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written notice to the other party hereto:

if to the Lender:

PPL Investment Corporation
3993 Howard Hughes Parkway, Suite 250
Las Vegas, Nevada 89109
Attention: Christopher J. Monigle
Telephone: 702-866-2202
Facsimile: 702-866-2244

if to the Borrower:

PPL Montana, LLC
303 North Broadway, Suite 400
Billings, Montana 59101
Attention: General Counsel
Telephone: 406-620-6903
Facsimile: 406-869-5149

with a copy to:

PPL Services Corporation
Two North Ninth Street
Allentown, PA 18101-1179
Attention: Treasury Department
Telephone: 610-774-5151
Facsimile: 610-774-5106

Section 8.02 No Waivers; Non-Exclusive Remedies . No failure by the Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided in the Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 8.03 Expenses; Indemnification .

(a) *Expenses* . The Borrower shall pay (i) all out-of-pocket expenses of the Lender, including reasonable attorneys' fees, in connection with the preparation, execution, delivery and administration of the Loan Documents, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) if an Event of Default occurs, all reasonable out-of-pocket expenses incurred by the Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with such Event of Default and restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom.

(b) *Indemnity in Respect of Loan Documents* . The Borrower agrees to indemnify the Lender, its Affiliates and the respective directors, officers, trustees, agents and employees of the foregoing (each an "Indemnitee") and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever, including, without limitation, the reasonable fees and disbursements of counsel, which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened relating to or arising out of the Loan Documents or any actual or proposed use of proceeds of Loans hereunder; provided , that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) *Indemnity in Respect of Environmental Liabilities* . The Borrower agrees to indemnify the Lender and hold the Lender harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Lender in respect of or in connection with any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses and disbursements arising under or related to Environmental Laws that it might have by statute or otherwise against the Lender.

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Section 8.04 **Amendments and Waivers** . Any provision of this Agreement or the Revolving Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Lender.

Section 8.05 **Successors and Assigns** . The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

Section 8.06 **Governing Law** . This Agreement and each Revolving Note shall be governed by and construed in accordance with the internal laws of the State of New York.

Section 8.07 **Counterparts; Integration; Effectiveness** . This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement and the Revolving Notes constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 8.08 **Generally Accepted Accounting Principles** . Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lender; provided , that, if the Borrower notifies the Lender that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Lender notifies the Borrower that it wishes to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Lender.

Section 8.09 **Usage** . The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a)All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b)The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c)References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d)The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e)Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f)Unless the context otherwise requires, whenever any statement is qualified by "to the best knowledge of" or "known to" (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

Section 8.10 **WAIVER OF JURY TRIAL** . THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS

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CONTEMPLATED HEREBY.

[*signature page follows*]

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

PPL INVESTMENT CORPORATION, as the Lender
By: /s/ John R. Yardley
Name: John R. Yardley
Title: Vice President
PPL MONTANA, LLC, as the Borrower
By: /s/ Russell R. Clelland
Name: Russell R. Clelland
Title: Assistant Treasurer

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Exhibit 21(a)
PPL Corporation
Subsidiaries of the Registrant
As of December 31, 2002

Company Name **Business Conducted under Same Name**	**State or Jurisdiction of** **Incorporation/Formation**
PMDC International Holdings, Inc	Delaware
PPL Brunner Island	Delaware

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PPL Capital Funding Inc	Delaware
PPL Electric Utilities Corporation	Pennsylvania
PPL Energy Funding Corporation	Pennsylvania
PPL EnergyPlus, LLC	Pennsylvania
PPL Energy Supply, LLC	Delaware
PPL Generation, LLC	Delaware
PPL Global, LLC	Delaware
PPL Investment Corp.	Delaware
PPL Montana Holdings, LLC	Delaware
PPL Montour, LLC	Delaware
PPL Susquehanna, LLC	Delaware
PPL Transition Bond Company, LLC	Delaware
WPD Investment Holdings Ltd.	United Kingdom

Exhibit 21(b)
PPL Electric Utilities Corporation
Subsidiaries of the Registrant
As of December 31, 2002

Company Name **Business Conducted under Same Name**	**State or Jurisdiction of** **Incorporation/Formation**
PPL Transition Bond Company, LLC	Delaware

Exhibit 10(m)-1

AMENDMENT NO. 1

TO

PPL CORPORATION

DIRECTORS DEFERRED COMPENSATION PLAN

WHEREAS, PP&L, Inc. ("PP&L") adopted the Pennsylvania Power & Light Company Directors Deferred Compensation Plan ("Plan") effective January 26, 1972; and

WHEREAS, PPL Corporation adopted the Plan as amended and restated effective July 1, 2000; and

WHEREAS, the Company desires to further amend the Plan;

NOW, THEREFORE, the Plan is hereby amended as follows:

I.Effective November 1, 2002, Paragraphs 8(c)(i) and (ii) are amended to read:

8. **Payment of Accounts.**

(c) (i) If Participant dies while a Director or before all installments have been paid under paragraph 8(b), payments shall be made within 30 days after Participant's death to one beneficiary designated by Participant in writing in such form and subject to such condition as determined necessary and approved by EBPB. Participant shall have a continuing power to designate a new beneficiary in the event of his death at any time prior to his death by written instrument delivered by Participant to the EBPB without the consent or approval of any person theretofore named as his beneficiary. In the event the designated beneficiary does not survive Participant, payment will be made to an alternate beneficiary designated in writing by Participant. If no such designation is in effect at the time of death of Participant, or if no person so designated shall survive Participant, payment shall be made to Participant's estate.

(ii) Payments will be made to Participant's designated beneficiary or Participant's estate in a single sum.

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II.Except as provided for in this Amendment No. 1, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 1 is executed this 18th day of December, 2002.

EMPLOYEE BENEFIT PLAN BOARD OF
PPL CORPORATION
By: /s/ T. W. Hatten
T. W. Hatten
Chairman
Employee Benefit Plan Board

Exhibit 10(p)

PPL CORPORATION

INCENTIVE COMPENSATION PLAN

EFFECTIVE JANUARY 1, 1987

Amended and Restated Effective January 1, 2003

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PPL CORPORATION

INCENTIVE COMPENSATION PLAN

EFFECTIVE JANUARY 1, 1987

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PPL CORPORATION

INCENTIVE COMPENSATION PLAN

SECTION 1. PURPOSE.

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The purpose of the PPL Corporation Incentive Compensation Plan (the "Plan") is to provide a method whereby officers and other key employees of PPL Corporation, PPL Electric Utilities Corporation and other Affiliated Companies may be awarded additional remuneration in a manner which increases their ownership interest, aligns their interest with that of shareowners and encourages them to remain in the employ of PPL Corporation or an Affiliated Company.

The Plan was originally adopted by PPL Electric Utilities Corporation, effective January 1, 1987, and at that time was named the Pennsylvania Power & Light Company Incentive Compensation Plan. Sponsorship of the Plan is now being assumed by PPL Corporation and the Plan is hereby renamed as the PPL Corporation Incentive Compensation Plan.

SECTION 2. DEFINITIONS.

The following definitions are applicable to the Plan:

(a) **"Affiliated Company" or "Affiliated Companies"** shall mean any parent or subsidiaries of PPL Corporation (or companies under common control with PPL Corporation) which are members of the same controlled group of corporations (within the meaning of Section 1563(a) of the Code) as PPL Corporation or are companies under common control with PPL Corporation (within the meaning of Section 414(c) of the Code).

(b) **"Award"** means, individually or collectively, Options, Restricted Stock or Restricted Stock Unit or other Stock-Based Awards granted hereunder.

(c) **"Beneficiary"** means the beneficiary to be paid Common Stock or Dividend Equivalents, or to whom an Option is to be transferred, on the death of a Participant. The Participant may designate a Beneficiary in writing by filing a beneficiary form with the Administrator. An alternate Beneficiary may also be named. The last form on file with the Administrator shall control. If no Beneficiary or alternate Beneficiary is designated, or if they have predeceased the Participant, then the Beneficiary shall be the participant's estate.

(d) **"Board"** means the Board of Directors of PPL Corporation.

(e) **"Cause"** for termination by PPL Corporation or an Affiliated Company of a Participant's employment means (i) the willful and continued failure by Participant to substantially perform Participant's duties with PPL Corporation or an Affiliated Company (other than any such failure resulting from Participant's incapacity due to physical or mental illness or, if applicable, any such actual or anticipated failure after the issuance of any "Notice of Termination for Good Reason" by the Participant pursuant to any severance agreement between Participant and PPL Corporation or an Affiliated Company) after a written demand for substantial performance is delivered to Participant by the Board, which demand specifically identifies the manner in which the Board believes that Participant has not substantially performed Participant's duties, or (ii) the willful engaging by Participant in conduct which is demonstrably and materially injurious to PPL Corporation or an Affiliated Company, monetarily or otherwise. For purposes of clauses (i) and (ii) of this definition, (x) no act or failure to act, on Participant's part shall be deemed "willful" unless done, or omitted to be done, by Participant not in good faith and without reasonable belief that Participant's act, or failure to act, was in the best interest of PPL Corporation or an Affiliated Company and (y) in the event of a dispute concerning the application of this provision, no claim by PPL Corporation or an Affiliated Company that Cause exists shall be given effect unless PPL Corporation or the Affiliated Company establishes to the Board by clear and convincing evidence that Cause exists.

If at the time of determination, a Participant is employed by an Affiliated Company, for purposes of this definition, the board of directors of such Affiliated Company shall be substituted for the Board.

(f) **"Change in Control"** means the occurrence of any one of the following events: (1) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board of Directors of PPL Corporation and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of PPL Corporation) whose appointment or election by the Board of Directors of PPL Corporation or nomination for election by PPL Corporation's shareowners was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; (2) any Person becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of PPL Corporation representing 20% or more of the combined voting power of PPL Corporation's then outstanding securities entitled to vote generally in the election of directors; (3) there is consummated a merger or consolidation of PPL Corporation or any direct or indirect subsidiary of PPL Corporation with any other corporation or other entity, other than (A) a merger or consolidation which would result in the voting securities of PPL Corporation outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of PPL Corporation or any subsidiary of PPL Corporation, at least 60% of the combined voting power of the securities of PPL Corporation or at least 60% of the combined voting power of the securities of such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of PPL Corporation (or similar transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of securities of PPL

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Corporation (excluding in the securities beneficially owned by such Person any securities acquired directly from PPL Corporation or its Affiliates) representing 20% or more of the combined voting power of PPL Corporation's then outstanding securities; (4) the shareowners of PPL Corporation approve a plan of complete liquidation or dissolution of PPL Corporation; or (5) the Board of Directors of PPL Corporation adopts a resolution to the effect that a "Change in Control" has occurred or is anticipated to occur.

(g) **"Code"** means the Internal Revenue Code of 1986, as may be amended from time to time. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations promulgated thereunder.

(h) **"Committee"** means two or more non-employee directors, unless otherwise determined by the Board, who have been designated by the Board to act as the Committee and qualify as non-employee directors under the Exchange Act and outside directors under Section162(m) of the Code.

(i) **"Common Stock"** means the common stock of PPL Corporation.

(j) **"Date of Grant"** means the date on which the granting of an Award is authorized by the Committee or such later date as may be specified by the Committee in such authorization.

(k) **"Disability"** or **"Disabled"** means the inability of the Participant to perform each and every duty pertaining to the Participant's regular occupation by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than six months.

(l) **"Dividend Equivalents"** means cash compensation paid to a Participant who has received an Award of Restricted Stock Units or Options, generally to be paid in the same amount and at the same time as dividends would be paid if the Participant actually owned the number of shares of Common Stock represented by such Restricted Stock Units or underlying such Options, as applicable. The Committee shall have the discretion to adjust the value of Dividend Equivalents, to reflect changes in law or dividend paying practices of PPL Corporation. The Committee shall also have discretion to award Dividend Equivalents to a Participant who has received Restricted Stock, to reflect changes in law or dividend paying practices of PPL Corporation.

(m) **"Eligible Employee"** means any person employed by PPL Corporation or an Affiliated Company on a regularly scheduled basis during any portion of a period for which an Award can be made and who satisfies all of the requirements of Section 6.

(n) **"Exchange Act"** means the Securities Exchange Act of 1934, as amended from time to time. Reference in this Plan to any section of the Exchange Act shall be deemed to include any amendments or successor provisions to such section and any rules promulgated thereunder.

(o) **"Fair Market Value"** means the average of the high and low sale prices of the Common Stock as reflected in the New York Stock Exchange Composite Transactions on the date as of which Fair Market Value is being determined or, if no Common Stock is traded on the date as of which Fair Market Value is being determined, Fair Market Value shall be the average of the high and low sale prices of the Common Stock as reflected in the New York Stock Exchange Composite Transactions on the next preceding day on which the Common Stock was traded.

(p) **"Good Reason"** for termination of Participant's employment with PPL Corporation or an Affiliated Company by such Participant means the occurrence (without Participant's express written consent) after a Change in Control or after a Potential Change in Control (treating all references to a "Change in Control" in paragraphs (a) through (g), below, as including references to a "Potential Change in Control" to the extent appropriate), of any one of the following acts or failures to act, by PPL Corporation or an Affiliated Company:

(i) the assignment to Participant of any duties inconsistent with Participant's status as an executive officer or key employee of PPL Corporation or an Affiliated Company or a substantial adverse alteration in the nature or status of Participant's responsibilities from those in effect immediately prior to a Change in Control;

(ii) a reduction by PPL Corporation or an Affiliated Company of Participant's annual base salary as in effect immediately prior to date the Change of Control or Potential Change of Control occurs or as the same may be increased from time to time, except that across-the-board decreases uniformly affecting management, key employees and salaried employees of PPL Corporation or an Affiliated Company, or the business unit in which Participant is then employed shall not be treated as Good Reason;

(iii) the relocation of Participant's principal work location to a location more than 30 miles from such work location immediately prior to a Change in Control, or PPL Corporation's or an Affiliated Company's requiring the Participant to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on PPL Corporation's or an Affiliated Company's business to an extent substantially consistent with the Participant's present business travel obligations as in effect immediately prior to the Change in Control;

(iv) the failure by PPL Corporation or an Affiliated Company to pay to Participant any portion of Participant's current compensation or to pay

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to Participant any portion of an installment of deferred compensation under any deferred compensation program of PPL Corporation or an Affiliated Company, within seven (7) days of the date such compensation is due, except for across-the-board compensation deferrals uniformly affecting management, key employees and salaried employees of PPL Corporation or an Affiliated Company, or the business unit in which Participant is then employed;

(v) the failure by PPL Corporation or an Affiliated Company to continue in effect any compensation or benefit plan in which Participant participates immediately prior to a Change in Control which is material to Participant's total compensation, or any substitute plans adopted prior to a Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by PPL Corporation or Affiliated Company to continue Participant's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of Participant's participation relative to other participants, as existed immediately prior to the Change in Control,

(vi) the failure by PPL Corporation or an Affiliated Company to continue to provide Participant with benefits substantially similar to those enjoyed by Participant under any of PPL Corporation's or an Affiliated Company's pension, retirement, savings, life insurance, medical, health and accident, or disability plans in which Participant was participating immediately prior to a Change in Control, except for across-the-board changes to any such plans uniformly affecting all participants in such plans, the taking of any action by PPL Corporation or an Affiliated Company which would directly or indirectly materially reduce any of such benefits or deprive Participant of any material fringe benefit enjoyed by Participant immediately prior to a Change in Control, or the failure by PPL Corporation or an Affiliated Company to provide Participant with the number of paid vacation days to which Participant is entitled on the basis of years of service with PPL Corporation or an Affiliated Company in accordance with PPL Corporation's or an Affiliated Company's normal vacation policy in effect at the time of the Change in Control; or

(vii) any purported termination of the Participant's employment which is not effected in the manner required by any severance agreement between the Participant and PPL Corporation or an Affiliated Company.

Participant's right to terminate his or her employment with PPL Corporation or an Affiliated Company for Good Reason shall not be affected by Participant's incapacity due to physical or mental illness. Participant's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

For purposes of any determination regarding the existence of Good Reason, any claim by the Participant that Good Reason exists shall be presumed correct unless PPL Corporation or an Affiliated Company establishes to the Board by clear and convincing evidence that Good Reason does not exist. If at the time of any such determination, the Participant is employed by an Affiliated Company, such determination shall be made by the board of directors of such Affiliated Company, rather than the Board.

(q) **"Incentive Stock Option"** means an incentive stock option within the meaning of Section 422 of the Code.

(r) **"Option"** or **"Stock Option"** means either an Incentive Stock Option or a nonqualified stock option granted under Section 8 with respect to Common Stock.

(s) **"Other Stock-Based Award"** means an award granted under Section 11.

(t) **"Participant"** means an Eligible Employee who has been granted an Award under the Plan.

(u) **"Performance-Based Award"** means an Other Stock-Based Award granted under Section 11.

(v) **"Person"** shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in sections 13(d) and 14(d) thereof; provided, however, a Person shall not include (1) PPL Corporation or any of its subsidiaries, (2) a trustee or other fiduciary holding securities under an employee benefit plan of PPL Corporation or any of its subsidiaries, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or (4) a corporation owned, directly or indirectly, by the stockholders of PPL Corporation in substantially the same proportions as their ownership of stock of PPL Corporation.

(w) **"Plan"** means the PPL Corporation Incentive Compensation Plan, as amended and restated.

(x) **"Potential Change in Control"** means the occurrence of any one of the conditions set forth in the following clauses: (i) PPL Corporation enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (ii) any Person publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control; (iii) any Person is or becomes the beneficial owner, directly or indirectly, of securities of PPL Corporation representing 5% or more of the combined voting power of PPL Corporation then outstanding securities entitled to vote generally in the election of directors; or (iv) the Board adopts a resolution to the effect that, for purposes of this Plan, a Potential Change in Control has occurred.

(y) **"PPL"** means PPL Electric Utilities Corporation (prior to February 14, 2000, PP&L, Inc.).

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(z) **"PPL Corporation"** means PPL Corporation (prior to February 14, 2000, PP&L Resources, Inc.).

(aa) **"Restricted Stock"** means Common Stock awarded to a Participant under Section 7.

(bb) **"Restricted Stock Unit"** means an award based on the Fair Market Value of Common Stock, payable at a specified future time in a specified number of shares of Common Stock, and dependent on such conditions as the Committee shall determine.

(cc) **"Restriction Period"** means that period of time determined by the Committee pursuant to Section 7B that a Restricted Stock Award or Restricted Stock Unit Award is subject to a restriction on its transfer.

(dd) **"Retirement"** means

(i) for a Participant who is entitled to benefits under the PPL Retirement Plan, termination of employment with PPL Corporation and all of its Affiliated Companies after satisfying the conditions for early retirement, normal retirement or late retirement under such plan; or

(ii) for all other Participants, termination of employment with PPL Corporation and all of its Affiliated Companies after (a) attaining age 65, or (b) after attaining age 50, if the Committee, in its sole discretion determines that such termination constitutes "Retirement" for purposes of this Plan.

(ee) **"Termination"** means a Participant's resignation or discharge from employment with PPL Corporation and all of its Affiliated Companies for any reason other than death, Disability or Retirement.

SECTION 3. EFFECTIVE DATE AND DURATION.

Upon the approval of the predecessor plan by the holders of a majority of the shares of 41/2% Preferred Stock, Series Preferred Stock, Preference Stock and Common Stock of PPL present (either in person or by proxy) at the 1987 Annual Meeting of shareowners, the predecessor plan became effective on January 1, 1987. This Plan was amended and restated effective as of January 1, 1999 upon the approval of the Plan by the holders of a majority of the shares of PPL Corporation Common Stock present (either in person or by proxy) at the 1999 Annual Meeting of Shareowners. Awards of Incentive Stock Options may be made under the Plan for a period of ten years after January 1, 1999. This Plan shall continue in effect until all matters relating to the payment of Awards and the administration of the Plan have been settled. The Plan was amended and restated effective February 14, 2000 to recognize the change in corporate names of PPL Corporation and PPL Electric Utilities Corporation.

SECTION 4. ADMINISTRATION OF THE PLAN.

The Plan shall be administered by the Committee. The Committee shall have full power and authority to make Awards to Eligible Employees pursuant to the provisions of the Plan, to interpret the provisions of the Plan and to supervise the administration of the Plan and to delegate any of the foregoing responsibilities to any Person, who, in its sole discretion, it deems appropriate, provided such delegation is consistent with the requirements of Section 162(m) of the Internal Revenue Code, if applicable. Such person or persons shall be referred to as the "Administrator" herein.

All decisions made by the Committee pursuant to the provisions of the Plan shall be final, conclusive and binding upon all parties affected thereby.

SECTION 5. GRANT OF AWARDS AND LIMITATION OF NUMBER OF SHARES AWARDED.

The Committee may, from time to time, grant Awards to one or more Eligible Employees, provided that: (i) subject to any adjustment pursuant to Section 10G and any limitation pursuant to Section 10H, the maximum number of shares of Common Stock subject to Awards (including Incentive Stock Options) shall not exceed annually 2% of the outstanding Common Stock of PPL Corporation on the first day of each calendar year commencing on and after January 1, 1999; (ii) the maximum number of Options awarded to any single Eligible Employee in any calendar year shall not exceed 1.5 million shares; provided that any portion of such maximum number of shares that has not been granted may be carried over and used in any subsequent year; (iii) to the extent that an Award lapses or is forfeited or the rights of the Participant to whom an Award was granted terminate, any shares of Common Stock subject to such Award shall again be available for the grant of an Award under the Plan; and (iv) shares delivered under the Plan may be authorized and unissued Common Stock, Common Stock held in the treasury of PPL Corporation or Common Stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

SECTION 6. ELIGIBILITY.

A. Covered Employees. Officers and other key employees of PPL Corporation or an Affiliated Company (including officers or employees who are members of the Board or the Board of Directors of PPL Corporation and/or any Affiliated Company, but excluding directors who are not

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officers or employees).

B. Selection of Participants. Subject to the provisions of the Plan, the Committee shall from time to time select from the Eligible Employees those to whom Awards shall be granted and determine the amount of such Award. No officer or employee of PPL Corporation or an Affiliated Company shall have any right to be granted an Award under the Plan.

SECTION 7. RESTRICTED STOCK.

A. **Grants of Restricted Stock or Restricted Stock Units** . An Award of Restricted Stock shall be granted in the form of shares of Common Stock, restricted as provided in this Section 7. An Award of Restricted Stock Units shall be granted as a notification to the Participant that a specified number of shares of Common Stock will be granted at the close of a Restriction Period. The Restricted Stock or Restricted Stock Units shall be issued without the payment of consideration by the Participant. The certificates for the Restricted Stock shall be issued in the name of the Participant to whom the Award is made, shall be retained by PPL Corporation on behalf of the Participant (together with a stock power endorsed in blank) and shall bear a restrictive legend prohibiting the sale, transfer, pledge or hypothecation of the Restricted Stock until the expiration of the Restriction Period. Awards of Restricted Stock made without the issuance of a certificate will be reflected in PPL Corporation's stock register in the appropriate Participant's name and with a notation that the shares are restricted.

The Committee may also impose such other restrictions and conditions on the Restricted Stock or Restricted Stock Units as it deems appropriate.

Upon the issuance to a Participant of Restricted Stock, the Participant shall have the right (i) to vote the Restricted Stock, (ii) to receive cash dividends distributable with respect to such Restricted Stock, and (iii) if granted by the Committee to reflect changes in law or dividend paying practices of PPL Corporation, to receive Dividend Equivalents. Upon issuance to a Participant of Restricted Stock Units, the Participant shall have the right, if granted by the Committee, to receive an Award of Dividend Equivalents, which generally shall provide for payout until the earlier of the time Common Stock is issued under the terms of the Award of Restricted Stock Units, such Award is forfeited or such later time as determined by the Committee in its discretion.

Upon completion of the Restriction Period for Restricted Stock and Restricted Stock Units, all restrictions on the Award will expire and certificates representing the Restricted Stock or Restricted Stock Units will be issued (or, in the case of Awards of Restricted Stock made without the issuance of certificates, the Administrator will cause the PPL Corporation's stock register to reflect the removal of such restrictions). As a condition precedent to the receipt of the above-referenced certificates or stock register entries, the Participant (or the Participant's Beneficiary or personal representative) will agree to make payment to PPL Corporation or an Affiliated Company of the amount of any federal, state or local taxes, payable by the Participant, which are required to be withheld by PPL Corporation or an Affiliated Company with respect to the Award.

B. **Restriction Period** . At the time a Restricted Stock or Restricted Stock Units Award is granted, the Committee shall establish a Restriction Period applicable to such Award which shall be not less than three years. Each Restricted Stock or Restricted Stock Units Award may have a different Restriction Period.

Notwithstanding the other provisions of this Section 7: (i) in the event of a Change in Control, the Restriction Periods on all Restricted Stock or Restricted Stock Units Awards previously granted shall lapse and; (ii) apart from a Change in Control, the Committee is also authorized, in its sole discretion to accelerate the time at which any or all of the restrictions on all or any part of a Restricted Stock or Restricted Stock Units Award shall lapse or to remove any or all of such restrictions whenever the Committee may decide that changes in tax or other laws or other circumstances arising after the granting of a Restricted Stock or Restricted Stock Units Award make such action appropriate; provided, however, that no acceleration or removal of restrictions pursuant to this clause (ii) shall result in payout of Common Stock to the Participant less than six months after the Date of Grant, except pursuant to Section 7C below upon the Termination, death, Disability or Retirement of the Participant. The Committee may, in its discretion, authorize a deferral of stock award gains program which covers any Restricted Stock Units prior to the end of the Restriction Period or any unexercised Options. If the Committee does so authorize such a program, a Participant may defer receipt of Common Stock as permitted under that program.

C. **Forfeiture or Payout of Award** . During the Restriction Period, Restricted Stock or Restricted Stock Units Awards are subject to forfeiture or payout (i.e., removal of restrictions) as indicated for each of the following events:

(a) Termination - In this event, the Restricted Stock or Restricted Stock Units Award will be completely forfeited.

(b) Retirement - In this event, Restricted Stock will be completely forfeited, but payout of the Restricted Stock Units Award will be made with complete removal of restrictions if the Participant is eligible for and actually receives retirement benefits. If retirement or severance benefits are payable under a separation program or policy, the restrictions will be modified, but only in accordance with the express terms of such separation program or policy, and in the absence of such express terms there shall be a complete forfeiture of Restricted Stock or Restricted Stock Units.

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(c) Disability - In this event, payout of the Restricted Stock or Restricted Stock Units Award will be prorated as if the Participant had maintained active employment until age 65.

(d) Death - In this event, payout of the Restricted Stock or Restricted Stock Units Award will be prorated as if the Participant had maintained active employment until age 65, and will be made to the Beneficiary.

(e) Conversions between Restricted Stock and Restricted Stock Units. The Committee has the discretion to convert with the consent of the Participant any or all Restricted Stock into Restricted Stock Units of equivalent value, and to convert any or all Restricted Stock Units into Restricted Stock of equivalent value, prior to the end of the applicable Restriction Period. Upon any such conversion, the Restricted Stock or Restricted Stock Units so converted will be completely forfeited, and the Participant shall have the rights with respect to Restricted Stock, Restricted Stock Units and Dividend Equivalents (if applicable) as may be specified in the conversion notice.

In any instance where payout of a Restricted Stock or Restricted Stock Units Award is to be prorated, the Committee may choose in its sole discretion to provide the Participant (or the Participant's Beneficiary) with the entire Award rather than the prorated portion thereof.

Notwithstanding anything in this Section 7C to the contrary, in the event that prior to any payout of Common Stock a Participant described in paragraph (c) violates any noncompete agreements between Participant and PPL Corporation or an Affiliated Company, his Restricted Stock or Restricted Stock Units Award, and any Dividend Equivalents, will be completely forfeited.

Any Restricted Stock which is forfeited hereunder will be transferred to PPL Corporation.

D. **Section 83(b) Election** . As a condition of receiving Restricted Stock, a Participant shall agree in writing to notify PPL Corporation within 30 days of the Date of Grant whether or not the Participant has made an election under Section 83(b) of the Code to report the value of the Restricted Stock as income on the Date of Grant.

SECTION 8. STOCK OPTIONS.

A. **Grant of Option** . One or more Options may be granted to any Eligible Employee designated by the Committee in such amounts and subject to such terms and conditions as the Committee may from time to time, in its sole discretion, determine, but which are consistent with the terms of this Plan. In connection with the grant of an Option, the Committee may also grant an Award of Dividend Equivalents, which shall provide for payout until the earlier of the time that such Option is exercised, the term of such Option ends or such later time as determined by the Committee in its discretion.

B. **Notification of the Grant of an Option** . Each Option granted under the Plan shall be evidenced by a Notification of the Grant of an Option ("Notification"). The Notification shall contain such provisions as determined by the Committee, which may include, without limitation, provisions to qualify Incentive Stock Options as such under Section 422 of the Code; provided, however, that each Notification must at a minimum include the following terms and conditions: (i) that the Options are exercisable either in whole or in part, with a partial exercise not affecting the exercisability of the balance of the Option; (ii) every share of Common Stock purchased through the exercise of an Option shall be paid for in full at the time of the exercise; (iii) each Option shall cease to be exercisable, as to any share of Common Stock, upon the first to occur of (a) the Participant's purchase of the Common Stock to which the Option relates; or (b) the lapse of the Option; and (iv) unless authorized by the Committee, Options shall not be transferable by the Participant except by will or the laws of descent and distribution and shall be exercisable during the Participant's lifetime only by the Participant or by the Participant's guardian or legal representative.

C. **Exercise of an Option** . A Participant shall exercise an Option by executing and delivering to PPL Corporation an "Election to Exercise an Option." The Election to Exercise an Option shall be in such form and shall contain such provisions consistent with the terms of this Plan and the Notification with respect to such Option as are determined by the Committee. Notwithstanding the foregoing, if the Committee determines that issuance of shares of Common Stock should be delayed pending (A) registration under federal or state securities laws, (B) the receipt of an opinion of counsel satisfactory to the Committee that an appropriate exemption from such registration is available, (C) the listing or inclusion of the shares of Common Stock on any securities exchange or an automated quotation system or (D) the consent or approval of any governmental regulatory body whose consent or approval is necessary in connection with the issuance of such Common Stock, the Committee may defer exercise of any Option granted hereunder until any of the events described in this sentence has occurred.

D. **Option Price** . The Option price per share of Common Stock shall be set forth in the Notification, but shall not be less than 100% of the Fair Market Value per share as of the Date of Grant.

E. **Form of Payment** . At the time of the exercise of the Option, the Option price shall be payable in United States dollars by (i) check, (ii) in other shares of Common Stock, (iii) by such other mode of payment as the Committee may approve, including payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board, or (iv) in a combination of forms (i), (ii) and (iii). When Common Stock is used in full or partial payment of the Option price; (i) it must have been held by the Participant for at least six months, (ii) it shall be valued at its Fair Market Value on the date the Option is exercised, and (iii) it shall be designated by attestation, rather than delivered by the physical delivery of stock certificates.

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F. **Other Terms and Conditions** . Provided the Option price is paid in full, the Option shall be exercisable in whole or in part in such manner and during such period, as shall be set forth in the Notification.

G. **Right to Exercise** . Each Participant must remain in the continuous employ of PPL Corporation or an Affiliated Company for one year from the date the Participant's Option is granted before the Participant can exercise any part thereof; provided, that such one year of continuous employment requirement shall not apply to an Option and an Option shall be exercisable in full if a Change in Control occurs prior to the end of such one year period. Following the satisfaction of the one year of continuous employment requirement (or at the time such requirement is no longer applicable as a result of a Change in Control, a Participant's Retirement or a modification of the Option by the Committee), the Option will be exercisable as follows:

(a) Each Option shall be exercisable in its entirety or in such installments, which need not be equal, and upon such contingencies, as the Committee shall determine in its discretion, provided that in no event shall the right to exercise an Option extend beyond the day before the tenth anniversary of the Date of Grant.

(b) The right to exercise a portion of the Option included in any exercisable installment is cumulative; once such right has become exercisable, it may be exercised in whole at any time or in part from time to time until the expiration of the Option term.

(c) Unless specifically prohibited by the terms of the Option, all restrictions on exercise of an Option, except for the one year of continuous employment requirement, shall lapse and the Option shall be immediately exercisable on the date of a Participant's Retirement, provided the Participant has elected an immediate commencement of retirement benefits and provided the Participant does not receive improved retirement benefits under a separation program or policy. If the Participant receives improved retirement benefits under a separation program or policy, the restrictions on the exercise of an Option shall be modified only in accordance with the express terms of such separation program or policy.

(d) The Committee may, in its discretion, authorize a deferral of stock award gains program which covers any Restricted Stock Units prior to the end of the Restriction Period or any unexercised Options. If the Committee does so authorize such a program, a Participant may defer receipt of Common Stock as permitted under that program.

H. **Term of Option** . At the time an Option is granted, the Committee shall establish an Option term applicable to such Award. Except as otherwise provided in this Plan or in the Notification, the Option term for any Award shall not end later than the earliest of the following:

(a) the date a Participant violates any non-compete agreement entered into by the Participant and PPL Corporation or an Affiliated Company;

(b) the day before the tenth anniversary of the Date of Grant for such Award; or

(c) the applicable date below:

(1) Termination - The Option term with respect to all Awards to a Participant who has a Termination that is not for Cause shall end 60 days after the date of such Termination; provided, however, that the Committee is authorized in its sole discretion to extend the Option term for a reasonable period after such 60 day period. The Option term with respect to all Awards to a Participant who has a Termination for Cause shall end on the date of Termination.

(2) Retirement, Death or Disability - The Option term with respect to all Awards to a Participant who has a, death or Disability shall end 36 months after the date of such, death or Disability. The Beneficiary shall have the right to exercise the Option in the event of the Participant's death. The Option term with respect to all awards to a Participant who has a Retirement shall end on the earlier of the date specified in paragraph (a) or (b), above.

(3) Change in Control - Notwithstanding anything in this Section 8H to the contrary, the Option term with respect to all Awards to a Participant whose employment terminates with PPL Corporation and all Affiliated Companies following a Change in Control shall end 36 months after the date Participant's employment terminates with PPL Corporation and all Affiliated Companies following the Change in Control. A Participant's employment shall be treated as having terminated following a Change in Control only if:

(I) The Participant's employment terminates within 36 months after the month in which a Change in Control occurs, unless such termination of employment is (1) by PPL Corporation or an Affiliated Company for Cause, or (2) by the Participant without Good Reason, or (3) by reason of death, Disability or Retirement, or

(II) The Participant's employment is terminated prior to a Change in Control (whether or not a Change in Control ever occurs)

(A) by PPL Corporation or an Affiliated Company without Cause, at the request or direction of a Person who has entered into an agreement with PPL Corporation the consummation of which would constitute a Change in Control, or

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(B) at the Participant's initiative for Good Reason and the circumstance or event which constitutes Good Reason occurs at the direction of such Person, or

(III) the Participant's employment is terminated by PPL Corporation or an Affiliated Company without Cause or by the Participant for Good Reason, and such termination or the circumstance or event which constitutes Good Reason is otherwise in connection with or in anticipation of a Change in Control (whether or not a Change in Control occurs).

For purposes of any determination regarding the applicability of paragraphs (II) and (III), above, any position taken by the Participant shall be presumed to be correct unless PPL Corporation or an Affiliated Company establishes to the Board by clear and convincing evidence that such position is not correct. Moreover, if at the time of any such determination, a Participant is employed by an Affiliated Company, such determination shall be made by the board of directors of such Affiliated Company, rather than the Board.

I. **Rights as a Shareowner** . A Participant or a transferee of a Participant shall have no rights as a shareowner with respect to any shares of Common Stock covered by an Option until the date of the issuance of a certificate for such shares of Common Stock (or, in the case of shares issued without the issuance of a certificate, the date of the entry of ownership of such shares in PPL Corporation's stock register). No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such certificate is issued (or stock register entry is made), except as provided in Section 10G.

J. **Modification, Extension and Renewal of Options** . Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify, extend or renew outstanding Options granted under the Plan, or accept the exchange of outstanding Options (to the extent not theretofore exercised) for the granting of new Options in substitution therefor. Notwithstanding the foregoing, no modification of an Option shall, without the consent of the Participant, alter or adversely affect the rights or obligations of a Participant under any Option previously granted under the Plan.

K. **Early Disposition of Common Stock** . If a Participant shall dispose of any shares of Common Stock purchased pursuant to an Incentive Stock Option within one year from the date the shares were acquired or within two years from the Date of Grant of the Option under which such shares of Common Stock were purchased, then, to provide PPL Corporation with the opportunity to claim the benefit of any income tax deduction which may be available to it under the circumstances, the Participant shall within ten days of such disposition notify PPL Corporation of the dates of acquisition and disposition of such shares of Common Stock, the number of shares so disposed and the consideration, if any, received therefor.

L. **Individual Dollar Limitations** . In the case of an Incentive Stock Option, the aggregate fair market value (determined at the time such Option is granted) of the Common Stock with respect to which an Incentive Stock Option is exercisable for the first time by an Eligible Employee during any calendar year (whether under this Plan or another plan or arrangement of PPL Corporation or an Affiliated Company) shall not exceed $100,000 (or such other limit as may be in effect under the Code on the date of exercise).

M. **No Obligation to Exercise Option** . The granting of an Option shall impose no obligation on the Participant to exercise such Option.

SECTION 9. AMENDMENT OF THE PLAN.

The Committee may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part, except: (i) no such action may be taken without approval by the shareowners of PPL Corporation which materially increases the benefits accruing to Participants pursuant to the Plan, increases the number of shares of Common Stock which may be issued pursuant to the Plan (except as provided in Section 10G) or materially modifies the requirements as to eligibility for participation in the Plan; and (ii) no such action may be taken without the consent of the Participant to whom any Award shall previously have been granted, which adversely affects the rights of such Participant concerning such Award, except as such termination or amendment of the Plan is required by statute, or rules and regulations promulgated thereunder.

SECTION 10. MISCELLANEOUS PROVISIONS.

A. **Nontransferability.** No benefit or right provided under the Plan shall be subject to alienation or assignment by a Participant (or by any person entitled to such benefit pursuant to the terms of the Plan) or subject to attachment or other legal process of whatever nature. Any attempted alienation, assignment or attachment shall be void and of no effect. Payment shall be made only to the Participant entitled to receive the same or to the Participant's authorized legal representative. If the Participant has died, payment shall be made to the Beneficiary. Deposit of any sum in any financial institution to the credit of any Participant (or of a person entitled to such sum pursuant to the terms of the Plan) shall constitute payment to that Participant (or such person). PPL Corporation and all Affiliated Companies will observe the terms of the Plan unless and until ordered to do otherwise by a state or federal court. As a condition of participation, each Participant agrees to hold PPL Corporation and all Affiliated Companies harmless from any claim that arises out of PPL Corporation's or an Affiliated Company's obeying any such order whether such order affects a judgment of such court or is issued to enforce a judgment or order of another court.

B. **No Employment Right** . Neither this Plan nor any action taken hereunder shall be construed as giving any right to be retained as an employee of PPL Corporation or any Affiliated Company.

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C. **Tax Withholding** . Whenever under the Plan Common Stock is to be delivered pursuant to an Award, PPL Corporation may require as a condition of delivery that Participant remit an amount sufficient to satisfy all federal, state and local tax withholding requirements related thereto. In addition, PPL Corporation may deduct from any salary or other payment due to such Participant, an amount sufficient to satisfy all federal, state and local tax withholding requirements related to the delivery of Common Stock under the Plan. Without limiting the generality of the foregoing, Participant may elect to satisfy all or part of the foregoing withholding requirements by delivery of unrestricted shares of Common Stock owned by Participant for at least six months (or such other period as PPL Corporation may determine), having a Fair Market Value (determined as of the date of such delivery by Participant) equal to all or part of the amounts to be so withheld. As a condition of accepting such delivery, PPL Corporation may require Participant to furnish an opinion of counsel acceptable to PPL Corporation to the effect that such delivery will not result in Participant incurring any liability under Section 16(b) of the Exchange Act. Alternatively, PPL Corporation may permit any such delivery to be made by withholding shares of Common Stock from the shares otherwise issuable pursuant to the Award giving rise to the tax withholding obligation (in which event the shares shall be valued at their Fair Market Value on the date when the withholding taxes are otherwise due).

D. **Government and Other Regulations** . The obligation of PPL Corporation to make payment for any Awards shall be subject to all applicable laws, rules and regulations, and to such approvals by any government agencies as the Committee may determine in its sole discretion to be required.

E. **Indemnification** . Each person who is or at any time serves as a member of the Board, the Committee or PPL Corporation's Board of Directors shall be indemnified and held harmless by PPL Corporation against and from: (i) any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action or failure to act under the Plan; and (ii) any and all amounts paid by such person in satisfaction of judgment in any such action, suit or proceeding relating to the Plan. Each person covered by this indemnification shall give PPL Corporation an opportunity, at its own expense, to handle and defend the same before such person undertakes to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the bylaws of PPL Corporation, as a matter of law, or otherwise, or any power that PPL Corporation may have to indemnify such person or hold such person harmless.

F. **Reliance on Reports** . Each member of the Board, the Committee and PPL Corporation's Board of Directors shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of, or counsel for, PPL Corporation and upon any other information furnished in connection with the Plan. In no event shall any person who is or shall have been a member of the Board, the Committee or PPL Corporation's Board of Directors be liable for any determination made or other action taken or any failure to act in reliance upon any such report or information or for any action taken, including without limitation the furnishing of information, or failure to act, if in good faith.

G. **Changes in Capital Structure** . In the event of any change in the outstanding shares of Common Stock by reason of any stock dividend or split, recapitalization, combination or exchange of shares or other similar changes in the Common Stock, appropriate adjustments shall be made in the shares of Restricted Stock or Restricted Stock Units and Dividend Equivalents, if any, theretofore awarded to the Participants, the shares of Common Stock subject to outstanding and unexercised Options and the aggregate number of shares of Common Stock which may be awarded pursuant to the Plan. Such adjustments shall be conclusive and binding for all purposes. Additional shares of Restricted Stock issued to a Participant as the result of any such change shall bear the same restrictions as the shares of Common Stock to which they relate.

H. **New York Stock Exchange Requirements.** In accordance with the requirements of the New York Stock Exchange (the "NYSE") for the listing of newly issued shares of Common Stock subject to Awards, the Committee may not grant Awards under the Plan to the extent that the aggregate number of shares subject to Awards granted after approval of the Plan at the 1999 Annual Meeting of shareowners of PPL Corporation would exceed 5% of the outstanding Common Stock of PPL Corporation on the date of such Annual Meeting, unless the issuance of the shares of Common Stock subject to any such additional Awards has been approved by the shareowners of PPL Corporation to the extent required by the rules of the NYSE.

I. **Company Successors** . In the event PPL Corporation becomes a party to a merger, consolidation, sale of substantially all of its assets or any other corporate reorganization in which PPL Corporation will not be the surviving corporation or in which the holders of the Common Stock will receive securities of another corporation, then such other corporation shall assume the rights and obligations of PPL Corporation under this Plan.

J. **Governing Law** . All matters relating to the Plan or to Awards granted hereunder shall be governed by the laws of the Commonwealth of Pennsylvania without regard to its conflict of laws principles.

K. **Relationship to Other Benefits** . The value of Awards hereunder and dividends paid on the Common Stock during the Restriction Period, will be considered earnings for purposes of PPL's Supplemental Executive Retirement Plan to the extent provided for therein. Otherwise, Awards under the Plan shall not be taken into account in determining any benefits under any pension, retirement, profit sharing, disability or group insurance plan of PPL Corporation or any Affiliated Company except as may be required by federal tax law and regulation or to meet

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other applicable legal requirements.

L. **Expenses** . The expenses of administering the Plan shall be borne by PPL Corporation and the Affiliated Companies whose Eligible Employees have been granted Awards.

M. **Titles and Headings** . The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

SECTION 11. OTHER STOCK-BASED AWARDS

(a) Generally . The Committee, in its sole discretion, may grant awards of Common Stock, awards of restricted shares and awards that are valued in whole or in part by reference to, or are otherwise based on the Fair Market Value of, Common Stock ("Other Stock-Based Awards"). Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive one or more shares of Common Stock (or the equivalent cash value of such Common Stock) upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Other Stock-Based Awards may be granted alone or in addition to any other Awards granted under the Plan. Subject to the provisions of the Plan, the Committee shall determine to whom and when Other Stock-Based Awards will be made; the amount of Common Stock to be awarded under (or otherwise related to) such Other Stock-Based Awards; whether such Other Stock-Based Awards shall be settled in cash, Common Stock or a combination of cash and Common Stock; and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof).

(b) Performance-Based Awards . Notwithstanding anything to the contrary herein, certain Other Stock-Based Awards granted under this Section 11 may be granted in a manner which is deductible by PPL Corporation under Section 162(m) of the Code (or any successor section thereto)("Performance-Based Awards"). A Participant's Performance-Based Award shall be determined based on the attainment of written performance goals approved by the Committee for a performance period established by the Committee (i) while the outcome for that performance period is substantially uncertain and (ii) no more than 90 days after the commencement of the performance period to which the performance goal relates or, if less, the number of days which is equal to 25 percent of the relevant performance period. The performance goals, which must be objective, shall be based upon one or more of the following criteria: (i) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per share; (v) book value per share; (vi) return on stockholders' equity; (vii) expense management; (viii) return on investment before or after the cost of capital; (ix) improvements in capital structure; (x) profitability of an identifiable business unit or product; (xi) maintenance or improvement of profit margins; (xii) stock price; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) cash flow; (xvii) working capital; (xviii) changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital); (xix) return on assets; and (xx) independent industry ratings or assessments. The foregoing criteria may relate to PPL Corporation, one or more of its subsidiaries or one or more of its divisions, units, minority investments, partnerships, joint ventures, product lines or products or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the performance goals may be calculated without regard to extraordinary items or accounting changes. The maximum amount of a Performance-Based Award to any Participant with respect to a fiscal year of PPL Corporation shall be 1.5 million shares; provided that any portion of such maximum number of shares that has not been granted may be carried over and used in any subsequent year. The Committee shall determine whether, with respect to a performance period, the applicable performance goals have been met with respect to a given Participant and, if they have, to so certify and ascertain the amount of the applicable Performance-Based Award. No Performance-Based Awards will be paid for such performance period until such certification is made by the Committee. The amount of the Performance-Based Award determined by the Committee for a performance period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such performance period; provided, however, that a Participant may, if and to the extent permitted by the Committee and consistent with the provisions of Section 162(m) of the Code, elect to defer payment of a Performance-Based Award.

Executed this 20 thday of February, 2003.

PPL SERVICES CORPORATION
By: /s/ Ronald Schwarz
Ronald Schwarz
Vice President-Human Resources

Exhibit 10(q)

PPL CORPORATION

INCENTIVE COMPENSATION PLAN

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FOR KEY EMPLOYEES

EFFECTIVE JANUARY 1, 1997

Amended and Restated Effective January 1, 2003
Plan Terminates January 1, 2013

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PPL CORPORATION

INCENTIVE COMPENSATION PLAN
FOR KEY EMPLOYEES

EFFECTIVE JANUARY 1, 1997

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PPL CORPORATION

INCENTIVE COMPENSATION PLAN
FOR KEY EMPLOYEES

SECTION 1. PURPOSE.

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The purpose of the Incentive Compensation Plan for Key Employees (the "Plan") is to provide a method whereby key employees of PPL Corporation, PPL Electric Utilities Corporation and other Affiliated Companies may be awarded additional remuneration in a manner which increases their ownership interest, aligns their interest with that of shareowners and encourages them to remain in the employ of PPL Corporation or an Affiliated Company.

SECTION 2. DEFINITIONS.

The following definitions are applicable to the Plan:

(a) **"Affiliated Company" or "Affiliated Companies"** shall mean any parent or subsidiaries of PPL Corporation (or companies under common control with PPL Corporation) which are members of the same controlled group of corporations (within the meaning of section 1563(a) of the Code) as PPL Corporation or are companies under common control with PPL Corporation (within the meaning of Section 414(c) of the Code).

(b) **"Award"** means, individually or collectively, Options, Restricted Stock, Restricted Stock Units, or Other Stock-Based Awards granted hereunder.

(c) **"Beneficiary"** means the beneficiary to be paid Common Stock or Dividend Equivalents, or to whom an Option is to be transferred, on the death of a Participant. The Participant may designate a Beneficiary in writing by filing a beneficiary form with the Administrator. An alternate Beneficiary may also be named. The last form on file with the Administrator shall control. If no Beneficiary or alternate Beneficiary is designated, or if they have predeceased the Participant, then the Beneficiary shall be the participant's estate.

(d) **"Board"** means the Board of Directors of PPL Corporation.

(e) **"Cause"** for termination by PPL Corporation or an Affiliated Company of a Participant's employment means (i) the willful and continued failure by Participant to substantially perform Participant's duties with PPL Corporation or an Affiliated Company (other than any such failure resulting from Participant's incapacity due to physical or mental illness or, if applicable, any such actual or anticipated failure after the issuance of any "Notice of Termination for Good Reason" by the Participant pursuant to any severance agreement between Participant and PPL Corporation or an Affiliated Company) after a written demand for substantial performance is delivered to Participant by the Board, which demand specifically identifies the manner in which the Board believes that Participant has not substantially performed Participant's duties, or (ii) the willful engaging by Participant in conduct which is demonstrably and materially injurious to PPL Corporation or an Affiliated Company, monetarily or otherwise. For purposes of clauses (i) and (ii) of this definition, (x) no act or failure to act, on Participant's part shall be deemed "willful" unless done, or omitted to be done, by Participant not in good faith and without reasonable belief that Participant's act, or failure to act, was in the best interest of PPL Corporation or an Affiliated Company and (y) in the event of a dispute concerning the application of this provision, no claim by PPL Corporation or an Affiliated Company that Cause exists shall be given effect unless PPL Corporation or the Affiliated Company establishes to the Board by clear and convincing evidence that Cause exists.

If at the time of determination, a Participant is employed by an Affiliated Company, for purposes of this definition, the board of directors of such Affiliated Company shall be substituted for the Board.

(f) **"Change in Control"** means the occurrence of any one of the following events: (1) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board of Directors of PPL Corporation and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of PPL Corporation) whose appointment or election by the Board of Directors of PPL Corporation or nomination for election by PPL Corporation's shareowners was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; (2) any Person becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of PPL Corporation representing 20% or more of the combined voting power of PPL Corporation's then outstanding securities entitled to vote generally in the election of directors; (3) there is consummated a merger or consolidation of PPL Corporation or any direct or indirect subsidiary of PPL Corporation with any other corporation or other entity, other than (A) a merger or consolidation which would result in the voting securities of PPL Corporation outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of PPL Corporation or any subsidiary of PPL Corporation, at least 60% of the combined voting power of the securities of PPL Corporation or at least 60% of the combined voting power of the securities of such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of PPL Corporation (or similar transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of securities of PPL Corporation (excluding in the securities beneficially owned by such Person any securities acquired directly from PPL Corporation or its Affiliates) representing 20% or more of the combined voting power of PPL Corporation's then outstanding securities; (4) the shareowners of PPL Corporation approve a plan of complete liquidation or dissolution of PPL Corporation; or (5) the Board of Directors of PPL Corporation adopts a resolution to the effect that a "Change in Control" has occurred or is anticipated to occur.

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(g) **"CLC"** means the Corporate Leadership Council of PPL Corporation or the successor senior management body responsible for setting policy for PPL Corporation.

(h) **"Code"** means the Internal Revenue Code of 1986, as may be amended from time to time. Reference in this Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations promulgated thereunder.

(i) **"Common Stock"** means the common stock of PPL Corporation.

(j) **"Date of Grant"** means the date on which the granting of an Award is authorized by CLC or such later date as may be specified by CLC in such authorization.

(k) **"Disability"** or **"Disabled"** means the inability of the Participant to perform each and every duty pertaining to the Participant's regular occupation by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than six months.

(l) **"Dividend Equivalents"** means cash compensation paid to a Participant who has received an Award of Restricted Stock Units or Options, generally to be paid in the same amount and at the same time as dividends would be paid if the Participant actually owned the number of shares of Common Stock represented by such Restricted Stock Units or underlying such Options, as applicable. CLC shall have the discretion to adjust the value of Dividend Equivalents, to reflect changes in law or dividend paying practices of PPL Corporation. CLC shall also have discretion to award Dividend Equivalents to a Participant who has received Restricted Stock, to reflect changes in law or dividend paying practices of PPL Corporation.

(m) **"Eligible Employee"** means any person employed by PPL Corporation, or an Affiliated Company, on a regularly scheduled basis, during any portion of a period for which an Award can be made and who satisfies all of the requirements of Section 6 effective July 1, 2000.

(n) **"Exchange Act"** means the Securities Exchange Act of 1934, or amended from time to time.

(o) **"Fair Market Value"** means the average of the high and low sale prices of the Common Stock as reflected in the New York Stock Exchange Composite Transactions on the date as of which Fair Market Value is being determined or, if no Common Stock is traded on the date as of which Fair Market Value is being determined, Fair Market Value shall be the average of the high and low sale prices of the Common Stock as reflected in the New York Stock Exchange Composite Transactions on the next preceding day on which the Common Stock was traded.

(p)" **Good Reason"** for termination of Participant's employment with PPL Corporation or an Affiliated Company by such Participant means the occurrence (without Participant's express written consent) after a Change in Control or after a Potential Change in Control (treating all references to a "Change in Control" in paragraphs (a) through (g), below, as including references to a "Potential Change in Control" to the extent appropriate), of any one of the following acts, or failures to act, by PPL Corporation or an Affiliated Company:

(i)the assignment to Participant of any duties inconsistent with Participant's status as an executive officer or key employee of PPL Corporation or an Affiliated Company or a substantial adverse alteration in the nature or status of Participant's responsibilities from those in effect immediately prior to a Change in Control;

(ii)a reduction by PPL Corporation or an Affiliated Company of Participant's annual base salary as in effect immediately prior to date the Change of Control or Potential Change of Control occurs or as the same may be increased from time to time, except that across-the-board decreases uniformly affecting management, key employees and salaried employees of PPL Corporation or an Affiliated Company, or the business unit in which Participant is then employed shall not be treated as Good Reason;

(iii)the relocation of Participant's principal work location to a location more than 30 miles from such work location immediately prior to a Change in Control, or PPL Corporation's or an Affiliated Company's requiring the Participant to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on PPL Corporation's or an Affiliated Company's business to an extent substantially consistent with the Participant's present business travel obligations as in effect immediately prior to the Change in Control;

(iv)the failure by PPL Corporation or an Affiliated Company to pay to Participant any portion of Participant's current compensation or to pay to Participant any portion of an installment of deferred compensation under any deferred compensation program of PPL Corporation or an Affiliated Company, within seven (7) days of the date such compensation is due except for across-the-board compensation deferrals uniformly affecting management, key employees and salaried employees of PPL Corporation or an Affiliated Company, or the business unit in which Participant is then employed;

(v)the failure by PPL Corporation or an Affiliated Company to continue in effect any compensation or benefit plan in which Participant

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participates immediately prior to a Change in Control which is material to Participant's total compensation, or any substitute plans adopted prior to a Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by PPL Corporation or Affiliated Company to continue Participant's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of Participant's participation relative to other participants, as existed immediately prior to the Change in Control, or

(vi)the failure by PPL Corporation or an Affiliated Company to continue to provide Participant with benefits substantially similar to those enjoyed by Participant under any of PPL Corporation's or an Affiliated Company's pension, retirement, savings, life insurance, medical, health and accident, or disability plans in which Participant was participating immediately prior to a Change in Control, except for across-the-board changes to any such plans uniformly affecting all participants in such plans, the taking of any action by PPL Corporation or an Affiliated Company which would directly or indirectly materially reduce any of such benefits or deprive Participant of any material fringe benefit enjoyed by Participant immediately prior to a Change in Control, or the failure by PPL Corporation or an Affiliated Company to provide Participant with the number of paid vacation days to which Participant is entitled on the basis of years of service with PPL Corporation or an Affiliated Company in accordance with PPL Corporation's or an Affiliated Company's normal vacation policy in effect at the time of the Change in Control.

(vii)any purported termination of the Participant's employment which is not effected in the manner required by any severance agreement between the Participant and PPL Corporation or an Affiliated Company.

Participant's right to terminate his or her employment with PPL Corporation or an Affiliated Company for Good Reason shall not be affected by Participant's incapacity due to physical or mental illness. Participant's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

For purposes of any determination regarding the existence of Good Reason, any claim by the Participant that Good Reason exists shall be presumed correct unless PPL Corporation or an Affiliated Company establishes to the Board by clear and convincing evidence that Good Reason does not exist. If at the time of any such determination, the Participant is employed by an Affiliated Company, such determination shall be made by the board of directors of such Affiliated Company, rather than the Board.

(q) **"Key Employee"** means an Eligible Employee who in the opinion of CLC, has responsibility for the continued growth, development and financial success of PPL Corporation or its Affiliated Companies.

(r) **"Option"** or **"Stock Option"** means a nonqualified stock option granted under Section 8 with respect to Common Stock.

(s) **"Other Stock-Based Awards"** means an award granted under section 11.

(t) **"Participant"** means a Key Employee who has been granted an Award under the Plan.

(u) **"Person"** shall have the meaning given in section 3(a)(9) of the Exchange Act, as modified and used in sections 13(d) and 14(d) thereof; provided, however, a Person shall not include (1) PPL Corporation or any of its subsidiaries, (2) a trustee or other fiduciary holding securities under an employee benefit plan of PPL Corporation or any of its subsidiaries, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or (4) a corporation owned, directly or indirectly, by the stockholders of PPL Corporation in substantially the same proportions as their ownership of stock of PPL Corporation.

(v) **"Plan"** means the PPL Corporation Incentive Compensation Plan for Key Employees (prior to February 14, 2000, the PP&L Resources Incentive Compensation Plan for Key Employees).

(w) **"Potential Change in Control"** means the occurrence of any one of the conditions set forth in the following clauses: (i) PPL Corporation enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (ii) any Person publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control; (iii) any Person is or becomes the beneficial owner, directly or indirectly, of securities of PPL Corporation representing 5% or more of the combined voting power of PPL Corporation then outstanding securities entitled to vote generally in the election of directors; or (iv) the Board adopts a resolution to the effect that, for purposes of this Plan, a Potential Change in Control has occurred.

(x) **"PPL"** means PPL Electric Utilities Corporation (prior to February 14, 2000, PP&L, Inc.).

(y) **"PPL Corporation"** means PPL Corporation (prior to February 14, 2000, PP&L Resources, Inc.).

(z) **"Restricted Stock"** means Common Stock awarded to a Participant under Section 7.

(aa) **"Restricted Stock Unit"** means an award based on the Fair Market Value of Common Stock, payable at a specified future time in a specified number of shares of Common Stock, and dependent on such conditions as CLC shall determine.

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(bb) **"Restriction Period"** means that period of time determined by CLC pursuant to Section 7B that a Restricted Stock Award or Restricted Stock Unit Award is subject to a restriction on its transfer.

(cc) **"Retirement"** means:

(a)for a Participant who is entitled to benefits under the PPL Retirement Plan, termination of employment with PPL Corporation and all of its Affiliated Companies after satisfying the conditions for early retirement, normal retirement or late retirement under such plan;

(b)for all other Participants, termination of employment with PPL Corporation and all of its Affiliated Companies after (i) attaining age 65, or (ii) for a Participant who at the time of termination of employment is an officer of PPL Corporation or any of its Affiliated Companies, after attaining age 50, if CLC, in its sole discretion, determines that such termination constitutes "Retirement" for purposes of this Plan.

(dd) **"Termination"** means a Participant's resignation or discharge from employment with PPL Corporation and all of its Affiliated Companies for any reason other than death, Disability or Retirement.

SECTION 3. EFFECTIVE DATE AND DURATION.

This Plan shall be effective as of January 1, 1997. The Plan shall continue in effect until all matters relating to the granting and exercise of Awards and the administration of the Plan have been settled, but shall automatically terminate in any event on January 1, 2013.

SECTION 4. ADMINISTRATION OF THE PLAN.

The Plan shall be administered by CLC. CLC shall have full power and authority to make Awards to Key Employees pursuant to the provisions of the Plan, to interpret the provisions of the Plan, to supervise the administration of the Plan and to delegate any of the foregoing responsibilities to any such person who, in its sole discretion, it deems appropriate. Such person or persons shall be referred to as the "Administrator" herein.

All decisions made by CLC pursuant to the provisions of the Plan shall be final, conclusive and binding upon all parties affected thereby.

SECTION 5.GRANT OF AWARDS AND LIMITATION OF NUMBER OF SHARES AWARDED.

CLC may, fromtime to time, grant Awards to one or more Key Employees, provided that: (i) subject to any adjustment pursuant to Section 10G, the maximum number of shares of Common Stock subject to Awards shall not exceed 2% of the outstanding Common Stock of PPL Corporation on the first day of each calendar year commencing on and after January 1, 1999; (ii) the maximum number of Options awarded to any single Eligible Employee in any calendar year shall not exceed 1.5 million shares; provided that any portion of such maximum number of shares that has not been granted may be carried over and used in any subsequent years; (iii) to the extent that an Award lapses or is forfeited or the rights of the Participant to whom an Award was granted terminate, any shares of Common Stock subject to such Award shall again be available for the grant of an Award under the Plan; and (iv) shares delivered under the Plan may be authorized and unissued Common Stock, Common Stock held in the treasury of PPL Corporation or Common Stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

SECTION 6. ELIGIBILITY.

Subject to the provisions of the Plan, CLC shall from time to time designate the Key Employees to whom Awards shall be granted and determine the form and amount of each such Award. No Eligible Employee of PPL Corporation or an Affiliated Company shall have any right to be granted an Award under the Plan.

SECTION 7. RESTRICTED STOCK, RESTRICTED STOCK UNITS.

A. **Grants of Restricted Stock or Restricted Stock Units** . An Award of Restricted Stock shall be granted in the form of shares of Common Stock, restricted as provided in this Section 7. An Award of Restricted Stock Units shall be granted as a notification to the Participant that a specified number of shares of Common Stock will be granted at the close of a Restriction Period. The Restricted Stock or Restricted Stock Units shall be issued without the payment of consideration by the Participant. The certificates for the Restricted Stock shall be issued, in the name of the Participant to whom the Award is made, shall be retained by PPL Corporation on behalf of the Participant and shall bear a restrictive legend prohibiting the sale, transfer, pledge or hypothecation of the Restricted Stock until the expiration of the Restriction Period. Awards of Restricted Stock made without the issuance of a certificate will be reflected in PPL Corporation's stock register in the appropriate Participant's name and with a notation that the shares are restricted.

CLC may also impose such other restrictions and conditions on the Restricted Stock or Restricted Stock Units as it deems appropriate.

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Upon the issuance to a Participant of Restricted Stock, the Participant shall have the right (i) to vote the Restricted Stock, (ii) to receive cash dividends distributable with respect to such Restricted Stock, and (iii) if granted by CLC to reflect changes in law or dividend paying practices of PPL Corporation, to receive Dividend Equivalents. Upon issuance to a Participant of Restricted Stock Units, the Participant shall have the right, if granted by CLC, to receive an Award of Dividend Equivalents, which generally shall provide for payout until the earlier of the time Common Stock is issued under the terms of the Award of Restricted Stock Units, such Award is forfeited or such later time as determined by CLC in its discretion.

Upon completion of the Restriction Period for Restricted Stock and Restricted Stock Units, all restrictions on the Award will expire and certificates representing the Restricted Stock or Restricted Stock Units will be issued (or, in the case of Awards of Restricted Stock made without the issuance of certificates, the Administrator will cause the PPL Corporation's stock register to reflect the removal of such restrictions). As a condition precedent to the receipt of the above-referenced certificates or stock register entries, the Participant (or the Participant's Beneficiary or personal representative) will agree to make payment to PPL Corporation or an Affiliated Company of the amount of any federal, state or local taxes, payable by the Participant, which are required to be withheld by PPL Corporation or an Affiliated Company with respect to the Award.

B. **Restriction Period** . At the time a Restricted Stock or Restricted Stock Units Award is granted, CLC shall establish a Restriction Period applicable to such Award which shall be not less than three years. Each Restricted Stock or Restricted Stock Units Award may have a different Restriction Period.

Notwithstanding the other provisions of this Section 7: (i) in the event of a Change in Control, the Restriction Periods on all Restricted Stock or Restricted Stock Units Awards previously granted shall lapse and (ii) apart from a Change in Control, CLC is authorized in its sole discretion to accelerate the time at which any or all of the restrictions on all or any part of a Restricted Stock or Restricted Stock Units Award shall lapse or to remove any or all of such restrictions whenever CLC may decide that changes in tax or other laws or other circumstances arising after the granting of a Restricted Stock or Restricted Stock Units Award make such action appropriate. CLC may, in its discretion, authorize a deferral of stock award gains program which covers any Restricted Stock Units prior to the end of the Restriction Period or any unexercised Options. If CLC does so authorize such a program, a Participant may defer receipt of Common Stock as permitted under that program.

C. **Forfeiture or Payout of Award.** During the Restriction Period, Restricted Stock or Restricted Stock Units Awards are subject to forfeiture or payout (i.e., removal of restrictions) as indicated for each of the following events:

(i)Termination - In this event, the Restricted Stock or Restricted Stock Units Award will be completely forfeited.

(ii)Retirement - In this event, Restricted Stock will be completely forfeited, but payout of the Restricted Stock Units Award will be made with complete removal of restrictions if the Participant is eligible for and actually receives retirement benefits. If retirement or severance benefits are payable under a separation program or policy, the restrictions will be modified, but only in accordance with the express terms of such separation program or policy, and in the absence of such express terms there shall be a complete forfeiture of Restricted Stock or Restricted Stock Units.

(iii)Disability - In this event, payout of the Restricted Stock or Restricted Stock Units Award will be prorated as if the Participant had maintained active employment until age 65.

(iv)Death - In this event, payout of the Restricted Stock or Restricted Stock Units Award will be prorated as if the Participant had maintained active employment until age 65, and will be made to the Beneficiary.

(v)Conversions between Restricted Stock and Restricted Stock Units. CLC has the discretion to convert with the consent of the Participant any or all Restricted Stock into Restricted Stock Units of equivalent value, and to convert any or all Restricted Stock Units into Restricted Stock of equivalent value, prior to the end of the applicable Restriction Period. Upon any such conversion, the Restricted Stock or Restricted Stock Units so converted will be completely forfeited, and the Participant shall have the rights with respect to Restricted Stock, Restricted Stock Units and Dividend Equivalents (if applicable) as may be specified in the conversion notice.

Notwithstanding anything in this Section 7C to the contrary, in the event that prior to any payout of Common Stock a Participant described in this section 7C violates any noncompete agreements between Participant and PPL Corporation or an Affiliated Company, his Restricted Stock or Restricted Stock Units Award, and any Dividend Equivalents, will be completely forfeited.

In any instance where payout of a Restricted Stock or Restricted Stock Units Award is to be prorated, CLC may choose in its sole discretion to provide the Participant (or the Participant's Beneficiary) with the entire Award rather than the prorated portion thereof.

Any Restricted Stock which is forfeited hereunder will be transferred to PPL Corporation.

D. **Section 83(b) Election** . As a condition of receiving Restricted Stock, a Participant shall agree in writing to notify PPL Corporation within 30 days of the Date of Grant whether or not the Participant has made an election under section 83(b) of the Code to report the value of the

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Restricted Stock as income on the Date of Grant.

SECTION 8. STOCK OPTIONS.

A. **Grant of Option** . One or more Options may be granted to any Key Employee designated by CLC in such amounts and subject to such terms and conditions as CLC may from time to time in its sole discretion determine, but which are consistent with the terms of this Plan. In connection with the grant of an Option, CLC may also grant an Award of Dividend Equivalents, which shall provide for payout until the earlier of the time that such Option is exercised, the term of such Option ends or such later time as determined by CLC in its discretion.

B. **Notification of the Grant of an Option** . Each Option granted under the Plan shall be evidenced by a Notification of the Grant of an Option ("Notification"). The Notification shall contain such provisions as determined appropriate byCLC; provided, however, that each Notification must at a minimum include the following terms and conditions: (i) that the Options are exercisable either in whole or in part, with a partial exercise not affecting the exercisability of the balance of the Option; (ii) every share of Common Stock purchased through the exercise of an Option shall be paid for in full at the time of the exercise; (iii) each Option shall cease to be exercisable, as to any share of Common Stock, upon the first to occur of (a) the Participant's purchase of the Common Stock to which the Option relates; or (b) the lapse of the Option; and (iv) unless authorized by CLC, Options shall not be transferable by the Participant except by will or the laws of descent and distribution and shall be exercisable during the Participant's lifetime only by the Participant or by the Participant's guardian or legal representative.

C. **Exercise of an Option** . A Participant shall exercise an Option by executing and delivering to PPL Corporation an "Election to Exercise an Option." The Election to Exercise an Option shall be in such form and shall contain such provisions consistent with the terms of this Plan and the Notification with respect to such Option, as are determined by CLC. Notwithstanding the foregoing, if CLC determines that issuance of shares of Common Stock should be delayed pending (A) registration under federal or state securities laws, (B) the receipt of an opinion of counsel satisfactory to CLC that an appropriate exemption from such registration is available, (C) the listing or inclusion of the shares of Common Stock on any securities exchange or an automated quotation system or (D) the consent or approval of any governmental regulatory body whose consent or approval is necessary in connection with the issuance of such Common Stock, CLC may defer exercise of any Option granted hereunder until any of the events described in this sentence has occurred.

D. **Option Price** . The Option price per share of Common Stock shall be set forth in the Notification, but shall not be less than 100% of the Fair Market Value per share as of the Date of Grant.

E. **Form of Payment** . At the time of the exercise of the Option, the Option price shall be payable in United States dollars by (i) check, (ii) in other shares of Common Stock, (iii) by such other mode of payment as CLC may approve, including payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board, or (iv) in a combination of forms (i), (ii) and (iii). When Common Stock is used in full or partial payment of the Option price: (i) it must have been held by the Participant for at least six months, (ii) it shall be valued at its Fair Market Value on the date the Option is exercised, and (iii) it shall be designated by attestation, rather than delivered by the physical delivery of stock certificates.

F. **Other Terms and Conditions** . Provided the Option price is paid in full, the Option shall be exercisable in whole or in part in such manner and during such periods as shall be set forth in the Notification.

G. **Right to Exercise** .

(a)Nothwithstanding anything in this Plan to the contrary other than the last sentence of Section 8(J), effective May 1, 2002, CLC is authorized in its sole discretion to accelerate the time at which all or any part of an Option may be exercisable.

(b)Each Participant must remain in the continuous employ of PPL Corporation or an Affiliated Company for one year from the date the Participant's Option is granted before the Participant can exercise any part thereof; provided, that such one year of continuous employment requirement shall not apply to an Option and an Option shall be exercisable in full (i) if a Change in Control occurs prior to the end of such one year period, or (ii) subject to (c) below, the Participant's Retirement occurs prior to the end of such one year period. Following the satisfaction of the one year of continuous employment requirement (or at the time such requirement is no longer applicable as a result of a Change in Control, a Participant's Retirement or a modification of the Option by CLC), the Option will be exercisable as follows:

(i)Each Option shall be exercisable in its entirety or in such installments, which need not be equal, and upon such contingencies, as CLC shall determine in its discretion, provided that in no event shall the right to exercise an Option extend beyond the day before the tenth anniversary of the Date of Grant.

(ii)The right to exercise a portion of the Option included in any exercisable installment is cumulative; once such right has become exercisable, it may be exercised in whole at any time or in part from time to time until the expiration of the Option term.

(c)Unless specifically prohibited by the terms of the Option, all restrictions on exercise of an Option, including the one year of continuous employment requirement, shall lapse and the Option shall be immediately exercisable on the date of a Participant's Retirement, provided the

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Participant has elected an immediate commencement of retirement benefits and provided the Participant does not receive improved retirement benefits under a separation program or policy. If the Participant receives improved retirement benefits under a separation program or policy, the restrictions on the exercise of an Option shall be modified only in accordance with the express terms of such separation program or policy.

(d)CLC may, in its discretion, authorize a deferral of stock award gains program which covers any Restricted Stock Units prior to the end of the Restriction Period or any unexercised Options. If CLC does so authorize such a program, a Participant may defer receipt of Common Stock as permitted under that program.

H. **Term of Option** . At the time an Option is granted, CLC shall establish an Option term applicable to such Award. Except as otherwise provided in this Plan or in the Notification, the Option term for any Award shall not end later than the earliest of the following:

(a)the date a Participant violates any noncompete agreement entered into by the Participant and PPL Corporation or an Affiliated Company;

(b)the day before the tenth anniversary of the Date of Grant for such Award; or

(c)the applicable date below:

(1)Termination - The Option term with respect to all Awards to a Participant who has a Termination that is not for Cause shall end 60 days after the date of such Termination; provided, however, that CLC is authorized in its sole discretion to extend the Option term for a reasonable period after such 60 day period. The Option term with respect to all Awards to a Participant who has a Termination for Cause shall end on the date of Termination.

(2)Retirement, Death or Disability - The Option term with respect to all Awards to a Participant who has a death or Disability shall end 36 months after the date of such death or Disability. The Beneficiary shall have the right to exercise the Option in the event of the Participant's death. The Option term with respect to all awards to a Participant who has a Retirement shall end on the earlier of the date specified in paragraph (a) or (b), above.

(3)Change in Control - Notwithstanding anything in this Section 8H to the contrary, the Option term with respect to all Awards to a Participant whose employment terminates with PPL Corporation and all Affiliated Companies following a Change in Control shall end 36 months after the date Participant's employment terminates with PPL Corporation and all Affiliated Companies following the Change in Control. A Participant's employment shall be treated as having terminated following a Change in Control only if:

(I)The Participant's employment terminates within 36 months after the month in which a Change in Control occurs, unless such termination of employment is (1) by PPL Corporation or an Affiliated Company for Cause, or (2) by the Participant without Good Reason, or 3) by reason of death, Disability or Retirement, or

(II)The Participant's employment is terminated prior to a Change in Control (whether or not a Change in Control ever occurs)

(A)by PPL Corporation or an Affiliated Company without Cause, at the request or direction of a Person who has entered into an agreement with PPL Corporation the consummation of which would constitute a Change in Control, or

(B)at the Participant's initiative for Good Reason and the circumstance or event which constitutes Good Reason occurs at the direction of such Person, or

(III)the Participant's employment is terminated by PPL Corporation or an Affiliated Company without Cause or is by the Participant for Good Reason, and such termination or the circumstance or event which constitutes Good Reason is otherwise in connection with or in anticipation of a Change in Control (whether or not a Change in Control occurs).

For purposes of any determination regarding the applicability of Paragraphs (II) and (III), above, any position taken by the Participant shall be presumed to be correct unless PPL Corporation or an Affiliated Company establishes to the Board by clear and convincing evidence that such position is not correct. Moreover, if at the time of any such determination, a Participant is employed by an Affiliated Company, such determination shall be made by the board of directors of such Affiliated Company, rather than the Board.

I. **Rights as a Shareowner** . A Participant or a transferee of a Participant shall have no rights as a shareowner with respect to any shares of Common Stock covered by an Option until the date of the issuance of a certificate for such shares of Common Stock (or, in the case of shares issued without the issuance of a certificate, the date of the entry of ownership of such shares in PPL Corporation's stock register). No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such certificate is issued (or stock register entry is made), except as provided in Section 10G.

J. **Modification, Extension and Renewal of Options** . Subject to the terms and conditions and within the limitations of the Plan, CLC may modify, extend or renew outstanding Options granted under the Plan, or accept the exchange of outstanding Options (to the extent not

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theretofore exercised) for the granting of new Options in substitution therefor. Notwithstanding the foregoing, no modification ofan Option shall, without the consent of the Participant, alter or adversely affect the rights or obligations of a Participant under any Option previously granted under the Plan.

K. **No Obligation to Exercise Option** . The granting of an Option shall impose no obligation on the Participant to exercise such Option.

SECTION 9. AMENDMENT OF THE PLAN.

CLC may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part, except no such action may be taken without the consent of the Participant to whom any Award shall previously have been granted, which adversely affects the rights of such Participant concerning such Award, except as such termination or amendment of the Plan is required by statute, or rules and regulations promulgated thereunder.

SECTION 10. MISCELLANEOUS PROVISIONS.

A. **Nontransferability.** No benefit or right provided under the Plan shall be subject to alienation or assignment by a Participant (or by any person entitled to such benefit pursuant to the terms of the Plan) or subject to attachment or other legal process of whatever nature. Any attempted alienation, assignment or attachment shall be void and of no effect. Payment shall be made only to the Participant entitled to receive the same or to the Participant's authorized legal representative. If the Participant has died, payment shall be made to the Beneficiary. Deposit of any sum in any financial institution to the credit of any Participant (or of a person entitled to such sum pursuant to the terms of the Plan) shall constitute payment to that Participant (or such person). PPL Corporation and its Affiliated Companies will observe the terms of the Plan unless and until ordered to do otherwise by a state or federal court. As a condition of participation, each Participant agrees to hold PPL Corporation and all Affiliated Companies harmless from any claim that arises out of PPL Corporation or an Affiliated Company obeying any such order whether such order affects a judgment of such court or is issued to enforce a judgment or order of another court.

B. **No Employment Right** . Neither this Plan nor anyaction taken hereunder shall be construed as giving any right to be retained as an employee of PPL Corporation or an Affiliated Company.

C. **Tax Withholding** . Whenever under the Plan Common Stock is to be delivered pursuant to an Award, PPL Corporation may require as a condition of delivery that Participant remit an amount sufficient to satisfy all federal, state and local tax withholding requirements related thereto. In addition, PPL Corporation may deduct from any salary or other payment due to such Participant, an amount sufficient to satisfy all federal, state and local tax withholding requirements related to the delivery of Common Stock under the Plan. Without limiting the generality of the foregoing, Participant may elect to satisfy all or part of foregoing withholding requirements by delivery of unrestricted shares of Common Stock owned by Participant having a Fair Market Value (determined as of the date of such delivery by Participant) equal to all or part of the amounts to be so withheld. PPL Corporation may permit any such delivery to be made by withholding shares of Common Stock from the shares otherwise issuable pursuant to the Award giving rise to the tax withholding obligation (in which event the shares shall be valued at their Fair Market Value on the date when the withholding taxes are otherwise due).

D. **Government and Other Regulations** . The obligation of PPL Corporation to make payment for any Awards shall be subject to all applicable laws, rules and regulations, and to such approvals by any government agencies as CLC may determine in its sole discretion to be required.

E. **Indemnification** . Each person who is or at any time serves as a member of the Board, or CLC shall be indemnified andheld harmless by PPL Corporation against and from: (i) any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action or failure to act under the Plan; and (ii) any and all amounts paid by such person in satisfaction of judgment in any such action, suit or proceeding relating to the Plan. Each person covered by this indemnification shall give PPL Corporation an opportunity, at its own expense, to handle and defend the same before such person undertakes to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the bylaws of PPL Corporation, as a matter of law, or otherwise, or any power that PPL Corporation may have to indemnify such person or hold such person harmless.

F. **Reliance on Reports** . Each member of the Board and CLC shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of, or counsel for, PPL Corporation and upon any other information furnished in connection with the Plan. In no event shall any person who is or shall have been a member of the Board or CLC be liable for any determination made or other action taken or any failure to act in reliance upon any such report or information or for any action taken, including without limitation the furnishing of information, or failure to act, if in good faith.

G. **Changes in Capital Structure** . In the event ofany change in the outstanding shares of Common Stock by reason of any stock dividend or split, recapitalization, combination or exchange of shares or other similar changes in the Common Stock, appropriate adjustments shall be made in the shares of Restricted Stock or Restricted Stock Units and Dividend Equivalents, if any, theretofore awarded to the Participants, the shares

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of Common Stock subject to outstanding and unexercised Options and the aggregate number of shares of Common Stock which may be awarded pursuant to the Plan. Such adjustments shall be conclusive and binding for all purposes. Additional shares of Restricted Stock issued to a Participant as the result of any such change shall bear the same restrictions as the shares of Common Stock to which they relate.

H. **Company Successors** . In the event PPL Corporation becomes a party to a merger, consolidation, sale of substantially all of its assets or any other corporate reorganization in which PPL Corporation will not be the surviving corporation or in which the holders of the Common Stock will receive securities of another corporation, then such other corporation shall assume the rights and obligations of PPL Corporation under this Plan.

I. **Governing Law** . All matters relating to the Plan or to Awards granted hereunder shall be governed by the laws of the Commonwealth of Pennsylvania without regard to its conflict of laws principles.

J. **Relationship to Other Benefits** . Awards under the Plan shall not be taken into account in determining any benefits under any pension, retirement, profit sharing, disability or group insurance plan of PPL Corporation or an Affiliated Company except as may be required by federal tax law and regulations or to meet other applicable legal requirements.

K. **Expenses** . The expenses of administering the Plan shall be borne by PPL Corporation and the Affiliated Companies whose Eligible Employees have been granted Awards.

L. **Titles and Headings** . The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

SECTION 11. OTHER STOCK-BASED AWARDS

CLC, in its sole discretion, may grant awards of Common Stock, awards of restricted shares and awards that are valued in whole or in part by reference to, or are otherwise based on the Fair Market Value of, Common Stock ("Other Stock-Based Awards"). Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as CLC shall determine, including, without limitation, the right to receive one or more shares of Common Stock (or the equivalent cash value of such Common Stock) upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Other Stock-Based Awards may be granted alone or in addition to any other Awards granted under the Plan. Subject to the provisions of the Plan, CLC shall determine to whom and when Other Stock-Based Awards will be made; the number of Common Stock to be awarded under (or otherwise related to) such Other Stock-Based Awards; whether such Other Stock-Based Awards shall be settled in cash. Common Stock or a combination of cash and Common Stock; and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof).

Executed this 20 thday of February, 2003.

PPL SERVICES CORPORATION
By: /s/ Ronald Schwarz
Ronald Schwarz
Vice President-Human Resources

Exhibit 10(u)

Agreement

Supplemental Pension Benefit -
James H. Miller

PPL Services Corporation ("PPL") hereby agrees to provide the following retirement benefit (the "Supplemental Pension Benefit") to James H. Miller (the "Executive") as an inducement for Executive to remain in the employ of PPL or its affiliates:

1. PPL, and any PPL affiliated company that agrees to assume a liability of a benefit under this Agreement, hereby agrees to pay a Supplemental Pension Benefit calculated as a monthly benefit equal to the difference between (a) the actual benefit payable to Executive at the time of his retirement under the PPL Supplemental Executive Retirement Plan ("PPL SERP") and (b) a monthly benefit calculated using the same benefit formula but crediting Executive with 30 Years of Service as defined in Article II of the PPL SERP.

2. The Supplemental Pension Benefit payable hereunder shall be paid under the same terms and the same form of benefit as the PPL SERP benefit.

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3. No Supplemental Pension Benefit shall be payable hereunder unless the Executive remains in continuous employment with PPL or any PPL affiliated companies until October 1, 2008. Should Executive's employment with PPL and all PPL affiliated companies terminate for any reason, whether voluntarily or involuntarily, including resignation or retirement, prior to October 1, 2008, the Supplemental Pension Benefit will be forfeited immediately. The only exception to this requirement shall be in the case of death or disability, as provided below.

4. In the event of the Executive's death or disability, as defined in the PPL SERP, prior to October 1, 2008, the Supplemental Pension Benefit hereunder shall be paid in the same form and under the same terms and conditions as the death or disability benefit payable under the PPL SERP, but prorated by multiplying the Supplemental Pension Benefit payable on death or disability by a fraction, the numerator of which will be the years of actual service of the Executive until the date of death or disability, and the denominator of which will be the number of years of service the Executive would have had if the Executive had remained in active employment with PPL and its affiliated companies through to October 1, 2008.

5. Under all other circumstances not expressly set forth above, payment of the Supplemental Pension Benefit under this Agreement shall parallel the timing, terms, and conditions of the benefit provided to the Executive under the PPL SERP as closely as possible, in order to effectuate the intent to supplement the SERP benefit.

6. This Agreement is entered into as of the 15th day of January 2003. It incorporates the entire agreement between the parties with respect to any supplemental pension benefits payable to Executive that is not provided by the terms of any PPL employee benefit plan applicable to executives of PPL generally, provided that the terms of the Executive's offer of employment concerning an additional five (5) years of Credited Service under the PPL SERP shall not be affected by this agreement. This Agreement may be amended only by written agreement executed by both parties.

/s/ James H. Miller
James H. Miller
-
Date

/s/ Ronald Schwarz
Ronald Schwarz
Vice President-Human Resources
PPL Services Corporation

Exhibit 10(z)

POLLUTION CONTROL FACILITIES LOAN AGREEMENT

Between

LEHIGH COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

and

PPL ELECTRIC UTILITIES CORPORATION

Dated as of February 1, 2003

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POLLUTION CONTROL FACILITIES LOAN AGREEMENT dated as of February 1, 2003 (the "Agreement") between the LEHIGH COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (the "Issuer") and PPL ELECTRIC UTILITIES CORPORATION (the "Company").

I.Background, Representations and Findings

1.1. Background .

(a)The Issuer is a public instrumentality of the Commonwealth of Pennsylvania (the "Commonwealth") and a body corporate and politic organized and existing pursuant to the Economic Development Financing Law (the "Act"). Under the Act, the Issuer is authorized, among other things, to make loans to any "project applicant" or "project user" (each as defined in the Act) in order to pay or provide for the financing or refinancing of costs of pollution control facilities. The Company (formerly known as Pennsylvania Power & Light Company) has heretofore requested the Issuer to undertake the financing of certain air or water pollution control facilities or sewage or solid waste disposal facilities (collectively, the "Project Facilities"), which are more fully described in Exhibit A hereto and the Issuer issued $90,000,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds, 1992 Series A (Pennsylvania Power & Light Company Project) (the "Prior Bonds") for such purposes pursuant to a Trust Indenture dated as of May 1, 1973, as previously supplemented and as supplemented by a Sixth Supplemental Indenture dated as of November 1, 1992 (as supplemented, the "Existing Indenture"), between the Authority and J.P. Morgan

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Trust Company, National Association, as successor trustee (the "Prior Trustee").

(b)The proceeds of the Prior Bonds were loaned to the Company pursuant to the terms of a Pollution Control Financing Agreement dated as of May 1, 1973 (the "Existing Agreement") between the Issuer and the Company.

(c)The Company has sold the Sunbury Station and the related Project Facilities to an unrelated third party and transferred its interest in the remaining Project Facilities to indirect wholly owned subsidiaries of PPL Energy Supply, LLC, a Delaware limited liability company and affiliate of the Company ("PPL Energy Supply").

(d)The Company has requested that the Issuer refund the Prior Bonds; in order to pay a portion of the cost of refunding the Prior Bonds, the Issuer has agreed to issue $90,000,000 aggregate principal amount of Lehigh County Industrial Development Authority Pollution Control Revenue Refunding Bonds, Series 2003 (PPL Electric Utilities Corporation Project) (the "Bonds") on the terms and conditions set forth in the subsequent sections of this Agreement.

1.2Company Representations. The Company represents that:

(a)It is a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania, with full power and legal right to enter into this Agreement and the Note and the Senior Secured Bonds (as defined below) and perform its obligations hereunder and thereunder. The making and performance of this Agreement, the Note and the Senior Secured Bonds on the part of the Company have been duly authorized by all necessary action. This Agreement, the Note and the Senior Secured Bonds have been duly executed and delivered by the Company and constitute the valid and binding obligations of the Company enforceable in accordance with their respective terms except as the enforcement thereof may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar laws relating to or affecting the enforcement of creditors' rights generally, to general equitable principles (whether considered in a proceeding in equity or at law) and to an implied covenant of good faith and fair dealing.

(b)The Project Facilities constitute pollution control facilities as defined in the Act and are consistent with the purposes of the Act.

(c)None of the proceeds of the Bonds will be used directly or indirectly to acquire land or any interest therein or for the acquisition of any property or interest therein unless the first use of such property was pursuant to such acquisition.

(d)(i) All of the proceeds of the Prior Bonds were used to refund $20,000,000 aggregate principal amount of Pollution Control Revenue Bonds, 1980 Series B (Pennsylvania Power & Light Company Project) (the "1980B Bonds") and $70,000,000 aggregate principal amount of Pollution Control Revenue Refunding Bonds, 1982 Series A (Pennsylvania Power & Light Company Project) (the "1982A Bonds", and together with the 1980B Bonds, the "Project Bonds") and (ii) at least 90% of the proceeds of the Project Bonds were issued to provide "pollution control facilities" and "solid waste disposal facilities" within the meaning of Sections 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended, and in effect prior to the passage of the Tax Reform Act of 1986 (the "1954 Code").

(e)None of the proceeds of the Bonds will be used to provide working capital.

(f)None of the proceeds of the Project Bonds were used, and none of the proceeds of the Bonds will be used, to provide any airplane, skybox or other private luxury box, or health club facility; any facility primarily used for gambling; or any store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(g)The Prior Bonds were issued on November24, 1992.

(h)Acquisition, construction and installation of the Project Facilities has been accomplished.

(i)The Company and PPL Energy Supply's subsidiaries have used or operated the Project Facilities in a manner consistent with the purposes of the Project Facilities and the Act and the Company knows of no reason why the Project Facilities will not be so operated. With respect to the Project Facilities related to Sunbury Station that the Company sold to an unrelated third party, the Company used or operated such Project Facilities when it owned them in a manner consistent with the purposes of the Project Facilities and the Act and the Company knows of no reason why such Project Facilities will not be so operated by any owner of the Sunbury Station.

(j)Neither the Prior Bonds nor the Bonds are or will be "federally guaranteed", as defined in Section 149(b) of the Internal Revenue Code of 1986, as amended (the "Code"; references to the Code and Sections of the Code (or, as applicable, to the 1954 Code and Sections thereof) include Sections 1312 and 1313 of the Tax Reform Act of 1986, relevant applicable regulations and proposed regulations thereunder and under the 1954 Code and any successor provisions to those Sections, regulations or proposed regulations and, in addition, all applicable official rulings and judicial determinations under the foregoing applicable to the Prior Bonds or the Bonds, as applicable).

(k)At no time will any funds constituting gross proceeds of the Bonds be used in a manner as would constitute failure of compliance with Section 148 of the Code.

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(l)None of the proceeds (within the meaning of Section 147(g) of the Code) of the Bonds will be used to pay for any costs of issuance of the Bonds.

(m)The proceeds derived from the sale of the Bonds (other than any accrued interest thereon) will be used exclusively to refund the outstanding principal amount of the Prior Bonds. The principal amount of the Bonds does not exceed the outstanding principal amount of the Prior Bonds. The redemption of the outstanding principal amount of the Prior Bonds with such proceeds of the Bonds will occur not later than 90 days after the date of issuance of the Bonds. All earnings derived from the investment of such proceeds of the Bonds will be fully needed and used on such redemption date to pay a portion of the redemption premium and interest accrued and payable on the Prior Bonds on such date.

(n)On the date of issuance and delivery of the Prior Bonds, the Company reasonably expected that all of the proceeds of such Prior Bonds would be used to carry out the governmental purposes of such issue within the three-year period beginning on the date such issue was issued and none of the proceeds of such issue, if any, were invested in nonpurpose investments having a substantially guaranteed yield for three years or more.

(o)Neither the average maturity of the Prior Bonds nor the average maturity of the Bonds exceeds 120% of the average reasonably expected economic lives of the facilities financed or refinanced by the proceeds of the Bonds (determined under Section 147(b) of the Code).

(p)It is not anticipated, as of the date hereof, that there will be created any "replacement proceeds", within the meaning of Section 1.148-1(c) of the Treasury Regulations, with respect to the Bonds; however, in the event that any such replacement proceeds are deemed to have been created, such amounts will be invested in compliance with Section 148 of the Code.

(q)The information furnished by the Company and used by the Issuer in preparing the certification pursuant to Section 148 and in preparing the Form 8038 information statement pursuant to Section 149(e) of the Code was accurate and complete as of the date of issuance of the Prior Bonds, and the information furnished by the Company and used by the Issuer in preparing the certification pursuant to Section 148 of the Code and in preparing the Form 8038 information statement pursuant to Section 149(e) of the Code will be accurate and complete as of the date of issuance of the Bonds.

(r)The Company does not own or operate any of the Project Facilities. Each affiliate of the Company that owns Project Facilities has agreed with the Company that, for so long as such affiliate owns any of the Project Facilities, it will operate such Project Facilities in a manner consistent with the Company's tax covenants in this Agreement and the other transaction documents relating to the issuance of the Bonds. Notwithstanding the foregoing, nothing in any such agreement with any such affiliate requires, and nothing in this Agreement shall require, the Company or any such affiliate to operate any portion of the Project Facilities, or prevents any such affiliates from selling all or any portion of the Project Facilities, or from merging or consolidating with another entity. Nothing in this Agreement shall bind any affiliate of the Company that owns the Project Facilities or any portion thereof, or any purchasers of any portions of the Project Facilities or portions thereof sold.

1.3 Issuer Findings and Representations. The Issuer hereby confirms its findings and represents that:

(a)The Project Facilities qualify as "pollution control facilities" for purposes of the Act and promote the public purposes of the Act by maintaining employment and alleviating unemployment in the Commonwealth.

(b)The Project Facilities promote the health, safety and general welfare of the people of the Commonwealth by reducing air, water and other pollution and contamination and permitting additional generation of electric energy.

(c)The Issuer has the necessary power under the Act, and has duly taken all action on its part required, to execute and deliver this Agreement and to undertake the refunding of the Prior Bonds through the issuance of the Bonds. The execution and performance of this Agreement by the Issuer will not violate or conflict with any instrument by which the Issuer or its properties are bound.

II.Refunding the Prior Bonds

2.1 Issuance of Bonds . In order to assist the Company in the refunding of the Prior Bonds, the Issuer, concurrently with the execution hereof, will issue, sell and deliver the Bonds. The proceeds of the Bonds shall be loaned to the Company in accordance with Section 3.1. The Bonds will be issued under and pursuant to the Trust Indenture (the "Indenture") dated as of February 1, 2003 between the Issuer and JPMorgan Chase Bank, as trustee (the "Trustee"), and will be issued in the aggregate principal amount, will bear interest, will mature and will be subject to redemption as set forth therein. The Company hereby approves the Indenture and the Bonds and the terms and conditions under which the Bonds have been issued, sold and delivered. Each capitalized term not otherwise defined herein shall have the meaning given to such term in the Indenture.

The proceeds from the sale of the Bonds shall be loaned to the Company to assist the Company in refunding the Prior Bonds. Those proceeds shall be delivered to the Escrow Agent to be held, together with any interest earnings thereon, in trust, as provided in the Escrow Agreement for the purpose of paying, together with moneys provided by the Company, all of the remaining principal, redemption premium and interest due on

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the Prior Bonds to their redemption date.

2.2 Investment of Fund Moneys . Any moneys held as part of the Bond Fund or the Rebate Fund shall be invested or reinvested by the Trustee as provided in the Indenture. The Issuer (to the extent it retained or retains direction or control) and the Company each hereby represent that the investment and reinvestment and the use of the proceeds of the Prior Bonds were restricted in such manner and to such extent as was necessary so that the Prior Bonds would not constitute arbitrage bonds under Section 148 of the Code and each hereby covenants that it will restrict that investment and reinvestment and the use of the proceeds of the Bonds in such manner and to such extent, if any, as may be necessary so that the Bonds will not constitute arbitrage bonds under Section 148 of the Code.

The Company shall provide the Issuer with, and the Issuer may base its certificate and statement on, a certificate of an appropriate officer, employee or agent of or consultant to the Company for inclusion in the transcript of proceedings for the Bonds, setting forth the reasonable expectations of the Company on the date of delivery of and payment for the Bonds regarding the amount and use of the proceeds of the Bonds and the facts, estimates and circumstances on which those expectations are based.

III.Loan and Repayment

3.1 Amount and Source of Loan . Concurrently with the delivery of the Bonds, the Issuer will, upon the terms and conditions of this Agreement, lend the proceeds of the Bonds to the Company, by deposit thereof in accordance with the provisions of the Indenture. The Bonds may be sold by the Issuer at a discount from their principal amount, and in such event, the amount of such discount shall be deemed to have been loaned to the Company. To the extent that accrued interest on the Bonds is received by the Issuer upon the sale of the Bonds and is deposited into the Bond Fund under the Indenture, such accrued interest shall be applied to the first interest payment due on the Bonds with a corresponding credit on the amounts otherwise due under the Note (as hereinafter defined).

3.2 Repayment of Loan . The Company agrees to repay the loan made by the Issuer under Section 3.1 in installments which, as to amount, shall correspond to the payments of principal on the Bonds and, if applicable, any redemption price and shall bear interest at a rate of 3.125% per annum, such principal, redemption price and interest to be payable when such principal, redemption price, if applicable, or interest is due in accordance with the terms of the Indenture; provided that such amount shall be reduced to the extent that other moneys on deposit with the Trustee are available for such purpose, and a credit in respect thereof has been granted pursuant to the Indenture. All such repayments made by the Company pursuant to this Agreement shall be made in funds that will be available to the Trustee no later than (a) the corresponding principal or interest payment date on the Bonds or (b) if a Bond Insurance Policy is in effect and Section 6.05 of the Indenture requires the Trustee to notify the Bond Insurer of deficiencies prior to payment dates, one Business Day prior to the date the Trustee is required to make such payments. To evidence its obligation to pay such amounts, the Company will deliver the Note, as described under Section 3.3.

3.3 The Note . Concurrently with the issuance by the Issuer of the Bonds, the Company will execute and deliver to the Trustee a debt instrument of the Company, which debt instrument shall be in the form of a non-negotiable promissory note substantially in the form attached hereto as Exhibit B (the "Note"). The Note shall

(a)be payable to the Trustee;

(b)be in a principal amount equal to the aggregate principal amount of the Bonds;

(c)provide for payments of interest at least equal to the payments of interest on the Bonds;

(d)require payments of principal equal to the corresponding payments on the Bonds;

(e)contain provisions in respect of the prepayment of principal corresponding to the redemption provisions of the Bonds; and

(f)require all payments on the Note to be made on or prior to the due date for the corresponding payment to be made on the Bonds.

To secure its obligations under the Note at the request of and for the benefit of the Bond Insurer (as defined in the Indenture), concurrently with the issuance by the Issuer of the Bonds, the Company will execute and deliver to the Trustee the Company's Senior Secured Bonds, 3.125% Pollution Control Series due 2008 , which will contain principal, interest and redemption provisions corresponding to the principal, interest and redemption provisions of the Bonds (the "Senior Secured Bonds"). The Senior Secured Bonds will be issued pursuant to Supplemental Indenture No. 2 dated as of February 1, 2003 which supplements the Company's Indenture dated as of August 1, 2001, as supplemented (as so supplemented, the "Company Indenture") to JPMorgan Chase Bank, as trustee (the "Company Indenture Trustee"). Anything herein to the contrary notwithstanding, the obligation of the Company to make any payment of the principal of, or interest on, the Senior Secured Bonds shall be deemed to be satisfied and discharged to the extent of the corresponding payment (i) made by the Company to the Trustee pursuant to Section3.2 of this Agreement and/or on the Note and/or (ii) made with moneys on deposit in any fund or account maintained under the Indenture for the payment of the principal or redemption price of, or interest on, the Bonds.

At the time any Bonds cease to be Outstanding (other than in connection with the cancellation thereof following an exchange or transfer or the

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authentication of other Bonds in lieu thereof pursuant to Section 2.09 of the Indenture), the Issuer shall cause the Trustee to surrender to the Company Indenture Trustee a corresponding principal amount of Senior Secured Bonds.

The Issuer shall not sell, assign or otherwise transfer the Senior Secured Bonds, except to the extent provided in Section12.16 of the Indenture. In view of the assignment referred to in Section 3.7 hereof, the Issuer agrees that (i) the Senior Secured Bonds shall be issued and delivered to, registered in the name of and owned and held by the Trustee for the benefit of the holders from time to time of the Bonds; (ii) the Indenture shall provide that the Trustee shall not sell, assign or transfer the Senior Secured Bonds except (A) to a successor trustee under the Indenture or (B) as permitted by Section 12.16 of the Indenture, and shall surrender Senior Secured Bonds to the Company Indenture Trustee in accordance with the provisions of this Section 3.3, Section3.4 and Section15.06(b) of the Indenture; and (iii) the Company may take such actions as it shall deem to be desirable to effect compliance with such restrictions on transfer, including the placing of any appropriate legend on each Senior Secured Bond and the issuance of stop-transfer instructions to the Company Indenture Trustee or any other transfer agent under the Company Indenture. Any action taken by the Trustee in accordance with the provisions of Section12.16 of the Indenture shall be binding upon the Company.

3.4 Surrender of Senior Secured Bonds by the Trustee . Notwithstanding anything herein or in the Indenture to the contrary, upon the written request of the Company signed by an Authorized Representative thereof, and with the written consent of the Bond Insurer (subject to Section 6.09 of the Indenture), if the Bond Insurance Policy is then in effect, the Issuer shall cause the Trustee to surrender to the Company Indenture Trustee upon the order of the Company signed by an Authorized Representative thereof all or any portion of the Senior Secured Bonds, as specified by such request of the Company.

3.5 Acceleration of Payment to Redeem Bonds . The Issuer will redeem any of the Bonds or portions thereof upon the occurrence of an event which gives rise to any special mandatory redemption specified in the Indenture and in accordance with the provisions thereof. Upon any such special mandatory redemption, the Company shall prepay the Note in full (or in part, if in the opinion of Bond Counsel such partial redemption will preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds remaining outstanding after such redemption). Whenever the Bonds are subject to extraordinary optional redemption, the Issuer will, but only upon request of the Company, redeem the same in accordance with such request and the Indenture. In either event, the Company will pay an amount equal to the applicable redemption price as a prepayment of the Note, together with interest accrued to the date of redemption, as provided in the Note.

In the event that the Company receives notice from the Trustee pursuant to the Indenture that a proceeding has been instituted against a Bondholder which could lead to a final determination that interest on the Bonds is taxable, the Company shall promptly notify the Trustee and the Issuer whether or not it intends to contest such proceeding. In the event that the Company chooses to so contest, it will use its best efforts to obtain a prompt final determination or decision in such proceeding or litigation and will keep the Trustee and the Issuer informed of the progress of any such proceeding or litigation.

3.6 No Defense or Set-Off . The obligations of the Company to make payments on the Note shall be absolute and unconditional without defense or setoff by reason of any default by the Issuer under this Agreement or under any other agreement between the Company and the Issuer or for any other reason, including without limitation, loss or impairment of investments in the Bond Fund, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project Facilities, commercial frustration of purpose, or failure of the Issuer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement, it being the intention of the parties that the payments required hereunder will be paid in full when due without any delay or diminution whatsoever.

3.7 Assignment of Issuer's Rights . As the source of payment for the Bonds, the Issuer will assign to the Trustee all the Issuer's rights under this Agreement with respect to the Bonds (except rights to receive payments under Sections 4.3 and 4.4) including all of its right, title and interest in the Note and Senior Secured Bonds and the moneys payable thereunder. The Company consents to such assignment and agrees to make payments on the Note and interest thereon directly to the Trustee without defense or setoff by reason of any dispute between the Company and the Issuer or the Trustee.

IV.Covenants of the Company; Certain Limitations

4.1 Corporate Existence.

So long as the Bonds are outstanding, the Company agrees to maintain its corporate existence and, to the extent required by Pennsylvania law, its qualification to do business in Pennsylvania, except that it may dispose of all or substantially all of its assets and may consolidate with or merge into another corporation or entity or permit one or more corporations or entities to consolidate with or merge into it, if the surviving, resulting or transferee corporation or entity, if other than the Company, is solvent, and assumes in writing all of the obligations of the Company hereunder and under the Note and is a corporation or other entity duly organized under the laws of one of the states of the United States of America and, to the extent required by Pennsylvania law, is duly qualified to do business in the Commonwealth of Pennsylvania; provided that the Company shall have delivered to the Trustee a certificate from an officer of the Company to the effect that such disposition, consolidation, merger and assumption complies with the provisions of this Agreement.

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4.2 Payment of Trustee's Compensation and Expenses . The Company will pay the Trustee's compensation and expenses under the Indenture, including out-of-pocket, incidental and reasonable attorney's fees and expenses and costs of redeeming Bonds thereunder and the compensation and expenses of any authenticating agent, the Bond Registrar and the Paying Agent appointed in respect of the Bonds.

4.3 Payment of Issuer's Expenses . The Company will pay the Issuer's administrative fees and expenses, including legal and accounting fees, incurred by the Issuer in connection with the issuance of the Bonds and the performance by the Issuer of any and all of its functions and duties under this Agreement or the Indenture, including, but not limited to, all duties which may be required of the Issuer by the Trustee and the Bondholders. The Issuer's fee is $180,000.

4.4 Indemnity Against Claims . The Company releases the Issuer from, agrees that the Issuer shall not be liable for, and indemnifies the Issuer against, all liabilities, claims (including claims for any injury, bodily harm or death of any person), costs and expenses imposed upon or asserted against the Issuer on account of: (a) the maintenance, operation and use of the Project Facilities; (b) any breach or default on the part of the Company in the performance of any covenant or agreement of the Company under this Agreement, the Note or the Continuing Disclosure Undertaking (as defined in the Indenture) or arising from any act or failure to act by the Company under such documents; (c) the refunding of the Prior Bonds, and the provision of any information furnished by the Company in connection therewith concerning the Project Facilities or the Company (including, without limitation, any information furnished by the Company for inclusion in any certifications made by the Issuer under Section 2.2 or for inclusion in, or as a basis for preparation of, the information statements filed by the Issuer pursuant to the Code); (d) any audit of the tax status of the interest on the Bonds; and (e) any claim or action or proceeding with respect to the matters set forth in (a), (b) and (c) above brought thereon, except to the extent that any liability, claim, cost or loss was due to the Issuer's willful misconduct.

The Company agrees to indemnify the Trustee and to hold the Trustee harmless against, any and all loss, claim, damage, fine, penalty, liability or expense incurred by it, including out-of-pocket and incidental expenses and reasonable legal fees and expenses ("Losses") arising out of or in connection with the acceptance or administration of the Indenture or the trusts thereunder or the performance of its duties thereunder or under this Agreement or the Senior Secured Bonds, including the costs and expenses of defending itself against or investigating any claim (whether asserted by the Issuer, the Company, a Bondholder, or any other person) of liability in the premises, except to the extent that any such loss, liability or expense was due to its own negligence or bad faith. In addition to and not in limitation of the preceding sentence, the Company agrees to indemnify the Trustee and any predecessor Trustee and its agents, officers, directors and employees for any Losses that may be imposed on, incurred by or asserted against it for following any instructions or directions upon which the Trustee is authorized to rely pursuant to the Indenture.

In case any action or proceeding is brought against the Issuer or the Trustee, in respect of which indemnity may be sought hereunder, the party seeking indemnity shall promptly give notice of that action or proceeding to the Company, and the Company upon receipt of that notice shall have the obligation and the right to assume the defense of the action or proceeding. At its own expense, an indemnified party may employ separate counsel and participate in the defense; provided however, where it is ethically inappropriate for one firm to represent the interests of the Issuer and any other indemnified party or parties, the Company shall pay the Issuer's or the Trustee's legal expenses, respectively, in connection with the Issuer's or the Trustee's retention of separate counsel. The Company shall not be liable for any settlement made without its consent.

The indemnification set forth above is intended to and shall include the indemnification of all affected officials, directors, officers, agents and employees, past, present and future, of the Issuer and the Trustee; and, to the extent relating to the Trustee, shall be for the benefit of the Trustee in each of its capacities under the Indenture. That indemnification is intended to and shall be enforceable by the Issuer and the Trustee, respectively, to the full extent permitted by law.

4.5 Limitation of Liability of the Issuer . All covenants, stipulations, obligations and agreements of the Issuer contained in this Agreement or the Indenture shall be effective to the extent authorized and permitted by applicable law. No such covenant, stipulation, obligation or agreement shall be deemed to be a covenant, stipulation, obligation or agreement of any past, present or future member, officer, agent or employee of the Issuer in other than his official capacity, and neither the members, officers, agents or employees, past, present or future, of the Issuer nor any official executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or by reason of the covenants, stipulations, obligations or agreements of the Issuer contained in this Agreement or in the Indenture. Furthermore, no obligation of the Issuer hereunder or under the Bonds shall be deemed to constitute a pledge of the faith and credit of the Issuer, or the faith and credit or taxing power of the Commonwealth of Pennsylvania, the County of Lehigh, or of any other political subdivision thereof, but shall be payable solely out of revenues pledged therefor.

4.6 Nondiscrimination/Sexual Harassment Clause . The Company shall use all reasonable efforts consistent with its existing procedures to comply with the provisions of the Nondiscrimination/Sexual Harassment Clause set forth in Exhibit C hereto. For purposes of such Nondiscrimination/Sexual Harassment Clause, the parties hereto understand that (i) this Agreement is the "contract" and (ii) there is no subcontractor for the performance of the Company's obligations under this Agreement.

4.7 Default, etc . In addition to all other rights of the Issuer granted herein, in the Note, or otherwise by law, the Issuer shall have the right to specifically enforce the performance and observation by the Company of any of its obligations, agreements or covenants under this Agreement or under the Note and may take any actions at law or in equity to collect any payments due or to obtain other remedies. If the Company shall

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default under any provisions of this Agreement or in any payment under this Agreement or the Note, and the Issuer shall employ attorneys or incur other expenses for the collection of payments due or for the enforcement of the performance or observation of any obligation or agreement on the part of the Company contained herein or therein, the Company will on demand therefor reimburse the reasonable fees of such attorneys and such reasonable expenses so incurred.

4.8 Deficiencies in Revenues . If for any reason, including the Company's being required to withhold or pay any tax imposed by reason of its obligations evidenced by the Note or the Senior Secured Bonds, amounts paid to the Trustee on the Note or the Senior Secured Bonds, together with other moneys held by the Trustee then available, would not be sufficient to make the corresponding payments of the principal of, premium, if any, and interest on, the Bonds when such payments become due, the Company will pay or cause to be paid the amounts required from time to time, when due, to make up any such deficiency.

4.9 Rebate Fund . If and to the extent required by Section 6.04 of the Indenture, the Company shall calculate the amount of Excess Earnings (as defined in the Indenture) as of the end of a Bond Year or the date of payment in full of all outstanding Bonds and shall notify the Trustee of that amount. If the amount then on deposit in the Rebate Fund created under the Indenture is less than the amount of Excess Earnings, the Company shall, within five days after the date of the aforesaid calculation, pay to the Trustee for deposit in the Rebate Fund an amount sufficient to cause the Rebate Fund to contain an amount equal to the Excess Earnings. The obligation of the Company to make such payments, if and to the extent required by Section 6.04 of the Indenture, shall remain in effect and be binding upon the Company notwithstanding the release and discharge of the Indenture or the repayment of the loan as contemplated by Section 3.2. The Company shall obtain and keep such records of the calculations made pursuant to this Section as are required under Section 148(f) of the Code and shall provide the Trustee with the written directions contemplated by Section 6.04 of the Indenture.

4.10 Tax-Exempt Status . The Company covenants and represents that it has taken and caused to be taken and shall take and cause to be taken all actions that may be required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and covenants that it will not take, or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

V.Miscellaneous

5.1 Notices . Notice hereunder shall be given in writing, either by registered mail, to be deemed effective two days after mailing, by telegram, by telecopy or other similar facsimile transmission, or by telephone, confirmed in writing, addressed as follows:

The Authority
Lehigh County Industrial Development Authority
2158 Avenue C, Suite 200
Bethlehem, PA 18107
Attention: Janet R. Smith

The Company
PPL Electric Utilities Corporation
Two North Ninth Street
Allentown, Pennsylvania 18101
Attention: Treasury Department

The Trustee
JPMorgan Chase Bank
4 New York Plaza - 15th Floor
New York, New York, 10004
Attention: Institutional Trust Services
Fax: 212-623-6167

or to such other address as may be filed in writing with the parties to this Agreement and with the Trustee.

5.2 Assignment . This Agreement may not be assigned by either party without the prior written consent of the other party hereto, which consent shall not be unreasonably withheld, except that the Issuer may assign rights with respect to the Bonds to the Trustee pursuant to Section 3.7 hereof, and the Company may assign its rights and obligations under this Agreement at any time in connection with a disposition of all or substantially all of its assets permitted under Section 4.1. Notwithstanding the foregoing, no merger or consolidation permitted under Section 4.1 shall be deemed to be an assignment for purposes of this Section 5.2

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5.3 Illegal, Etc. Provisions Disregarded . In case any provision of this Agreement shall for any reason be held invalid, illegal or unenforceable in any respect, this Agreement shall be construed as if such provision had never been contained herein.

5.4 Applicable Law . This Agreement has been delivered in the Commonwealth of Pennsylvania and shall be deemed to be governed by, and interpreted under, the laws of that Commonwealth.

5.5 Amendments . This Agreement may not be amended except by an instrument in writing signed by the parties hereto and, if such amendment occurs after the issuance of the Bonds, in accordance with the terms of the Indenture.

5.6 Continuing Disclosure . The Issuer hereby acknowledges the entry by the Company into the Continuing Disclosure Undertaking under which the Company has assumed certain obligations for the benefit of the holders and beneficial owners of the Bonds. The Company agrees to perform its obligations under the Continuing Disclosure Undertaking. Notwithstanding any other provision of this Agreement, any failure by the Company to comply with any provision of the Continuing Disclosure Undertaking shall not be a failure or a default, or an Event of Default, under this Agreement or the Indenture.

5.7 Term of Agreement . This Agreement shall become effective upon its delivery and shall continue in effect until all Bonds have been paid or provision for such payment has been made in accordance with the Indenture, except that the provisions hereof contained in Sections 4.2, 4.3, 4.4, 4.5, 4.9 and this Section 5.7 shall continue in effect thereafter.

5.8 Financing Statements, etc. The Company agrees to file or record or to re-file or re-record all financing statements and continuation statements and all other documents, notices and instruments required under applicable law to perfect or maintain the perfection of or to otherwise preserve the validity of the liens and security interests granted to the Trustee under the Indenture.

5.9 Counterparts . This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

[Signatures appear on following page]

IN WITNESS WHEREOF, the parties hereto, in consideration of the mutual covenants set forth herein and intending to be legally bound, have caused this Agreement to be executed and delivered as of the date first written above.

LEHIGH COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY
By /s/ W. Cordes Snyder
Chairman
PPL ELECTRIC UTILITIES CORPORATION
By /s/ James E. Abel
Treasurer

EXHIBIT A

DESCRIPTION OF PROJECT FACILITIES

Air or water pollution control facilities or sewage or solid waste disposal facilities at one or all of the following electric generating stations:

Brunner Island Station (York County);

Holtwood Station (Lancaster County);

Montour Station (Montour County); and

Sunbury Station (Snyder County)

EXHIBIT B

FORM OF COMPANY NOTE

POLLUTION CONTROL FACILITIES NOTE
(LEHIGH COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY)

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SERIES 2003

PPL ELECTRIC UTILITIES CORPORATION (the "Company"), a Pennsylvania corporation, for value received, promises to pay to JPMorgan Chase Bank (the "Trustee"), as Trustee under the Trust Indenture dated as of February 1, 2003 (the "Indenture") of the Lehigh County Industrial Development Authority (the "Issuer"), the principal sum of $90,000,000 on November 1, 2008 and to pay (i) interest thereon from the date hereof until the payment of said principal sum has been made or provided for at the rate equal to the interest rate borne by the Issuer's Pollution Control Revenue Refunding Bonds, Series 2003 (PPL Electric Utilities Corporation Project) (the "Bonds") and payable on each date that interest is payable on the Bonds, and (ii) interest on overdue principal, and to the extent permitted by law, on overdue interest, at the rate borne by the Bonds.

This Note is issued pursuant to a certain Pollution Control Facilities Loan Agreement (the "Agreement") dated as of February 1, 2003 between the Issuer and the Company relating to the refunding of certain obligations of the Issuer previously issued to provide funds for the refunding of bonds issued to assist the Company (formerly known as Pennsylvania Power & Light Company) in the financing of a portion of the cost of acquiring, constructing and installing certain pollution control facilities and sewage or solid waste disposal facilities described in Exhibit A to the Agreement (the "Project Facilities"). The obligation of the Company to make the payments required hereunder shall be absolute and unconditional without defense or set-off by reason of any default by the Issuer under the Agreement or under any other agreement between the Company and the Issuer or for any other reason, including without limitation, loss or impairment of investments in the Bond Fund, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project Facilities, commercial frustration of purpose, or failure of the Issuer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Agreement, it being the intention of the Company and the Issuer that the payments hereunder will be paid in full when due without any delay or diminution whatsoever.

At the request of and for the benefit of the Bond Insurer (as such term is defined in the Indenture), and in order to secure its obligations with respect to the payment of principal of and interest on this Note, the Company has delivered to the Trustee its Senior Secured Bonds, 3.125% Pollution Control Series due 2008 (the "Senior Secured Bonds"). The Senior Secured Bonds are issued pursuant to Supplemental Indenture No. 2 of the Company dated as of February 1, 2003, which supplements the Indenture dated as of August 1, 2001 of the Company to JPMorgan Chase Bank, as trustee (the "Company Indenture Trustee"), as supplemented (the "Company Indenture"). As provided in the Company Indenture, under certain circumstances, the lien of the Company Indenture may be released. As provided in the Agreement, upon the written request of the Company, with the written consent of the Bond Insurer (as long as the Bond Insurer is not in default of its payment obligations under the Bond Insurance Policy), if the Bond Insurance Policy is then in effect, the Senior Secured Bonds are to be surrendered to the Company Indenture Trustee upon the order of the Company, and the holder hereof, by its acceptance of this Note, consents to such surrender.

This Note is subject to prepayment, at the option of the Company, upon written notice to the Trustee given not less than 15 days prior to the day on which the Bond Registrar is required to give notice of extraordinary optional redemption to the Bondholders pursuant to Section 9.04 of Indenture, to the extent that the Bonds are subject to extraordinary optional redemption pursuant to Section 9.01(a) of the Indenture at a prepayment price equal to the corresponding redemption price of the Bonds. Notice of any extraordinary optional prepayment of this Note shall be conditional if the corresponding notice of extraordinary optional redemption of the Bonds under Section 9.04 of the Indenture is conditional and if the extraordinary optional redemption of the Bonds does not occur as a result of a failure of such condition, the notice of extraordinary optional prepayment of this Note shall be of no effect.

If the Bonds are being called for special mandatory redemption as provided in Section 9.01(b) of the Indenture, the Company shall, on or before the proposed redemption date for the Bonds, pay to the Trustee the whole or portion of the unpaid principal amount of this Note equal to the principal amount of the Bonds being called for special mandatory redemption.

In the event that the Company receives notice from the Trustee pursuant to Section 9.01(b) of the Indenture that a proceeding has been instituted as described therein which could lead to a final determination that interest on the Bonds is taxable, the Company shall promptly notify the Trustee and the Issuer whether or not it intends to contest such proceeding. In the event that the Company chooses to so contest, it will use its best efforts to obtain a prompt final determination or decision in such proceeding or litigation and will keep the Trustee and the Issuer informed of the progress of any such proceeding or litigation.

Upon receipt by the Trustee of notice of extraordinary optional prepayment hereof, the Trustee shall take all action necessary under and in accordance with the Indenture to redeem Bonds in an amount corresponding to that specified in the particular notice.

The Company is entitled to a credit against its obligations under this Note and this Note shall not be subject to required payment or prepayment to the extent that amounts which would otherwise be payable by the Company hereunder are paid from funds held by the Trustee under the Indenture and available for such payment (including from payments by the Company on the Senior Secured Bonds).

Whenever payment or provision therefor has been made in respect of the principal or redemption price of all or any portion of the Bonds and interest on all or any portion of the Bonds, together with all other sums payable by the Issuer under the Indenture, in accordance with Article XVI of the Indenture, this Note shall be deemed paid to the extent such payment or provision therefor has been made, and if thereby deemed paid in full, this Note shall be canceled and returned to the Company. Notwithstanding the foregoing, if, for any reason, the amounts specified

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above are not sufficient to make corresponding payments of principal or redemption price of the Bonds and interest on the Bonds, when such payments are due, the Company shall pay as additional amounts due hereunder, the amounts required from time to time to make up any such deficiency.

All payments of principal and interest shall be made to the Trustee at its corporate trust office in New York, New York or as otherwise directed by the Trustee in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. All payments shall be in the full amount required hereunder unless the Trustee notifies the Company that it is entitled to a credit under the Agreement, this Note or the Indenture.

The occurrence and continuance of each of the following events is hereby defined as and shall constitute an "Event of Default":

(a)Failure by the Company to pay the principal or prepayment price of this Note at maturity or upon unconditional proceedings for prepayment within one Business Day of when such principal or prepayment price becomes due and payable; or

(b)Failure by the Company to pay interest on this Note in amounts and at the times necessary to enable the Trustee to pay interest on the Bonds within ten Business Days of when such interest becomes due and payable; or

(c)If (i) the Company shall (A) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian or the like of itself or of its property, (B) admit in writing its inability to pay its debts generally as they become due, (C) make a general assignment for the benefit of creditors, (D) be adjudicated a bankrupt or insolvent, (E) commence a voluntary case under Title 11 of the United States Code (the "Bankruptcy Code") or file a voluntary petition or answer seeking reorganization, an arrangement with creditors or an order for relief or seeking to take advantage of any insolvency law or file an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding; or action shall be taken by it for the purpose of effecting any of the foregoing, or (ii) if without the application, approval or consent of the Company, a proceeding shall be instituted in any court of competent jurisdiction, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking in respect of the Company an order for relief or an adjudication in bankruptcy, reorganization, dissolution, winding up, liquidation, a composition or arrangement with creditors, a readjustment of debts, the appointment of a trustee, receiver, liquidator or custodian or the like of the Company or of all or any substantial part of its assets, or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested by the Company in good faith, the same shall (A) result in the entry of an order for relief or any such adjudication or appointment or (B) continue undismissed, or pending and unstayed, for any period of sixty (60) consecutive days.

(d)The acceleration of the maturity of the Senior Secured Bonds upon an occurrence of an "Event of Default" (as defined under the Company Indenture).

In each and every such case and during the continuance thereof, the Trustee, by notice in writing to the Company may declare the unpaid balance of this Note to be due and payable immediately if, concurrently with or prior to such notice, the unpaid principal amount of the Bonds has been declared due and payable, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Note to the contrary notwithstanding. Notwithstanding the foregoing, if after any declaration of acceleration hereunder there is an annulment of any declaration of acceleration with respect to the Bonds, such annulment shall also automatically constitute an annulment of any corresponding declaration under this Note and a waiver and rescission of the consequences of such declaration.

If a waiver of any event of default under the Senior Secured Bonds or any annulment or recission of any acceleration of Senior Secured Bonds occurs in accordance with the provisions of the Company Indenture, such waiver, annulment or recission shall constitute an automatic waiver, annulment or recission of the Event of Default described in clause (d) above and an automatic annulment and recission of any resulting acceleration of this Note.

In case the Trustee shall have proceeded to enforce any right under this Note and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the Company and the Trustee shall be restored to their respective positions and rights hereunder, and all rights, remedies and powers of the Company and the Trustee shall continue as though no such proceeding had been taken, but subject to the limitations of any such adverse determination.

The Company covenants that, in case default shall be made in the payment of any installment of principal, prepayment price or interest in respect of this Note, whether at maturity or by declaration or otherwise, then, upon demand of the Issuer or the Trustee, the Company will pay to the Trustee the whole amount that then shall have become due and payable on this Note for principal, prepayment price and interest with interest on the overdue principal and prepayment price and (to the extent enforceable under applicable law) on the overdue installments of interest at the rate borne by this Note; and, in addition thereto, such further amount as shall be sufficient to cover the reasonable costs and expenses of collection, including a reasonable compensation to the Trustee, its agents, attorneys and counsel, and any expenses or liabilities incurred by the Trustee other than through its negligence or bad faith.

In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee shall be entitled and empowered to take any actions permitted under applicable law and to institute any actions or proceedings at law or in equity for the collection of the sums so due and

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unpaid, and may prosecute any such action or proceedings to judgment or final decree, and may enforce any such judgment or final decree against the Company and collect in the manner provided by law out of the property of the Company any moneys adjudged or decreed to be payable.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of the Company under the Bankruptcy Code or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Company or in the case of any other similar judicial proceeding relative to the Company, or to the creditors or property of the Company, the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of this Note and interest owing and unpaid in respect thereof and, in case of any judicial proceedings, to file such proofs of claims and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Company, its creditors, or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its fees, charges and expenses; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including reasonable counsel fees incurred by it up to the date of such distribution.

No provision of this Note or of the Agreement or the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Bondholder any plan of reorganization, arrangement, adjustment or composition affecting this Note or the rights of any Bondholder in respect thereof or to authorize the Trustee to vote in respect of the claim of any Bondholder in any such proceeding; provided , however , that the Trustee may, on behalf of the Bondholders, vote for the election of a trustee in bankruptcy or similar official and be a member of a creditors' or other similar committee.

No remedy herein conferred is intended to be exclusive of any other remedy or remedies.

No recourse shall be had for the payment of the principal or prepayment price of or interest on this Note, or for any claim based hereon or on the Agreement, against any officer, director or stockholder, past, present or future, of the Company as such, either directly or through the Company, under any constitutional provision, statute or rule of law, or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise.

This Note shall at all times be and remain part of the trust estate under the Indenture, and no assignment or transfer by the Trustee of its rights hereunder shall be effective, other than (i) a transfer made after an Event of Default under the Indenture in the course of the Trustee's exercise of its rights and remedies consequent upon such Event of Default, (ii) a transfer required in the performance of the Trustee's duties under the Indenture, or (iii) a transfer to a successor trustee under the Indenture.

This Note has been delivered in the Commonwealth of Pennsylvania and shall be deemed to be governed by, and interpreted under, the laws of that Commonwealth.

Capitalized terms used in this Note not defined herein shall have the meanings ascribed to them in the Indenture.

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed and delivered.

Dated: February 12, 2003

PPL ELECTRIC UTILITIES CORPORATION
By: _
Treasurer

EXHIBIT C

NONDISCRIMINATION/SEXUAL HARASSMENT CLAUSE

During the term of this contract, the Company agrees as to itself and each tenant of the Project controlling, controlled by or under common control with the Company (each of the Company and each such tenant, a "Contractor") as follows:

1)In the hiring of any employee(s) for the manufacture of supplies, performance of work, or any other activity required under the contract or any subcontract, the Contractor, subcontractor, or any person acting on behalf of the Contractor or subcontractor shall not, by reason of gender, race, creed, or color, discriminate against any citizen of this Commonwealth who is qualified and available to perform the work to which the employment relates.

2)Neither the Contractor nor any subcontractor nor any person on their behalf shall in any manner discriminate against or intimidate any employee involved in the manufacture of supplies, the performance of work, or any other activity required under the contract on account of gender, race, creed, or color.

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3)Contractors and subcontractors shall establish and maintain a written sexual harassment policy and shall inform their employees of the policy. The policy must contain a notice that sexual harassment will not be tolerated and employees who practice it will be disciplined.

4)Contractors shall not discriminate by reason of gender, race, creed, or color against any subcontractor or supplier who is qualified to perform the work to which the contracts relates.

5)The Contractor and each subcontractor shall furnish all necessary employment documents and records to and permit access to their books, records, and accounts by the contracting agency and the Bureau of Contract Administration and Business Development, for purposes of investigation, to ascertain compliance with provisions of this Nondiscrimination/Sexual Harassment Clause. If the Contractor or any subcontractor does not possess documents or records reflecting the necessary information requested, the Contractor or subcontractor shall furnish such information on reporting forms supplied by the contracting agency or the Bureau of Contract Administration and Business Development.

6)The Contractor shall include the provisions of this Nondiscrimination/Sexual Harassment Clause in every subcontract so that such provisions will be binding upon each subcontractor.

7)The Commonwealth may cancel or terminate the contract, and all money due or to become due under the contract may be forfeited for a violation of the terms and conditions of this Nondiscrimination/Sexual Harassment Clause. In addition, the agency may proceed with debarment or suspension and may place the Contractor in the Contractor Responsibility File.

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Exhibit 12(a)

PPL CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(Millions of Dollars)

	2002	2001	2000	1999	1998
Fixed charges, as defined:					
Interest on long-term debt	**$ 486**	$ 351	$ 323	$ 233	$ 203
Interest on short-term debt and other interest	**71**	44	64	47	33
Amortization of debt discount, expense and premium - net	**25**	17	5	4	2
Interest on capital lease obligations					
Charged to expense			4	9	8
Capitalized				1	2
Estimated interest component of operating rentals	**39**	36	25	20	18
Preferred stock dividends of subsidiaries on a pre-tax basis	**79**	64	31	30	31
Total fixed charges	**$ 700**	$ 512	$ 452	$ 344	$ 297
Earnings, as defined:					
Net income (a)	**$ 436**	$ 167	$ 491	$ 492	$ 379
Preferred security dividend requirements	**67**	52	26	26	25
Less undistributed income (loss) of equity method investments	**(23)**	20	74	56	3
	526	199	443	462	401
Add:					
Income taxes	**210**	261	294	174	259
Amortization of capitalized interest on capital leases			2	2	2
Total fixed charges as above (excluding capitalized interest, capitalized interest on capital lease obligations and preferred stock dividends of subsidiaries on a pre-tax basis)	**600**	419	405	307	257
Total earnings	**$ 1,336**	$ 879	$ 1,144	$ 945	$ 919
Ratio of earnings to fixed charges (b)	**1.9**	1.7	2.5	2.7	3.1
Ratio of earnings to combined fixed charges and preferred stock dividends (b) (c)	**1.9**	1.7	2.5	2.7	3.1

(a) Net income excludes extraordinary item, minority interest and the cumulative effect of a change in accounting principle.

(b) Ratio of earnings to fixed charges for years 2001 and prior were recalculated to give proper effect of preferred security dividends of subsidiaries on a pre-tax basis.

(c) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

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Exhibit 12(b)

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of Dollars)

	2002 (b)	2001 (b)	2000 (b)	1999	1998
Fixed charges, as defined:					
Interest on long-term debt	**$ 169**	$ 36	$ 54	$ 20	$ 11
Interest on short-term debt and other interest	**52**	33	75	32	14
Amortization of debt discount, expense and premium - net	**9**	2	11	1	
Estimated interest component of operating rentals	**23**	19	9		
Preferred stock dividends of subsidiaries on a pre-tax basis	**12**				
Total fixed charges	**$ 265**	$ 90	$ 149	$ 53	$ 25
Earnings, as defined:					
Net income (loss) (a)	**$ 507**	$ 168	$ 246	$ (20)	$ 12
Preferred security dividend requirement	**9**				
Less undistributed income (loss) of equity method investments	**(22)**	20	74	56	3
	538	148	172	(76)	9
Add:					
Income taxes (benefit)	**266**	274	125	(29)	(6)
Total fixed charges as above (excluding capitalized interest and preferred stock dividends of subsidiaries on a pre-tax basis)	**234**	66	135	52	24
Total earnings	**$ 1,038**	$ 488	$ 432	$ (53)	$ 27
Ratio of earnings to fixed charges	**3.9**	5.4	2.9	(1.0)	1.1
Deficiency				$ 106	

(a) Net income (loss) excludes minority interest and the cumulative effect of a change in accounting principle.
(b) Due to the corporate realignment on July 1, 2000, data in 2000 and subsequent years are not comparable to prior years. See Note 19 to the Financial Statements for additional information.

Exhibit 12(c)

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of Dollars)

	2002 (b)	2001 (b)	2000 (b)	1999	1998
Fixed charges, as defined:					
Interest on long-term debt	**$ 209**	$ 220	$ 223	$ 205	$ 188
Interest on short-term debt and other interest	**3**	4	16	12	14
Amortization of debt discount, expense and premium - net	**7**	6	4	3	2
Interest on capital lease obligations					
Charged to expense			4	9	8
Capitalized				1	2
Estimated interest component of operating rentals	**7**	8	14	19	18
Preferred stock dividends of subsidiaries on a pre-tax basis	**13**	23	23	23	23
Total fixed charges	**$ 239**	$ 261	$ 284	$ 272	$ 255
Earnings, as defined:					

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Net income (a)	**$ 39**	$ 114	$ 250	$ 444	$ 361
Preferred security dividend requirements	**16**	26	26	37	48
	55	140	276	481	409
Add:					
Income taxes	**18**	65	171	151	273
Amortization of capitalized interest on capital leases			2	2	2
Total fixed charges as above (excluding capitalized interest, capitalized interest on capital lease obligations and preferred stock dividends of subsidiaries on a pre-tax basis)	**225**	238	257	243	222
Total earnings	**$ 298**	$ 443	$ 706	$ 877	$ 906
Ratio of earnings to fixed charges (c)	**1.2**	1.7	2.5	3.2	3.6

(a) Net income excludes extraordinary item and the cumulative effect of a change in accounting principle.

(b) Due to the corporate realignment on July 1, 2000, data in 2000 and subsequent years are not comparable to prior years. See Note 19 to the Financial Statements for additional information.

(c) Ratio of earnings to fixed charges for years 2001 and prior were recalculated to give proper effect of preferred security dividends of subsidiaries on a pre-tax basis.

Exhibit 12(d)

PPL MONTANA, LLC AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of Dollars)

	2002	**2001**	**2000**
Fixed charges, as defined:			
Interest expense on credit facility	**$ 2**	$ 2	$ 18
Amortization of debt expenses		1	3
Amortization of wholesale energy commitments	**4**	6	7
Estimated interest component of operating rentals	**15**	15	6
Total fixed charges	**$ 21**	$ 24	$ 34
Earnings, as defined:			
Net income	**$ 47**	$ 103	$ 86
Add:			
Income taxes	**35**	68	57
Total fixed charges as above	**21**	24	34
Total earnings	**$ 103**	$ 195	$ 177
Ratio of earnings to fixed charges	**4.9**	8.1	5.2

Exhibit 23(a)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-85716, 333-85716-01 and 333-85716-02), the Registration Statement on Form S-3D (No. 333-102845), and the Registration Statements on Form S-8 (Nos. 333-02003 and 333-95967) of PPL Corporation of our report dated February 3, 2003 relating to the consolidated financial statements and financial statement schedule of PPL Corporation, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Philadelphia, PA
March 3, 2003

Exhibit 23(b)

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CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-64880) of PPL Electric Utilities Corporation of our report dated February 3, 2003 relating to the consolidated financial statements and financial statement schedule of PPL Electric Utilities Corporation, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Philadelphia, PA
March 3, 2003

Exhibit 24

PPL CORPORATION

2002 ANNUAL REPORT

TO THE SECURITIES AND EXCHANGE COMMISSION

ON FORM 10-K

POWEROFATTORNEY

The undersigned directors of PPL Corporation, a Pennsylvania corporation, that is to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, its 2002 Annual Report on Form10-K, do hereby appoint each of WilliamF. Hecht, JohnR. Biggar and RobertJ. Grey their true and lawful attorney, with power to act without the other and with full power of substitution and resubstitution, to execute for them and in their names said Form 10-K Report and any and all amendments thereto, whether said amendments add to, delete from or otherwise alter said Form10-K Report, or add or withdraw any exhibits or schedules to be filed therewith and any and all instruments in connection therewith. The undersigned hereby grant to each said attorney full power and authority to do and perform in the name of and on behalf of the undersigned, and in any and all capacities, any act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as the undersigned might do, hereby ratifying and approving the acts of each of the said attorneys.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands and seals this 28th day of February, 2003.

/s/ Frederick M. Bernthal	L.S.	/s/ Stuart Heydt	L.S.
Frederick M. Bernthal		Stuart Heydt	
/s/ John W. Conway	L.S.	/s/ W. Keith Smith	L.S.
John W. Conway		W. Keith Smith	
/s/ E. Allen Deaver	L.S.	/s/ Susan M. Stalnecker	L.S.
E. Allen Deaver		Susan M. Stalnecker	

Exhibit 99(a)

CERTIFICATE REGARDING
PPL CORPORATION'S 10-K FOR THE YEAR ENDED DECEMBER 31, 2002

In connection with the annual report on Form 10-K of PPL Corporation (the "Company") for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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IN WITNESS WHEREOF, I have executed this certificate as of this 3rd day of March, 2003.

/s/William F. Hecht
William F. Hecht
Chairman, President and
Chief Executive Officer
PPL Corporation

Exhibit 99(b)

CERTIFICATE REGARDING
PPL CORPORATION'S 10-K FOR THE YEAR ENDED DECEMBER 31, 2002

In connection with the annual report on Form 10-K of PPL Corporation (the "Company") for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this certificate as of this 3rd day of March, 2003.

/s/ John R. Biggar
John R. Biggar
Executive Vice President and
Chief Financial Officer
PPL Corporation

Exhibit 99(c)

CERTIFICATE REGARDING
PPL ENERGY SUPPLY, LLC'S 10-K FOR THE YEAR ENDED DECEMBER 31, 2002

In connection with the annual report on Form 10-K of PPL Energy Supply, LLC (the "Company") for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this certificate as of this 3rd day of March, 2003.

/s/William F. Hecht
William F. Hecht
President
PPL Energy Supply, LLC

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Exhibit 99(d)

CERTIFICATE REGARDING
PPL ENERGY SUPPLY'S 10-K FOR THE YEAR ENDED DECEMBER 31, 2002

In connection with the annual report on Form 10-K of PPL Energy Supply, LLC (the "Company") for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this certificate as of this 3rd day of March, 2003.

/s/James E. Abel
James E. Abel
Treasurer
PPL Energy Supply, LLC

Exhibit 99(e)

CERTIFICATE REGARDING
PPL ELECTRIC UTILITIES CORPORATION'S 10-K FOR THE YEAR ENDED DECEMBER 31, 2002

In connection with the annual report on Form 10-K of PPL Electric Utilities Corporation (the "Company") for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this certificate as of this 3rd day of March, 2003.

/s/Michael E. Bray
Michael E. Bray
President
PPL Electric Utilities Corporation

Exhibit 99(f)

CERTIFICATE REGARDING
PPL ELECTRIC UTILITIES CORPORATION'S 10-K FOR THE YEAR ENDED DECEMBER 31, 2002

In connection with the annual report on Form 10-K of PPL Electric Utilities Corporation (the "Company") for the year ended December 31,

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2002, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this certificate as of this 3rd day of March, 2003.

/s/James E. Abel
James E. Abel
Treasurer
PPL Electric Utilities Corporation

Exhibit 99(g)

CERTIFICATE REGARDING
PPL MONTANA, LLC'S 10-K FOR THE YEAR ENDED DECEMBER 31, 2002

In connection with the annual report on Form 10-K of PPL Montana, LLC (the "Company") for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this certificate as of this 3rd day of March, 2003.

/s/James H. Miller
James H. Miller
President
PPL Montana, LLC

Exhibit 99(h)

CERTIFICATE REGARDING
PPL MONTANA, LLC'S 10-K FOR THE YEAR ENDED DECEMBER 31, 2002

In connection with the annual report on Form 10-K of PPL Montana, LLC (the "Company") for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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IN WITNESS WHEREOF, I have executed this certificate as of this 3rd day of March, 2003.

/s/James E. Abel
James E. Abel
Treasurer
PPL Montana, LLC

Exhibit 99(i)

PPL Corporation - Corporate Organization
(Selected Subsidiaries)

PPL Corporation
- PPL Electric Utilities Corporation
  - PPL Transition Bond Company, LLC
  - CEP Commerce, LLC
- PPL Gas Utilities Corporation
- PPL Services Corporation
- PPL Capital Funding, Inc.
- PPL Properties, Inc.
- Ninth Street & Hamilton Corporation
- PPL Energy Funding Corporation
  - CEP Delaware, Inc.
  - CEP Reserves, Inc.
  - PPL Ventures, LLC
    - PPL Telcom, LLC
  - PPL Energy Supply, LLC
    - PPL Investment Corporation
    - PPL Global, LLC
      - PMDC Chile, Inc. *(includes Emel)*
      - PPLG U.S. Latin America, Inc. *(includes Elfec and Vidivision)*
      - PPLG El Salvador *(includes EC)*
      - PMDC International Holdings, Inc. *(includes WPD)*
    - PPL EnergyPlus, LLC
      - PPL Synfuel Investments, LLC
      - PPL Energy Services Holdings, LLC
    - PPL Generation, LLC
      - PPL Holtwood, LLC
      - PPL Maine, LLC
      - PPL Interstate Energy Company
      - PPL Montana Holdings, LLC *(includes PPL Montana)*
      - PPL Susquehanna, LLC
      - PPL Martins Creek, LLC
      - PPL Brunner Island, LLC
      - PPL Montour, LLC
        - PPL Rights, Inc. (jointly owned by PPL Montour, PPL Martins Creek, and PPL Brunner Island)
      - Lower Mount Bethel Energy, LLC
      - PPL Wallingford Energy LLC
      - PPL Sundance Energy, LLC
      - PPL Shoreham Energy, LLC
      - PPL Edgewood Energy, LLC
      - PPL Southwest Generation Holdings, LLC *(50% owner of Griffith Energy)*
      - PPL Coal Holdings Corporation
      - PPL Midwest Holdings, LLC *(includes University Park)*

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End of Filing

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