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Talen Energy Corp  
Form 10-Q  
August 12, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2015

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. |
|------------------------|---|---------------------------------|
| 1-37388                | Talen Energy Corporation<br>(Exact name of Registrant as specified in its charter)<br>(Delaware)<br>835 Hamilton Street Suite 150<br>Allentown, PA 18101-1179<br>(888) 211-6011   | 47-1197305                      |
| 1-32944                | Talen Energy Supply, LLC<br>(Exact name of Registrant as specified in its charter)<br>(Delaware)<br>835 Hamilton Street Suite 150<br>Allentown, PA 18101-1179<br>(888) 211-6011<br><br>(Formerly known as PPL Energy Supply, LLC, and formerly located at Two North Ninth Street, Allentown, PA 18101-1179) | 23-3074920                      |

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.

|                          |   |  |
|--------------------------|---|--|
| Talen Energy Corporation | Yes                                     | No <input checked="" type="checkbox"/> |
| Talen Energy Supply, LLC | Yes <input checked="" type="checkbox"/> | No                                     |

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

|                          |   |    |
|--------------------------|---|----|
| Talen Energy Corporation | Yes <input checked="" type="checkbox"/> | No |
| Talen Energy Supply, LLC | Yes <input checked="" type="checkbox"/> | No |



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

|                          | Large accelerated<br>filer | Accelerated<br>filer     | Non-accelerated<br>filer            | Smaller reporting<br>company |
|--------------------------|----------------------------|--------------------------|-------------------------------------|------------------------------|
| Talen Energy Corporation | <input type="checkbox"/>   | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/>     |
| Talen Energy Supply, LLC | <input type="checkbox"/>   | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/>     |

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

|                          |     |  |
|--------------------------|-----|--|
| Talen Energy Corporation | Yes | No <input checked="" type="checkbox"/> |
| Talen Energy Supply, LLC | Yes | No <input checked="" type="checkbox"/> |

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

Talen Energy Corporation      Common stock, \$0.001 par value, 128,508,921 shares outstanding at July 31, 2015.

Talen Energy Supply, LLC      Talen Energy Corporation indirectly holds all of the membership interests in Talen Energy Supply, LLC.

This document is available free of charge in the Investors & Media section of Talen Energy Corporation's website at [www.talenenergy.com](http://www.talenenergy.com). However, information on such website does not constitute a part of this Form 10-Q.

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TALen ENERGY CORPORATION  
TALen ENERGY SUPPLY, LLC  
FORM 10-Q  
FOR THE QUARTER ENDED JUNE 30, 2015

This combined Quarterly Report on Form 10-Q is separately filed by the following registrants in their individual capacity: Talen Energy Corporation and Talen Energy Supply, LLC. Information contained herein relating to any individual registrant is filed by such registrant solely on its own behalf, and neither registrant makes any representation as to information relating to the other registrant except that information relating to Talen Energy Supply, LLC and its subsidiaries is also attributed to Talen Energy Corporation and information relating to the subsidiaries of Talen Energy Supply, LLC is also attributed to Talen Energy Supply, LLC.

As Talen Energy Corporation is substantially comprised of Talen Energy Supply, LLC and its subsidiaries, most disclosures refer to Talen Energy which refers collectively to Talen Energy Corporation and Talen Energy Supply, LLC. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis. When identification of a particular entity is considered important to understanding the matter being disclosed, the specific entity's name is used, in particular, for those few disclosures that apply only to Talen Energy Corporation. References, individually, to Talen Energy Corporation and Talen Energy Supply, LLC are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such registrant's financial results in accordance with GAAP. However, specific references to Talen Energy Supply, LLC also apply to Talen Energy Corporation through consolidation.

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EXPLANATORY NOTE

In June 2014, PPL and Talen Energy Supply executed definitive agreements with the Riverstone Holders to combine their competitive power generation businesses into a new, stand-alone, publicly traded company named Talen Energy Corporation. On June 1, 2015, PPL completed the spinoff to PPL shareowners of a newly formed entity, Talen Energy Holdings, Inc. (Holdco), which at such time owned all of the membership interests of Talen Energy Supply and all of the common stock of Talen Energy Corporation. Immediately following the spinoff, Holdco merged with a special purpose subsidiary of Talen Energy Corporation, with Holdco continuing as the surviving company to the merger and as a wholly owned subsidiary of Talen Energy Corporation and the sole owner of Talen Energy Supply. PPL does not have an ownership interest in Talen Energy Corporation after completion of the spinoff. Substantially contemporaneous with the spinoff and merger, RJS Power was contributed by the Riverstone Holders to become a subsidiary of Talen Energy Supply (referred to as the "combination" or the "acquisition"). Subsequent to the acquisition, RJS Power was merged into Talen Energy Supply. Talen Energy has treated the combination with RJS Power as an acquisition, with Talen Energy Supply considered the accounting acquirer, in accordance with business combination accounting guidance. See Notes 1 and 7 to the Financial Statements for additional information on the spinoff and acquisition.

Talen Energy Corporation's obligation to report under the Securities and Exchange Act of 1934, as amended, commenced on May 1, 2015, the date Talen Energy Corporation's Registration Statement on Form S-1 was declared effective by the SEC. Talen Energy Supply is a separate registrant and considered the predecessor of Talen Energy Corporation, therefore, the financial information prior to June 1, 2015 presented in this Quarterly Report on Form 10-Q for both registrants includes only legacy Talen Energy Supply information. From June 1, 2015, upon completion of the spinoff and acquisition, Talen Energy Corporation's and Talen Energy Supply's consolidated financial information also includes RJS. As such, Talen Energy Corporation's and Talen Energy Supply's consolidated financial information presented in this Quarterly Report on Form 10-Q for the 2015 periods represents three and six months of legacy Talen Energy Supply information consolidated with one month of RJS information from June 1, 2015, while the 2014 periods represent only legacy Talen Energy Supply information.

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GLOSSARY OF TERMS AND ABBREVIATIONS

Talen Energy and its subsidiaries

Holdco - Talen Energy Holdings, Inc., a Delaware Corporation, which was formed for the purposes of the spinoff transaction.

Jade - Jade Power Generation Holdings LLC, a subsidiary of Talen Energy Supply that owns generating operations in Texas.

Raven - Raven Power Generation Holdings LLC, a subsidiary of Talen Energy Supply that owns generating operations in Maryland.

RJS - Raven, Jade and Sapphire, collectively.

RJS Power - RJS Generation Holdings LLC, a Delaware limited liability company and former parent of RJS that was contributed by the Riverstone Holders to Talen Energy on June 1, 2015 in exchange for 35% of Talen Energy Corporation's common stock. Following the contribution, RJS Power was merged into Talen Energy Supply.

Sapphire - Sapphire Power Generation Holdings LLC, a subsidiary of Talen Energy Supply that owns generating operations in Massachusetts, New Jersey and Pennsylvania.

Susquehanna Nuclear - Susquehanna Nuclear, LLC, formerly PPL Susquehanna, LLC, a subsidiary of Talen Generation that owns a nuclear-powered generating station in Pennsylvania.

Talen Energy - Talen Energy Corporation and Talen Energy Supply, LLC, collectively.

Talen Energy Corporation - a holding company formed to be the publicly traded company and owner of Talen Energy Supply as a result of the spinoff from PPL.

Talen Energy Supply - Talen Energy Supply, LLC, formerly PPL Energy Supply, LLC, a subsidiary of Talen Energy Corporation and the parent company of Talen Generation, Talen Energy Marketing, RJS and other subsidiaries.

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

Talen Generation - Talen Generation, LLC, formerly PPL Generation, LLC, a subsidiary of Talen Energy Supply that owns and operates generating facilities through various subsidiaries primarily in Pennsylvania.

Talen Montana - Talen Montana, LLC, formerly PPL Montana, LLC, an indirect subsidiary of Talen Generation that owns generating operations in Montana.

Other terms and abbreviations

2015 Prospectus - the prospectus filed with the SEC pursuant to Rule 424(b)(3) by Talen Energy Corporation (Registration No. 333-199888) on May 1, 2015.



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Adjusted EBITDA - EBITDA, as further adjusted for certain items, including unrealized (gain) loss on derivative contracts, ARO accretion, stock-based compensation, NDT fund (gain) loss and other items not considered indicative of ongoing operating performance.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

CCR(s) - Coal Combustion Residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

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

COBRA - Consolidated Omnibus Budget Reconciliation Act, which provides individuals the option to temporarily continue employer group health insurance coverage after termination of employment.

CRRs - congestion revenue rights, which are financial instruments established to manage price risk related to electricity transmission congestion that entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations, known as source and sink.

CSAPR - Cross-State Air Pollution Rule.

DOJ - Department of Justice, a U.S. government agency.

DR - demand response, a program designed to induce, through the use of incentive payments, retail electricity consumers to lower electricity use at times of high wholesale market prices or when system reliability is jeopardized.

EBITDA - net income adjusted for depreciation, amortization, interest expense and income taxes.

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

EPS - earnings per share.

ERCOT - the Electric Reliability Council of Texas, operator of the electricity transmission network and electricity energy market in most of Texas.

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

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

FTRs - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion that entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion between two pricing locations, known as source and sink.

GAAP - Generally Accepted Accounting Principles in the U.S.

GHG - greenhouse gas(es).

IBEW - International Brotherhood of Electrical Workers

Ironwood Facility - a natural gas combined-cycle unit in Lebanon, Pennsylvania with a summer rating of approximately 660 MWs.

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

ISO - Independent System Operator.

MATS - Mercury and Air Toxics Standards.

MDE - Maryland Department of Environment.

MDEQ - Montana Department of Environmental Quality.

MEIC - Montana Environmental Information Center.

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MMBtu - One million British Thermal Units.

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

MW - megawatt, one thousand kilowatts.

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

NAAQS - National Ambient Air Quality Standard.

NDT - Susquehanna Nuclear's plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

NRC - Nuclear Regulatory Commission, the U.S. government agency that regulates nuclear power facilities.

OCI - other comprehensive income or loss.

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

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

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

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

PP&E - property, plant and equipment.

PPL - PPL Corporation, the former indirect parent holding company of all Talen Energy companies except for RJS.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL and former affiliate of Talen Energy engaged in the regulated transmission and distribution of electricity in its Pennsylvania service area and that provides electricity supply to its retail customers in this area as a PLR.

PPL Services - PPL Services Corporation, a subsidiary of PPL and former affiliate of Talen Energy that provides services to Talen Energy.

PUCT - Public Utility Commission of Texas, the state agency that represents and protects the public interests in regard to public utility rates, operations and services and provides oversight of competitive markets and compliance enforcement of statutes and rules for the electric and telecommunication industries in Texas.

RCRA - Resource Conservation and Recovery Act of 1976.

RECs - Renewable Energy Credits.

Regional Haze Program - the EPA program that requires states to develop and implement air quality protection plans to reduce pollution that causes visibility impairment in national parks and wilderness areas.

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

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Riverstone - Riverstone Holdings LLC, a Delaware limited liability company.

Riverstone Holders - Raven Power Holdings LLC, C/R Energy Jade, LLC and Sapphire Power Holdings LLC, affiliates of Riverstone that formerly owned RJS Power and contributed RJS Power to Talen Energy on June 1, 2015 in exchange for 35% of Talen Energy Corporation's common stock.

RTO - Regional Transmission Organization.

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

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

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

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible for protecting investors and maintaining the integrity of the securities markets.

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

Spark Spread - a measure of gross margin representing the price of power on a per MWh basis less the equivalent measure of the natural gas cost to produce that power. This measure is used to describe the gross margin of Talen Energy's competitive natural gas-fired generating fleet. This term is also used to describe a derivative contract in which Talen Energy subsidiaries sell power and buy natural gas on a forward basis in the same contract.

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

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

Treasury Stock Method - A method applied to calculate diluted EPS that assumes any proceeds that could be obtained upon exercise of options and warrants (and their equivalents) would be used to purchase common stock at the average market price during the relevant period.

TSA - as applicable, the Transition Services Agreement, dated June 1, 2015, by and between PPL and Talen Energy Supply and the Transition Services Agreement, dated May 4, 2015, by and between Talen Energy Supply and Topaz Power Management, LP.

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

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

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FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although Talen Energy believes that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" in this Form 10-Q and "Risk Factors" in the 2015 Prospectus and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- weather conditions affecting generation, customer energy use and operating costs and revenues;
- operation, availability and operating costs of existing generation facilities;
- the duration of and cost, including lost revenue, associated with scheduled and unscheduled outages at our generating facilities;
- expansion of alternative sources of electricity generation;
- investor perceptions of Talen Energy and the industry and markets in which Talen Energy operates;
- changes in earnings estimates or buy/sell recommendations by analysts;
- collective labor bargaining negotiations;
- the outcome of litigation against Talen Energy and its subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, cyber-based intrusions or natural disasters;
- the commitments and liabilities of Talen Energy and its subsidiaries;
- volatility in market demand and prices for energy, capacity, transmission services, emission allowances and RECs;
- competition in retail and wholesale power and natural gas markets;
- sufficient liquidity in wholesale power markets to hedge Talen Energy's portfolio of assets efficiently and effectively;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- the effectiveness of our risk management techniques, including hedging, with respect to electricity and fuel prices, interest rates and counterparty credit and non-performance risks;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of Talen Energy Corporation common stock;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical and nuclear decommissioning liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- the effect on Talen Energy's operations and ability to comply with new statutory and regulatory requirements related to derivative financial instruments;
- Talen Energy's ability to attract and retain qualified employees;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- Talen Energy's ability to successfully integrate the RJS Power businesses and to achieve anticipated synergies and cost savings as a result of the spinoff transaction and combination with RJS Power;
-



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current and future environmental conditions, regulations and other requirements (including laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change) and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;

• legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;

• changes in political, regulatory or economic conditions in states, regions or countries where Talen Energy or its subsidiaries conduct business;

• receipt of necessary governmental permits, and approvals;

• new state, federal or foreign legislation or regulatory developments;

• the impact of any state, federal or foreign investigations applicable to Talen Energy and its subsidiaries and the energy industry;

• the effect of any business or industry restructuring;

• development of new projects, markets and technologies;

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performance of new ventures; and business dispositions or acquisitions, and our ability to realize expected benefits from such business transactions including the pending acquisition of MACH Gen, LLC and/or dispositions required as a condition to regulatory approval of the combination with RJS Power.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of Talen Energy 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 Talen Energy to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and Talen Energy undertakes no obligation to update the information contained in such statement to reflect subsequent developments or information.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Talen Energy Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, Except Share Data)

|  | Three Months Ended |        | Six Months Ended |          |   |
|--|--------------------|--------|------------------|----------|---|
|  | June 30,           |        | June 30,         |          |   |
|  | 2015               | 2014   | 2015             | 2014     |   |
| Operating Revenues   |                    |        |                  |          |   |
| Wholesale energy   | \$673              | \$551  | \$1,195          | \$(906)  | ) |
| Wholesale energy to affiliate                                    | 5                  | 21     | 14               | 48       |   |
| Retail energy  | 243                | 280    | 554              | 630      |   |
| Energy-related businesses  | 144                | 155    | 248              | 280      |   |
| Total Operating Revenues   | 1,065              | 1,007  | 2,011            | 52       |   |
| Operating Expenses   |                    |        |                  |          |   |
| Operation  |                    |        |                  |          |   |
| Fuel   | 200                | 259    | 551              | 741      |   |
| Energy purchases   | 289                | 203    | 290              | (1,601)  | ) |
| Other operation and maintenance                                  | 305                | 285    | 531              | 514      |   |
| Depreciation   | 87                 | 76     | 164              | 151      |   |
| Taxes, other than income   | 15                 | 13     | 30               | 31       |   |
| Energy-related businesses  | 135                | 155    | 233              | 279      |   |
| Total Operating Expenses   | 1,031              | 991    | 1,799            | 115      |   |
| Operating Income (Loss)  | 34                 | 16     | 212              | (63)     | ) |
| Other Income (Expense) - net                                     | 3                  | 7      | 10               | 13       |   |
| Interest Expense   | 55                 | 32     | 91               | 64       |   |
| Income (Loss) from Continuing Operations Before Income Taxes     | (18)               | (9)    | 131              | (114)    | ) |
| Income Taxes   | (43)               | (11)   | 10               | (58)     | ) |
| Income (Loss) from Continuing Operations After Income Taxes      | 25                 | 2      | 121              | (56)     | ) |
| Income (Loss) from Discontinued Operations (net of income taxes) | 1                  | 11     | 1                | 3        |   |
| Net Income (Loss)  | \$26               | \$13   | \$122            | \$(53)   | ) |
| Earnings Per Share of Common Stock:                              |                    |        |                  |          |   |
| Basic:   |                    |        |                  |          |   |
| Income (Loss) from continuing operations after income taxes      | \$0.25             | \$0.03 | \$1.33           | \$(0.67) | ) |
| Income (Loss) from discontinued operations (net of income taxes) | 0.01               | 0.13   | 0.01             | 0.04     |   |
| Net Income (Loss)  | \$0.26             | \$0.16 | \$1.34           | \$(0.63) | ) |
| Diluted:   |                    |        |                  |          |   |
| Income (Loss) from continuing operations                         | \$0.25             | \$0.03 | \$1.33           | \$(0.67) | ) |
| Income (Loss) from discontinued operations (net of income taxes) | 0.01               | 0.13   | 0.01             | 0.04     |   |
| Net Income (Loss)  | \$0.26             | \$0.16 | \$1.34           | \$(0.63) | ) |

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Weighted-Average Shares of Common Stock Outstanding (in thousands)

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 98,354 | 83,524 | 90,980 | 83,524 |
| Diluted | 98,376 | 83,524 | 91,002 | 83,524 |

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

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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Talen Energy Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

|   | Three Months Ended |       | Six Months Ended |        |
|---|--------------------|-------|------------------|--------|
|   | June 30,           |       | June 30,         |        |
|   | 2015               | 2014  | 2015             | 2014   |
| Net income (loss)   | \$26               | \$13  | \$122            | \$(53) |
| Other comprehensive income (loss):  |                    |       |                  |        |
| Amounts arising during the period - gains (losses), net of tax (expense) benefit: |                    |       |                  |        |
| Available-for-sale securities, net of tax of \$5, (\$15), (\$1), (\$21)           | (4)                | ) 14  | 1                | ) 19   |
| Defined benefit plans:  |                    |       |                  |        |
| Prior service costs, net of tax of \$2, \$0, \$2, \$0                             | (3)                | ) —   | (3)              | ) —    |
| Net actuarial gain, net of tax of (\$30), \$0, (\$30), \$0                        | 46                 | —     | 46               | —      |
| Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):       |                    |       |                  |        |
| Available-for-sale securities, net of tax of \$1, \$1, \$2, \$2                   | (1)                | ) (1) | ) (2)            | ) (2)  |
| Qualifying derivatives, net of tax of \$4, \$5, \$7, \$9                          | (6)                | ) (8) | ) (10)           | ) (13) |
| Defined benefit plans:  |                    |       |                  |        |
| Prior service costs, net of tax of \$0, \$0, \$0, (\$1)                           | (1)                | ) —   | (1)              | ) 1    |
| Net actuarial loss, net of tax of (\$3), (\$1), (\$6), (\$2)                      | 5                  | 2     | 9                | 3      |
| Total other comprehensive income (loss)   | 36                 | 7     | 40               | 8      |
| Comprehensive income (loss)   | \$62               | \$20  | \$162            | \$(45) |

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Talen Energy Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

|  | Six Months Ended |        |   |
|--|------------------|--------|---|
|  | June 30,         |        |   |
|  | 2015             | 2014   |   |
| Cash Flows from Operating Activities   |                  |        |   |
| Net income (loss)  | \$ 122           | \$(53  | ) |
| Adjustments to reconcile net income to net cash provided by operating activities |                  |        |   |
| Depreciation   | 164              | 162    |   |
| Amortization   | 93               | 77     |   |
| Defined benefit plans - expense  | 23               | 32     |   |
| Deferred income taxes and investment tax credits                                 | (46              | ) (120 | ) |
| Impairment of assets   | 3                | 18     |   |
| Unrealized (gains) losses on derivatives, and other hedging activities           | (40              | ) 232  |   |
| Other  | 41               | 10     |   |
| Change in current assets and current liabilities                                 |                  |        |   |
| Accounts receivable  | 50               | 25     |   |
| Accounts payable   | (135             | ) (55  | ) |
| Unbilled revenues  | 80               | 67     |   |
| Fuel, materials and supplies   | 33               | 9      |   |
| Prepayments  | 37               | (16    | ) |
| Counterparty collateral  | 36               | (15    | ) |
| Price risk management assets and liabilities                                     | (1               | ) (33  | ) |
| Other  | (34              | ) (29  | ) |
| Other operating activities   |                  |        |   |
| Defined benefit plans - funding  | (74              | ) (32  | ) |
| Other assets   | 2                | (1     | ) |
| Other liabilities  | 1                | 12     |   |
| Net cash provided by operating activities  | 355              | 290    |   |
| Cash Flows from Investing Activities   |                  |        |   |
| Expenditures for property, plant and equipment                                   | (179             | ) (176 | ) |
| Expenditures for intangible assets   | (19              | ) (24  | ) |
| Purchases of nuclear plant decommissioning trust investments                     | (108             | ) (73  | ) |
| Proceeds from the sale of nuclear plant decommissioning trust investments        | 100              | 65     |   |
| Proceeds from the receipt of grants  | —                | 56     |   |
| Net (increase) decrease in restricted cash and cash equivalents                  | 67               | (258   | ) |
| Other investing activities   | 12               | 7      |   |
| Net cash provided by (used in) investing activities                              | (127             | ) (403 | ) |
| Cash Flows from Financing Activities   |                  |        |   |
| Issuance of long-term debt   | 600              | —      |   |
| Contributions from member  | 82               | 730    |   |
| Distributions to member  | (214             | ) (914 | ) |
| Net increase (decrease) in short-term debt                                       | (668             | ) 324  |   |
| Other financing activities   | (28              | ) (2   | ) |
| Net cash provided by (used in) financing activities                              | (228             | ) 138  |   |

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|  |       |       |
|--|-------|-------|
| Net Increase (Decrease) in Cash and Cash Equivalents | —     | 25    |
| Cash and Cash Equivalents at Beginning of Period     | 352   | 239   |
| Cash and Cash Equivalents at End of Period           | \$352 | \$264 |

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

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## CONDENSED CONSOLIDATED BALANCE SHEETS

Talen Energy Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, Shares in Thousands)

|  | June 30,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| Assets   |                  |                      |
| Current Assets   |                  |                      |
| Cash and cash equivalents                                | \$352            | \$352                |
| Restricted cash and cash equivalents                     | 109              | 176                  |
| Accounts receivable (less reserve: 2015, \$2; 2014, \$2) |                  |                      |
| Customer   | 241              | 186                  |
| Other  | 56               | 103                  |
| Accounts receivable from affiliates                      | —                | 36                   |
| Unbilled revenues  | 138              | 218                  |
| Fuel, materials and supplies                             | 481              | 455                  |
| Prepayments  | 38               | 70                   |
| Price risk management assets                             | 803              | 1,079                |
| Assets of discontinued operations                        | 394              | —                    |
| Other current assets                                     | 9                | 26                   |
| Total Current Assets                                     | 2,621            | 2,701                |
| Investments  |                  |                      |
| Nuclear plant decommissioning trust funds                | 958              | 950                  |
| Other investments  | 27               | 30                   |
| Total Investments  | 985              | 980                  |
| Property, Plant and Equipment                            |                  |                      |
| Generation   | 13,170           | 11,318               |
| Nuclear fuel   | 652              | 624                  |
| Other  | 315              | 293                  |
| Less: accumulated depreciation                           | 6,348            | 6,242                |
| Property, plant and equipment, net                       | 7,789            | 5,993                |
| Construction work in progress                            | 374              | 443                  |
| Total Property, Plant and Equipment, net                 | 8,163            | 6,436                |
| Other Noncurrent Assets                                  |                  |                      |
| Goodwill   | 470              | 72                   |
| Other intangibles  | 304              | 257                  |
| Price risk management assets                             | 232              | 239                  |
| Other noncurrent assets                                  | 87               | 75                   |
| Total Other Noncurrent Assets                            | 1,093            | 643                  |
| Total Assets   | \$12,862         | \$10,760             |

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



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## CONDENSED CONSOLIDATED BALANCE SHEETS

Talen Energy Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, Shares in Thousands)

|   | June 30,<br>2015 | December 31,<br>2014 |
|---|------------------|----------------------|
| Liabilities and Equity                                  |                  |                      |
| Current Liabilities                                     |                  |                      |
| Short-term debt   | \$—              | \$630                |
| Long-term debt due within one year                      | 884              | 535                  |
| Accounts payable  | 281              | 361                  |
| Accounts payable to affiliates                          | —                | 50                   |
| Taxes   | 39               | 28                   |
| Interest  | 49               | 16                   |
| Price risk management liabilities                       | 761              | 1,024                |
| Liabilities of discontinued operations                  | 18               | —                    |
| Other current liabilities                               | 264              | 246                  |
| Total Current Liabilities                               | 2,296            | 2,890                |
| Long-term Debt  | 3,175            | 1,683                |
| Deferred Credits and Other Noncurrent Liabilities       |                  |                      |
| Deferred income taxes                                   | 1,483            | 1,223                |
| Investment tax credits                                  | 26               | 27                   |
| Price risk management liabilities                       | 199              | 193                  |
| Accrued pension obligations                             | 247              | 299                  |
| Asset retirement obligations                            | 474              | 415                  |
| Other deferred credits and noncurrent liabilities       | 136              | 123                  |
| Total Deferred Credits and Other Noncurrent Liabilities | 2,565            | 2,280                |
| Commitments and Contingent Liabilities (Note 10)        |                  |                      |
| Equity  |                  |                      |
| Predecessor Member's Equity (a)                         | —                | 3,930                |
| Common Stock - \$0.001 par value (b)                    | —                | —                    |
| Additional paid-in capital                              | 4,719            | —                    |
| Earnings reinvested                                     | 90               | —                    |
| Accumulated other comprehensive income (loss)           | 17               | (23 )                |
| Total Equity  | 4,826            | 3,907                |
| Total Liabilities and Equity                            | \$12,862         | \$10,760             |

Represents Talen Energy Supply's predecessor member's equity prior to the June 1, 2015 spinoff transaction. Upon (a) completion of the spinoff, the predecessor member's equity was transferred to Talen Energy Corporation's additional paid-in capital. See Note 1 for additional information on the spinoff.

(b) 1,000,000 shares authorized; 128,509 shares issued and outstanding at June 30, 2015.

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

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## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Talen Energy Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

|   | Common<br>stock<br>shares (a) | Common<br>stock | Additional<br>paid-in<br>capital | Earnings<br>reinvested | AOCI  | Predecessor<br>Member's<br>Equity (b) | Total   |
|---|-------------------------------|-----------------|----------------------------------|------------------------|-------|---------------------------------------|---------|
| December 31, 2014   | —                             | \$—             | \$—                              | \$—                    | \$(23 | ) \$3,930                             | \$3,907 |
| Net income from January<br>1, 2015 to May 31, 2015<br>(b)                               | —                             | —               | —                                | —                      | —     | 32                                    | 32      |
| Net income from June 1,<br>2015 to June 30, 2015  | —                             | —               | —                                | 90                     | —     | —                                     | 90      |
| Other comprehensive<br>income (loss)  | —                             | —               | —                                | —                      | 40    | —                                     | 40      |
| Distributions to<br>predecessor member from<br>January 1, 2015 to May<br>31, 2015 (b)   | —                             | —               | —                                | —                      | —     | (396                                  | ) (396  |
| Contributions from<br>predecessor member from<br>January 1, 2015 to May<br>31, 2015 (b) | —                             | —               | —                                | —                      | —     | 250                                   | 250     |
| Common stock issued for<br>acquisition of RJS Power                                     | 44,975                        | —               | 902                              | —                      | —     | —                                     | 902     |
| Stock issuance  | 10                            | —               | —                                | —                      | —     | —                                     | —       |
| Stock issuance expense  | —                             | —               | (1                               | ) —                    | —     | —                                     | (1      |
| Stock-based compensation  | —                             | —               | 2                                | —                      | —     | —                                     | 2       |
| Consummation of spinoff<br>transaction (c)  | 83,524                        | —               | 3,816                            | —                      | —     | (3,816                                | ) —     |
| June 30, 2015   | 128,509                       | \$—             | \$4,719                          | \$90                   | \$17  | \$—                                   | \$4,826 |
| December 31, 2013 (b)   | —                             | \$—             | \$—                              | \$—                    | \$77  | \$4,721                               | \$4,798 |
| Net income (loss)   | —                             | —               | —                                | —                      | —     | (53                                   | ) (53   |
| Other comprehensive<br>income (loss)  | —                             | —               | —                                | —                      | 8     | —                                     | 8       |
| Distributions to member   | —                             | —               | —                                | —                      | —     | (914                                  | ) (914  |
| Contributions from<br>member  | —                             | —               | —                                | —                      | —     | 730                                   | 730     |
| June 30, 2014 (b)   | —                             | \$—             | \$—                              | \$—                    | \$85  | \$4,484                               | \$4,569 |

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

(b) Represents Talen Energy Supply's predecessor member's equity balance and activity prior to the June 1, 2015 spinoff transaction.

(c) Upon consummation of the spinoff on June 1, 2015, Talen Energy Supply's predecessor member's equity balance was transferred to Talen Energy Corporation's "Additional paid-in capital." See Note 1 for additional information on the spinoff.

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

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## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Talen Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

|  | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |         |
|--|--------------------------------|-------|------------------------------|---------|
|  | 2015                           | 2014  | 2015                         | 2014    |
| Operating Revenues   |                                |       |                              |         |
| Wholesale energy   | \$673                          | \$551 | \$1,195                      | \$(906) |
| Wholesale energy to affiliate                                    | 5                              | 21    | 14                           | 48      |
| Retail energy  | 243                            | 280   | 554                          | 630     |
| Energy-related businesses  | 144                            | 155   | 248                          | 280     |
| Total Operating Revenues   | 1,065                          | 1,007 | 2,011                        | 52      |
| Operating Expenses   |                                |       |                              |         |
| Operation  |                                |       |                              |         |
| Fuel   | 200                            | 259   | 551                          | 741     |
| Energy purchases   | 289                            | 203   | 290                          | (1,601) |
| Other operation and maintenance                                  | 305                            | 285   | 531                          | 514     |
| Depreciation   | 87                             | 76    | 164                          | 151     |
| Taxes, other than income   | 15                             | 13    | 30                           | 31      |
| Energy-related businesses  | 135                            | 155   | 233                          | 279     |
| Total Operating Expenses   | 1,031                          | 991   | 1,799                        | 115     |
| Operating Income (Loss)  | 34                             | 16    | 212                          | (63)    |
| Other Income (Expense) - net                                     | 3                              | 7     | 10                           | 13      |
| Interest Expense   | 55                             | 32    | 91                           | 64      |
| Income (Loss) from Continuing Operations Before Income Taxes     | (18)                           | (9)   | 131                          | (114)   |
| Income Taxes   | (43)                           | (11)  | 10                           | (58)    |
| Income (Loss) from Continuing Operations After Income Taxes      | 25                             | 2     | 121                          | (56)    |
| Income (Loss) from Discontinued Operations (net of income taxes) | 1                              | 11    | 1                            | 3       |
| Net Income (Loss)  | \$26                           | \$13  | \$122                        | \$(53)  |

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

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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Talen Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

|   | Three Months Ended |       | Six Months Ended |        |
|---|--------------------|-------|------------------|--------|
|   | June 30,           |       | June 30,         |        |
|   | 2015               | 2014  | 2015             | 2014   |
| Net income (loss)   | \$26               | \$13  | \$122            | \$(53) |
| Other comprehensive income (loss):  |                    |       |                  |        |
| Amounts arising during the period - gains (losses), net of tax (expense) benefit: |                    |       |                  |        |
| Available-for-sale securities, net of tax of \$5, (\$15), (\$1), (\$21)           | (4)                | ) 14  | 1                | ) 19   |
| Defined benefit plans:  |                    |       |                  |        |
| Prior service costs, net of tax of \$2, \$0, \$2, \$0                             | (3)                | ) —   | (3)              | ) —    |
| Net actuarial gain, net of tax of (\$30), \$0, (\$30), \$0                        | 46                 | —     | 46               | —      |
| Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):       |                    |       |                  |        |
| Available-for-sale securities, net of tax of \$1, \$1, \$2, \$2                   | (1)                | ) (1) | ) (2)            | ) (2)  |
| Qualifying derivatives, net of tax of \$4, \$5, \$7, \$9                          | (6)                | ) (8) | ) (10)           | ) (13) |
| Defined benefit plans:  |                    |       |                  |        |
| Prior service costs, net of tax of \$0, \$0, \$0, (\$1)                           | (1)                | ) —   | (1)              | ) 1    |
| Net actuarial loss, net of tax of (\$3), (\$1), (\$6), (\$2)                      | 5                  | 2     | 9                | 3      |
| Total other comprehensive income (loss)   | 36                 | 7     | 40               | 8      |
| Comprehensive income (loss)   | \$62               | \$20  | \$162            | \$(45) |

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Talen Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

|  | Six Months Ended |        |   |
|--|------------------|--------|---|
|  | June 30,         |        |   |
|  | 2015             | 2014   |   |
| Cash Flows from Operating Activities   |                  |        |   |
| Net income (loss)  | \$ 122           | \$(53  | ) |
| Adjustments to reconcile net income to net cash provided by operating activities |                  |        |   |
| Depreciation   | 164              | 162    |   |
| Amortization   | 93               | 77     |   |
| Defined benefit plans - expense  | 23               | 32     |   |
| Deferred income taxes and investment tax credits                                 | (46              | ) (120 | ) |
| Impairment of assets   | 3                | 18     |   |
| Unrealized (gains) losses on derivatives, and other hedging activities           | (40              | ) 232  |   |
| Other  | 41               | 10     |   |
| Change in current assets and current liabilities                                 |                  |        |   |
| Accounts receivable  | 50               | 25     |   |
| Accounts payable   | (135             | ) (55  | ) |
| Unbilled revenues  | 80               | 67     |   |
| Fuel, materials and supplies   | 33               | 9      |   |
| Prepayments  | 37               | (16    | ) |
| Counterparty collateral  | 36               | (15    | ) |
| Price risk management assets and liabilities                                     | (1               | ) (33  | ) |
| Other  | (34              | ) (29  | ) |
| Other operating activities   |                  |        |   |
| Defined benefit plans - funding  | (74              | ) (32  | ) |
| Other assets   | 2                | (1     | ) |
| Other liabilities  | 1                | 12     |   |
| Net cash provided by operating activities  | 355              | 290    |   |
| Cash Flows from Investing Activities   |                  |        |   |
| Expenditures for property, plant and equipment                                   | (179             | ) (176 | ) |
| Expenditures for intangible assets   | (19              | ) (24  | ) |
| Purchases of nuclear plant decommissioning trust investments                     | (108             | ) (73  | ) |
| Proceeds from the sale of nuclear plant decommissioning trust investments        | 100              | 65     |   |
| Proceeds from the receipt of grants  | —                | 56     |   |
| Net (increase) decrease in restricted cash and cash equivalents                  | 67               | (258   | ) |
| Other investing activities   | 12               | 7      |   |
| Net cash provided by (used in) investing activities                              | (127             | ) (403 | ) |
| Cash Flows from Financing Activities   |                  |        |   |
| Issuance of long-term debt   | 600              | —      |   |
| Contributions from member  | 82               | 730    |   |
| Distributions to member  | (215             | ) (914 | ) |
| Net increase (decrease) in short-term debt                                       | (668             | ) 324  |   |
| Other financing activities   | (27              | ) (2   | ) |
| Net cash provided by (used in) financing activities                              | (228             | ) 138  |   |
| Net Increase (Decrease) in Cash and Cash Equivalents                             | —                | 25     |   |

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|  |       |       |
|--|-------|-------|
| Cash and Cash Equivalents at Beginning of Period | 352   | 239   |
| Cash and Cash Equivalents at End of Period       | \$352 | \$264 |

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

Talen Energy Supply, LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)