Talen Energy Corporation
Consolidated Financial Statements
For the Year Ended December 31, 2023

TALEN ENERGY

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TALEN ENERGY CORPORATION AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Talen Energy Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Talen Energy Corporation and its subsidiaries (Successor) (the “Company”) as of December 31, 2023, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for the period from May 18, 2023 through December 31, 2023, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the period from May 18, 2023 through December 31, 2023 in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

As discussed in Note 3 to the consolidated financial statements, the United States Bankruptcy Court for Southern District of Texas confirmed the Company's Plan of Reorganization (the "plan") in December 2022. Confirmation of the plan resulted in the discharge of all claims against the Company that arose before May 9, 2022 and substantially alters rights and interests of equity security holders as provided for in the plan. The plan was substantially consummated on May 17, 2023 and the Company emerged from bankruptcy. In connection with its emergence from bankruptcy, the Company adopted fresh start accounting as of May 17, 2023.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these consolidated financial statements in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Commodity Derivatives Valuation

As described in Notes 2, 5 and 14 to the consolidated financial statements, the Company had a fair value net derivative asset position of $95 million and a fair value net derivative liability position of $43 million, as of December 31, 2023. As disclosed by management, the Company utilizes exchange-traded and over the-counter traded derivative instruments to economically hedge the commodity price risk of the forecasted future sales and purchases of commodities associated with their generation portfolio. Commodity derivative contracts are valued using inputs and assumptions such as contractual volumes, delivery location, forward commodity prices, commodity price volatility, discount rates, and credit worthiness of counterparties.

The principal considerations for our determination that performing procedures relating to commodity derivative valuation is a critical audit matter are (i) the significant judgment by management when developing the valuation of commodity derivatives; (ii) a high degree of auditor judgment and effort in performing procedures and evaluating management's significant assumptions related to the forward commodity prices and commodity price volatility; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included, among others, (i) testing management's process for developing the valuation of commodity derivatives; (ii) evaluating the appropriateness of management's model; (iii) testing, on a sample basis, the completeness and accuracy of the underlying contract terms and the accounting treatment conclusions; and (iv) evaluating, on a sample basis, the reasonableness of the significant assumptions used by management related to forward commodity prices and commodity price volatility. Professionals with specialized skill and knowledge were used to assist in evaluating the reasonableness of forward commodity prices and commodity price volatility assumptions.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
March 14, 2024

We have served as the Company's auditor since 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Managers and Members of Talen Energy Supply, LLC

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Talen Energy Supply, LLC and its subsidiaries (Predecessor) (the "Company") as of December 31, 2022 and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for the period from January 1, 2023 through May 17, 2023 and for each of the two years in the period ended December 31, 2022, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the period from January 1, 2023 through May 17, 2023, and for each of the two years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

As discussed in Note 3 to the consolidated financial statements, the Company filed a petition on May 9, 2022 with the United States Bankruptcy Court for the Southern District of Texas for reorganization under the provisions of Chapter 11 of the Bankruptcy Code. The Company's Plan of Reorganization was substantially consummated on May 17, 2023 and the Company emerged from bankruptcy. In connection with its emergence from bankruptcy, the Company adopted fresh start accounting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

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Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Fresh start accounting - valuation of electric generation assets

As described above and in Notes 3 and 4 to the consolidated financial statements, in May 2022, Talen Energy Supply, LLC (TES) and the other initial Debtors filed voluntary petitions seeking relief under Chapter 11 of the Bankruptcy Code. The Plan of Reorganization was approved by the requisite parties in November 2022, was confirmed by the Bankruptcy Court in December 2022, and was consummated and became effective in May 2023, when the Debtors emerged from the Restructuring. Upon emergence, TES adopted fresh start accounting and allocated the reorganization value to its individual assets based on their estimated fair values. The Company's principal assets are generation facilities whose values were determined by a discounted cash flow analysis based on management's latest outlook of the business through the end of their expected useful lives. The forward-looking projections considered: (i) company-specific factors, such as unit characteristics, plant dispatch, operating expenses, capital expenditures and estimated economic useful lives; and (ii) macroeconomic factors, such as capacity prices, energy prices, fuel prices, market supply and demand factors, inflation factors, and environmental regulations. The present value of expected future cash flows utilized a weighted average cost of capital discount rate. The Company recorded fresh start adjustments for the period from January 1, 2023 through May 17, 203, which included $350 million related to electric generation assets recorded within property, plant and equipment, net.

The principal considerations for our determination that performing procedures relating to fresh start accounting – valuation of electric generation assets is a critical audit matter are (i) the significant judgment by management in developing the fair value estimate of electric generation assets; (ii) the high degree of auditor judgment and effort in performing procedures and evaluating management's significant assumptions related to plant dispatch, capital expenditures, forward energy prices, and the weighted average cost of capital discount rate; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included, among others (i) testing management's process for developing the fair value estimate of electric generation assets; ii) evaluating the appropriateness of management's discounted cash flow models; (iii) testing the completeness and accuracy of underlying data used by management in the models, (iv) evaluating the reasonableness of management's significant assumptions related to plant dispatch, capital expenditures, forward energy prices, and the weighted average cost of capital discount rate. Evaluating management's assumptions related to plant dispatch, capital expenditures, forward energy prices, and the weighted average cost of capital discount rate involved evaluating whether the assumptions used by management were reasonable considering (a) the current and past performance of the assets; (b) the consistency with external market and industry data; and (c) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in evaluating (i) the appropriateness of the models used and (ii) the reasonableness of the forward energy prices and the weighted average cost of capital discount rate assumptions.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
March 14, 2024

We have served as the Company's auditor since 2017.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Successor	Predecessor		
(Millions of Dollars, except share data)	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Capacity revenues	$ 133	$ 108	$ 377	$ 444
Energy and other revenues	1,156	1,042	2,035	1,331
Unrealized gain (loss) on derivative instruments	55	60	677	(847)
Operating Revenues	**1,344**	**1,210**	**3,089**	**928**
Energy Expenses				
Fuel and energy purchases	(424)	(176)	(938)	(856)
Nuclear fuel amortization	(108)	(33)	(94)	(96)
Unrealized gain (loss) on derivative instruments	(3)	(123)	(52)	135
Total Energy Expenses	**(535)**	**(332)**	**(1,084)**	**(817)**
Operating Expenses				
Operation, maintenance and development	(358)	(285)	(610)	(584)
General and administrative	(93)	(51)	(106)	(88)
Depreciation, amortization and accretion	(165)	(200)	(520)	(524)
Impairments	(3)	(381)	—	—
Operational restructuring	—	—	(488)	—
Other operating income (expense), net	(30)	(37)	(40)	(15)
Operating Income (Loss)	**160**	**(76)**	**241**	**(1,100)**
Nuclear decommissioning trust funds gain (loss), net	108	57	(184)	196
Interest expense and other finance charges	(176)	(163)	(359)	(325)
Reorganization income (expense), net	—	799	(812)	—
Consolidation of subsidiary gain (loss)	—	—	(170)	—
Other non-operating income (expense), net	102	60	(44)	(48)
Income (Loss) Before Income Taxes	**194**	**677**	**(1,328)**	**(1,277)**
Income tax benefit (expense)	(51)	(212)	35	300
Net Income (Loss)	**143**	**465**	**(1,293)**	**(977)**
Less: Net income (loss) attributable to noncontrolling interest	9	(14)	(4)	—
Net Income (Loss) Attributable to Stockholders (Successor) / Member (Predecessor)	**$ 134**	**$ 479**	**$ (1,289)**	**$ (977)**
Per Common Share (Successor)				
Net Income (Loss) Attributable to Stockholders - Basic	$ 2.27	N/A	N/A	N/A
Net Income (Loss) Attributable to Stockholders - Diluted	$ 2.26	N/A	N/A	N/A
Weighted-Average Number of Common Shares Outstanding - Basic (in thousands)	59,029	N/A	N/A	N/A
Weighted-Average Number of Common Shares Outstanding - Diluted (in thousands)	59,399	N/A	N/A	N/A

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

TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Successor	Predecessor		
(Millions of Dollars)	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Net Income (Loss)	**$ 143**	**$ 465**	**$ (1,293)**	**$ (977)**
Other Comprehensive Income (Loss)				
Available-for-sale securities unrealized gain (loss), net	2	6	(69)	(13)
Postretirement benefit actuarial gain (loss), net	(38)	—	(15)	151
Income tax benefit (expense)	8	(2)	31	(35)
Gains (losses) arising during the period, net of tax	**(28)**	**4**	**(53)**	**103**
Available-for-sale securities unrealized (gain) loss, net	7	4	33	2
Qualifying derivatives unrealized (gain) loss, net	—	(1)	(2)	(2)
Postretirement benefit prior service (credits) costs, net	—	—	1	1
Postretirement benefit actuarial (gain) loss, net	—	2	27	52
Income tax (benefit) expense	(2)	(3)	(21)	(14)
Reclassifications from AOCI, net of tax	**5**	**2**	**38**	**39**
Total Other Comprehensive Income (Loss)	**(23)**	**6**	**(15)**	**142**
Comprehensive Income (Loss)	**120**	**471**	**(1,308)**	**(835)**
Less: Comprehensive income (loss) attributable to noncontrolling interest	9	(14)	(4)	—
Comprehensive Income (Loss) Attributable to Stockholders (Successor) / Member (Predecessor)	**$ 111**	**$ 485**	**$ (1,304)**	**$ (835)**

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

TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Millions of Dollars. except share data)	Successor December 31, 2023	Predecessor December 31, 2022
Assets		
Cash and cash equivalents	$ 400	$ 724
Restricted cash and cash equivalents (Note 20)	501	264
Accounts receivable, net (Note 6)	137	408
Inventory, net (Note 8)	375	457
Derivative instruments (Notes 5 and 14)	89	2,165
Other current assets	52	247
Total current assets	**1,554**	**4,265**
Property, plant and equipment, net (Note 10)	3,839	4,705
Nuclear decommissioning trust funds (Notes 9 and 14)	1,575	1,400
Derivative instruments (Notes 5 and 14)	6	228
Other noncurrent assets	147	124
Total Assets	**$ 7,121**	**$ 10,722**
Liabilities and Equity		
Revolving credit facilities (Notes 13 and 14)	$ —	$ 848
Long-term debt, due within one year (Notes 13 and 14)	9	1,010
Accrued interest	32	278
Accounts payable and other accrued liabilities	344	454
Derivative instruments (Notes 5 and 14)	32	1,927
Other current liabilities	69	346
Total current liabilities	**486**	**4,863**
Long-term debt (Notes 13 and 14)	2,811	2,494
Liabilities subject to compromise (Note 4)	—	2,825
Derivative instruments (Notes 5 and 14)	11	363
Postretirement benefit obligations (Note 15)	368	—
Asset retirement obligations and accrued environmental costs (Note 11)	469	567
Deferred income taxes (Note 7)	407	75
Other noncurrent liabilities	35	17
Total Liabilities	**4,587**	**11,204**
Commitments and Contingencies (Note 12)		
Stockholders' (Successor) / Member's (Predecessor) Equity		
Member's equity	—	(573)
Common stock - $0.001 par value [(a)] (Note 16)	—	—
Additional paid-in capital	2,346	—
Accumulated retained earnings (deficit)	134	—
Accumulated other comprehensive income (loss)	(23)	—
Total Stockholders'(Successor) / Member's (Predecessor) Equity	**2,457**	**(573)**
Noncontrolling interests	**77**	**91**
Total Equity	**2,534**	**(482)**
Total Liabilities and Equity	**$ 7,121**	**$ 10,722**

(a) As of December 31, 2023 (Successor): 350,000,000 shares authorized; 59,028,843 shares issued and outstanding.

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

TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor	Predecessor		
(Millions of Dollars)	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Operating Activities				
Net income (loss)	$ 143	$ 465	$ (1,293)	$ (977)
Non-cash reconciliation adjustments:				
Unrealized (gains) losses on derivative instruments	(40)	65	(647)	684
(Gain) loss on consolidation of Cumulus Digital Holdings	—	—	170	—
Nuclear fuel amortization	108	33	94	96
Depreciation, amortization and accretion	157	208	549	555
Impairments	3	381	—	—
Operational restructuring	—	—	488	—
Nuclear decommissioning trust funds (gain) loss, net (excluding interest and fees)	(78)	(43)	227	(158)
Deferred income taxes	55	195	(48)	(324)
Reorganization (income) expense, net	—	(933)	99	—
Other	—	(43)	200	(150)
Changes in assets and liabilities:				
Accounts receivable, net	8	261	(298)	24
Inventory, net	(68)	10	(55)	72
Other assets	147	103	(46)	(138)
Accounts payable and accrued liabilities	(49)	(74)	187	24
Accrued interest	28	(124)	250	3
Other liabilities	(12)	(42)	310	(5)
Net cash provided by (used in) operating activities	**402**	**462**	**187**	**(294)**
Investing Activities				
Property, plant and equipment expenditures	(116)	(138)	(232)	(142)
Nuclear fuel expenditures	(45)	(49)	(80)	(82)
Nuclear decommissioning trust funds investment sale proceeds	1,265	949	2,243	1,817
Nuclear decommissioning trust funds investment purchases	(1,290)	(959)	(2,271)	(1,834)
Equity investments in affiliates	(5)	(8)	(162)	(65)
Proceeds from the sale of non-core assets	8	46	—	—
Increase (decrease) in cash and restricted cash due to consolidation of subsidiaries	—	—	123	—
Other investing activities	12	2	11	26
Net cash provided by (used in) investing activities	**(171)**	**(157)**	**(368)**	**(280)**

(Millions of Dollars)	Successor May 18 through December 31, 2023	Predecessor January 1 through May 17, 2023	Predecessor Year Ended December 31, 2022	Predecessor Year Ended December 31, 2021
Financing Activities				
Talen Energy Supply long-term debt issuance proceeds	—	—	—	131
Contributions from member	—	1,393	—	—
Exit Financings proceeds, net of discount	—	2,219	—	—
Repayment of Prepetition Secured Indebtedness	—	(3,898)	—	—
Payment of make-whole premiums on Prepetition Secured Indebtedness	—	(152)	—	—
DIP Facilities proceeds, net	—	—	987	—
TLB proceeds, net	288	—	—	—
Talen Energy Supply long-term debt repayments	—	—	—	(114)
Talen Deferred Capacity Obligation issuance proceeds	—	—	—	370
Prepetition Deferred Capacity Obligations repayments	—	—	(176)	(209)
LMBE-MC TLB payments	(294)	(7)	(52)	(27)
Cumulus Digital TLF payments	(15)	—	—	—
Prepetition Inventory Repurchase Obligations, net increase (decrease)	—	—	(165)	—
Prepetition CAF proceeds	—	—	62	827
Prepetition CAF repayments, net	—	—	(62)	—
Deferred finance costs	(7)	(74)	(59)	(23)
Repurchase of warrants	(40)	—	—	—
Repurchase of Riverstone noncontrolling interest	(19)	—	—	—
Derivatives with financing elements	—	(20)	(104)	—
Other	3	—	(5)	1
Net cash provided by (used in) financing activities	**(84)**	**(539)**	**426**	**956**
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash and Cash Equivalents	**147**	**(234)**	**245**	**382**
Beginning of period cash and cash equivalents and restricted cash and cash equivalents	754	988	743	361
End of period cash and cash equivalents and restricted cash and cash equivalents	**$ 901**	**$ 754**	**$ 988**	**$ 743**

See Note 20 in Notes to the Annual Financial Statements for supplemental cash flow information.

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

TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(Millions of Dollars, except share data)	Common stock shares [a]	Additional paid-in capital	Accumulated earnings (deficit)	AOCI	Member's Equity	Noncontrolling Interest	Total Equity
December 31, 2021 (Predecessor)	**—**	**$ —**	**$ —**	**$ —**	**$ 733**	**$ —**	**$ 733**
Net income (loss)	—	—	—	—	(1,289)	(4)	(1,293)
Other comprehensive income (loss)	—	—	—	—	(15)	—	(15)
Non-cash consolidation of affiliate subsidiary	—	—	—	—	—	71	71
Non-cash distribution to member	—	—	—	—	(2)	—	(2)
Non-cash contribution from member	—	—	—	—	—	17	17
Cash contribution	—	—	—	—	—	7	7
December 31, 2022 (Predecessor)	**—**	**—**	**—**	**—**	**(573)**	**91**	**(482)**
December 31, 2022 (Predecessor)	**—**	**—**	**—**	**—**	**(573)**	**91**	**(482)**
Net income (loss)	—	—	—	—	479	(14)	465
Other comprehensive income (loss)	—	—	—	—	6	—	6
Cancellation of member's equity [b]	—	—	—	—	88	—	88
Issuance of member's equity [b]	—	—	—	—	2,313	—	2,313
Issuance of warrants [b]	—	—	—	—	8	—	8
Common equity from member's equity exchange	59,029	2,321	—	—	(2,321)	—	—
Non-cash contributions [c]	—	—	—	—	—	38	38
Non-cash distributions, net [d]	—	—	—	—	—	(5)	(5)
May 17, 2023 (Predecessor)	**59,029**	**2,321**	**—**	**—**	**—**	**110**	**2,431**
May 18, 2023 (Successor)	**59,029**	**2,321**	**—**	**—**	**—**	**110**	**2,431**
Net income (loss)	—	—	134	—	—	9	143
Other comprehensive income (loss)	—	—	—	(23)	—	—	(23)
Repurchase of NCI	—	5	—	—	—	(24)	(19)
Cash contribution	—	—	—	—	—	1	1
Non-cash distributions [d]	—	—	—	—	—	(20)	(20)
Stock-based compensation	—	19	—	—	—	—	19
Other	—	1	—	—	—	1	2
December 31, 2023 (Successor)	**59,029**	**$ 2,346**	**$ 134**	**$ (23)**	**$ —**	**$ 77**	**$ 2,534**

(a) Shares in thousands.
(b) Pursuant to the Plan of Reorganization: (i) existing equity interests were canceled; and (ii) new equity interests and equity-classified warrants were issued.
(c) Relates to contributions of cryptocurrency mining machines by TeraWulf to Nautilus.
(d) Relates primarily to a distribution of cryptocurrency mining machines or Bitcoin to TeraWulf.

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

TALEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Capitalized terms and abbreviations appearing in these Notes to the Annual Financial Statements are defined in the glossary. Dollars are in millions, unless otherwise noted.

"TEC" refers to Talen Energy Corporation. "TES" refers to Talen Energy Supply, LLC. For periods after May 17, 2023, the terms "Talen," "Successor," the "Company," "we," "us" and "our" refer to TEC and its consolidated subsidiaries (including TES), unless the context clearly indicates otherwise. For periods on or before May 17, 2023, the terms "Talen," "Predecessor," the "Company," "we," "us" and "our" refer to TES and its consolidated subsidiaries, unless the context clearly indicates otherwise. See "Reverse Acquisition" in Note 2 for information on an accounting reverse acquisition that occurred at Emergence.

This presentation has been applied where identification of 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 subsidiary is considered important to understanding the matter being disclosed, the specific entity's name is used. Each disclosure referring to a subsidiary also applies to TEC insofar as such subsidiary's financial information is included in TEC's consolidated financial information. TEC and each of its subsidiaries and affiliates are separate legal entities and, except by operation of law, are not liable for the debts or obligations of one another absent an express contractual undertaking to the contrary.

1. Organization and Operations

Talen owns and operates power infrastructure in the United States. We produce and sell electricity, capacity, and ancillary services into wholesale power markets in the United States primarily in PJM, ERCOT, and WECC, with our generation fleet principally located in the Mid-Atlantic, Texas, and Montana. While the majority of our generation is already produced at zero-carbon nuclear and lower-carbon gas-fired facilities, we are reducing the carbon profile of our fleet through conversions and retirements of wholly-owned coal facilities. In addition, we are developing a hyperscale data center campus adjacent to our zero-carbon Susquehanna nuclear facility that will utilize carbon-free, low-cost energy provided directly from the plant. Consistent with our risk management initiatives, we may execute physical and financial commodity transactions involving power, natural gas, nuclear fuel, oil and coal to economically hedge and optimize our generation fleet. As of December 31, 2023 (Successor), our generation capacity was 12,374 MW (summer rating). Talen is headquartered in Houston, Texas.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Our Annual Financial Statements, which are prepared in accordance with GAAP, include: (i) the accounts of all controlled subsidiaries; (ii) elimination adjustments for intercompany transactions between controlled subsidiaries; (iii) any undivided interests in jointly owned facilities consolidated on a proportionate basis; and (iv) all adjustments considered necessary for a fair presentation of the information set forth. All adjustments are of a normal recurring nature except as otherwise disclosed.

Fresh Start Accounting. After Emergence, TES applied fresh start accounting, which resulted in a new basis of accounting as the Company became a new financial reporting entity. As a result of the application of fresh start accounting and the implementation of the Plan of Reorganization, our financial position and results of operations beginning after Emergence are not comparable to our financial position or results of operations prior to that date. Accordingly, the financial results are presented for: (i) the Predecessor period from January 1 through May 17, 2023; and (ii) the Successor period from May 18 through December 31, 2023. The Annual Financial Statements and Notes thereto have been presented with a black line division to delineate the lack of comparability between the Predecessor and Successor.

Reverse Acquisition. In May 2022, TEC deconsolidated TES for financial reporting purposes because TEC no longer controlled the activities of TES when TES and the other initial Debtors filed voluntary petitions seeking relief under Chapter 11 of the Bankruptcy Code. Under the terms of the Restructuring, TEC regained control of TES at Emergence, which resulted in TEC's reconsolidation of TES. The combination was accounted for as a reverse acquisition in which TEC was the legal acquirer and TES was the accounting acquirer. Such conclusion was based on an assessment of the Plan of Reorganization's economic substance, in which certain creditors of TES effectively equitized their claims against TES into the controlling equity interests of TES, which were then exchanged for the controlling equity interests of TEC. Specifically, a conversion of $2.3 billion of member's equity of TES into 59,028,843 shares of new TEC common stock and equity-classified warrants to purchase common stock issued in accordance with the Plan of Reorganization, which is presented as "Common equity from member's equity exchange" in the Consolidated Statements of Equity.

Accordingly, our Annual Financial Statements are issued under the name of TEC, the legal parent of TES and accounting acquiree, but represent the continuation of the financial statements of TES, the accounting acquirer. This accounting acquirer determination was primarily based on the following facts and circumstances: (i) TES operations comprise substantially all of the ongoing operations of the combined entity; (ii) certain former TES creditors received substantially all voting interests of the combined entity; (iii) certain former TES creditors assumed the power to appoint or remove board members of the combined entity; (iv) TES employs senior management and all employees of the combined entity; and (v) TEC, prior to Emergence, did not have any operations or material assets separate from TES.

The economic substance and related accounting were also used in the determination of fresh start accounting applicability. See Note 4 for additional information on fresh start accounting. See Note 3 for additional information on the legal structure of the Restructuring transactions.

Consolidation of an Affiliate's Subsidiary. In September 2022, TES and its Talen Growth subsidiary exchanged their preferred units in Cumulus Coin Holdings and Cumulus Data Holdings for common units in Cumulus Digital Holdings. Cumulus Coin Holdings and Cumulus Data Holdings were then consolidated by TEC. Following the consummation of the exchange and other related transactions, TES became the primary beneficiary of Cumulus Digital Holdings, a VIE, due to its ability to control the activities that most significantly impact Cumulus Digital Holdings. Accordingly, Cumulus Digital Holdings and its subsidiaries were consolidated by TES as of September 30, 2022. The difference between: (i) the fair value of Cumulus Digital Holdings and its subsidiaries; and (ii) the carrying value of preferred units immediately before the exchange resulted in a loss of $170 million presented as "Consolidation of subsidiary gain (loss)" on the Consolidated Statements of Operations for the year ended December 31, 2022 (Predecessor).

Summary of Significant Accounting Policies

Reclassifications. Certain amounts in the prior period financial statements were reclassified to conform to the current period's presentation. The reclassifications did not affect operating income, net income, total assets, total liabilities, net equity or cash flows.

Use of Estimates. The preparation of financial statements in conformity with 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.

Restructuring Effects. Prepetition liabilities and obligations whose treatment and satisfaction were dependent on the outcome of the Restructuring are presented as "Liabilities subject to compromise" on the Consolidated Balance Sheets. The carrying value of prepetition liabilities that were subject to compromise are presented at the best estimate of the claim amount permitted by the Bankruptcy Court. Such amounts presented as “Liabilities subject to compromise” on the Consolidated Balance Sheets were subject to adjustments depending on Bankruptcy Court actions, developments with respect to disputed claims, determination of secured status of certain claims, the determination as to the value of any collateral securing claims, proof of claims and (or) other events. Additionally, any income, expenses, gains or losses that were incurred or realized as a direct result of the Restructuring since the Petition Date are presented as “Reorganization income (expense), net" on the Consolidated Statements of Operations.

As of the Petition Date, the Talen Filing Parties ceased recognizing interest expense on certain outstanding unsecured or under-secured prepetition indebtedness. Contractual interest expense represented amounts due under the terms of outstanding prepetition indebtedness. See Note 13 for information on this contractual interest.

See Note 3 for additional information on the Restructuring.

Fair Value of Financial Instruments and Derivatives. Talen carries a portion of its assets and liabilities at fair value that are measured at a reporting date using an exit price (i.e., the price that would be received to sell an asset or paid to transfer a liability). An exit price may be developed under a market approach utilizing market transactions, an income approach utilizing present value techniques, or a replacement cost approach. The exit prices are disclosed according to the quality of valuation inputs under a three-tiered hierarchy comprised of: (i) Level 1 inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities; (ii) Level 2 inputs that are other than quoted prices that are directly or indirectly observable; and (iii) Level 3 inputs that are unobservable inputs that are significant to the fair value of assets or liabilities.

The classification of an asset or liability is based on the lowest level of input significant to its fair value. Those that are initially classified as Level 3 are subsequently reported as Level 2 when the fair value derived from unobservable inputs is inconsequential to the overall fair value, or if corroborated market data becomes available. Assets and liabilities initially reported as Level 2 are subsequently reported as Level 3 if corroborated market data is no longer available. Transfers occur at the end of the reporting period. Level 3 positions at December 31, 2023 (Successor) and December 31, 2022 (Predecessor) were not material.

See Notes 5, 10, 14 and 15 for fair value disclosures.

Operating Revenues and Revenue Recognition. Operating revenues on the Consolidated Statements of Operations are primarily comprised of items presented as: (i) “Capacity revenues;" (ii) “Energy revenues;” and (iii) “Unrealized gain (loss) on derivative instruments” for certain electricity contracts.

<u>Capacity revenues.</u> Includes amounts earned from auctions in ISOs and RTOs and under bilateral contracts to provide available generation capacity that is needed to satisfy system reliability and integrity requirements. Capacity revenues are recognized ratably over the PJM Capacity Year by Talen-owned generation facilities that participate in the auctions and stand ready to deliver generated power. Capacity revenues are based on invoiced amounts corresponding directly to the value provided over a specific time interval.

<u>Energy revenues.</u> Primarily includes: (i) amounts earned from sales to ISOs and RTOs for electric generation and ancillary services products that support transmission and grid operations; (ii) amounts earned for wholesale electricity sales to bilateral counterparties; and (iii) realized gains and losses on commodity derivative instruments.

Sales of each electric generation and ancillary services to ISOs and RTOs represent performance obligations recognized over time based on volumes delivered or services performed at contractually agreed upon day-ahead or real-time market prices.

Sales of wholesale electricity to bilateral counterparties represent performance obligations recognized over a contractually agreed period of time based on volumes delivered at the contractually agreed price.

Sales of electric generation, ancillary services, and wholesale electricity to bilateral counterparties are recognized based on invoiced amounts which corresponds directly with the value provided over a specific time interval.

Certain contracts constitute bundled agreements to sell energy, capacity, and (or) ancillary services. In such cases, all performance obligations are deemed to be delivered and (or) performed at the same time. Accordingly, as the timing of revenue recognition for all performance obligations is the same and occurs over a contractually agreed period of time, it is unnecessary to allocate transaction price to multiple performance obligations.

Realized gains and losses on commodity derivative instruments include the settlements of financial and physical power transactions utilized for the Company's commercial risk management objectives. Realized settlements of these derivative instruments are recognized and presented net within "Energy revenues" on the Consolidated Statements of Operations based on the delivery period of the underlying contract at contractually agreed prices. See "Energy Expenses" below for additional information on realized gains and losses of derivative instruments presented as "Fuel and energy purchases" on the Consolidated Statements of Operations.

Unrealized gain (loss) on derivative instruments. Includes unrealized gains and losses resulting from changes in the fair value of certain power contracts that qualify as derivative instruments. See "Derivative Instruments" below for the recognition criteria of unrealized gains and losses on commodity derivative instruments. See "Energy Expenses" below for additional information on unrealized gains and losses of derivative instruments presented as "Energy expenses" on the Consolidated Statements of Operations.

Nautilus Revenue Recognition and Remeasurement. The primary output of Nautilus's ordinary business activities is providing hash calculation services to solve complex cryptographic algorithms in support of blockchain mining. Nautilus is party to a mining pool arrangement to provide an unspecified amount of its available hash calculations to an unaffiliated mining pool operator. Nautilus is entitled to an enforceable right to compensation from the mining pool operator only for the duration of time over which Nautilus provides its hash calculations.

In exchange for providing hash calculation services to the mining pool operator, Nautilus is entitled to consideration, whether or not the mining pool operator successfully solves a block, based on a 'full-pay-per-share' payout methodology. Nautilus's only performance obligation is to provide hash calculations to the mining pool operator. If Nautilus does not provide hash calculations to the mining pool operator, no consideration is earned by Nautilus nor does Nautilus incur any penalties from the mining pool operator. The Bitcoin earned by Nautilus is all variable noncash consideration. Accordingly, Nautilus recognizes revenue that is measured at fair value using the quoted price for Bitcoin in Nautilus's principal market at the beginning of each day (Coordinated Universal Time).

Bitcoin amounts held by Nautilus are: (i) accounted for as intangible assets with indefinite useful lives; (ii) sold on a first-in-first-out basis; and (iii) measured for impairment whenever indicators of impairment are identified based on its lowest intraday quoted Bitcoin price in Nautilus's principal market for Bitcoin held at the end of each day. To the extent an impairment loss is recognized, a new carrying value is established. Bitcoin held at any individual reporting period is not material because the joint venture agreements require Nautilus to liquidate Bitcoin to support its operations and distribute excess Bitcoin, or proceeds from excess Bitcoin sales, to the joint venture owners no less frequently than once every two weeks. Accordingly, impairments and the gains or loss from Bitcoin sales are not material. See ASU 2023-08 under "Recent Accounting Pronouncements, Not Yet Adopted" for changes to accounting for Bitcoin.

See Note 6 for additional information on revenue.

Energy Expenses. Energy expenses on the Consolidated Statements of Operations are primarily comprised of items presented as: (i) "Fuel and energy purchases;" (ii) "Nuclear fuel amortization;" and (iii) "Unrealized gain (loss) on derivative instruments" for certain commodity purchase contracts.

Fuel and energy purchases. Primarily includes: (i) fuel costs; (ii) environmental product costs; and (iii) realized gain (loss) on commodity derivative instruments.

Fuel costs include the costs incurred by Talen-owned generation facilities for the conversion of natural gas, coal, and (or) oil products to electricity. Fuel for electric generation from natural gas purchases are recognized at the agreed price for natural gas delivered to the applicable generation facility over a contractually agreed period of time. Fuel for electric generation from coal and oil product inventories are recognized at the applicable weighted average inventory cost of volumes consumed.

Environmental product costs primarily include RGGIs and other emission product compliance costs that are mandated by certain states. The estimated cost of compliance is accrued at the time an obligation under the applicable terms of each state's environmental compliance program arises.

Realized gains and losses on commodity derivative instruments include the settlements of financial and physical fuel and environmental product contracts utilized for the Company's commercial risk management objectives. Realized settlements of these derivative instruments are recognized and presented net within "Fuel and energy purchases" on the Consolidated Statements of Operations based on the delivery period of the underlying contract at contractually agreed prices. See "Operating Revenues" above for additional information on realized gains and losses on derivative instruments presented as "Energy revenues" on the Consolidated Statements of Operations.

Nuclear fuel amortization. Nuclear fuel-related costs, including procurement of uranium, conversion, enrichment, fabrication and assemblies, are capitalized and presented as "Property, plant and equipment, net" on the Consolidated Balance Sheets and presented as a cash outflow within the investing activities section on the Consolidated Statements of Cash Flows. Such costs are amortized as the fuel is consumed using the units-of-production method and presented as "Nuclear fuel amortization" on the Consolidated Statements of Operations.

Unrealized gain (loss) on derivative instruments. Includes unrealized gains and losses resulting from changes in the fair value of certain fuel contracts and environmental product contracts that qualify as derivative instruments. See "Derivative Instruments" below for the recognition criteria of unrealized gains and losses on commodity derivative instruments. See "Operating Revenues" above for additional information on unrealized gains and losses of derivative instruments presented as "Operating Revenues" on the Consolidated Statements of Operations.

Derivative Instruments. The fair value of derivative contracts required to be measured at fair value are presented as "Derivative instruments" within assets or liabilities on the Consolidated Balance Sheets. The primary type of derivative instruments utilized are commodity derivatives. Commodity derivative contracts are valued using inputs and assumptions such as contractual volumes, delivery location, forward commodity prices, commodity price volatility, discount rates, and credit worthiness of counterparties. For derivatives that trade in liquid markets, such as generic forwards, swaps, and options, the inputs and assumptions are generally observable. Such instruments are categorized in Level 2.

In most instances, master netting agreements govern derivative transactions between parties and contain certain provisions for setoff rights. The fair value of derivative instruments is presented net of setoff rights and cash collateral deposits. The fair value of commercial contracts that are not subject to netting and (or) collateral provisions is presented gross. Prior to Emergence, the fair value of derivative instruments presented on the Consolidated Balance Sheets was presented gross of setoff rights and cash collateral deposits exchanged between parties under such arrangements.

Unrealized gains or losses associated with a derivative instrument that economically hedges certain risks but where qualified cash flow hedge accounting is not elected or not met are presented on the Consolidated Statements of Operations in the period when such gains or losses arise. As there are no derivatives where qualified hedge accounting has been elected, changes in the fair value of commodity derivatives are presented as "Unrealized gain (loss) on derivative instruments," as a component of either "Operating Revenues" or "Energy Expenses" on the Consolidated Statements of Operations in a manner consistent with the presentation of net realized gains and losses. See "Operating Revenues" and "Energy Expenses" above for a discussion of net realized gains and losses on commodity derivatives. The cumulative net gains or losses for interest rate contracts are presented as "Interest expense and other finance charges" on the Consolidated Statements of Operations.

See Notes 5 and 14 for additional information on the presentation of derivative contracts and fair value measurements.

Operation, Maintenance and Development. The costs of removal, repairs, maintenance, and other operating costs, pre-commercial development activities, and salaries and benefits for operations personnel that each do not meet capitalization criteria are recognized as an expense when incurred. Materials and supplies inventories are recognized as an expense at the weighted average cost of materials consumed as they are used for repairs and maintenance. Costs for pre-commercial development stages of certain projects that are not capitalized as “Property, plant, and equipment, net” on the Consolidated Balance Sheets and recurring operational and maintenance activities are each presented as "Operation, maintenance and development" on the Consolidated Statements of Operations. Development expenses incurred are primarily for pre-commercial activities at Nautilus and hyperscale construction activities at Cumulus Data.

Stock-Based Compensation. TEC grants performance stock units and restricted stock units to certain employees and non-employee directors. The fair value of performance stock units is estimated on the grant date utilizing a Monte Carlo Valuation Model, which contains significant unobservable inputs that are believed to be consistent with those used by principal market participants. The fair value of restricted stock units is derived from the closing price of TEC common stock at the grant date. Forfeitures are recognized as they occur. Unvested performance stock units and restricted stock units are entitled to dividends or dividend equivalents, which are accrued and distributed to award recipients at the time such awards vest. Dividends and dividend equivalents are subject to the same vesting and forfeiture provisions as the underlying awards. Stock-based compensation expense is recognized for both graded and cliff vesting awards on a straight-line basis over the requisite service period for the entire award. Stock-based compensation expense is presented as “General and administrative” on the Consolidated Statements of Operations.

See Note 17 for additional information on our stock-based compensation.

Income Taxes. TEC and its subsidiaries file a consolidated U.S. federal income tax return. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective tax basis, tax credits and NOL carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized as income in the period that includes the enactment date. Valuation allowances are recognized to reduce deferred tax assets to the extent necessary to result in an amount that is more likely than not to be realized. Disproportionate income tax effects are removed from AOCI when the circumstance upon which they are premised ceases to exist.

The financial statement effect of a tax position is recognized when it is more-likely-than-not, based on the technical merits, that the position will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority. A previously recognized tax position is reversed in the first period in which it is no longer more-likely-than-not that the tax position would be sustained upon examination. Interest and penalties from tax uncertainties are presented as "Income tax benefit (expense)" on the Consolidated Statements of Operations.

See Note 7 for additional information on income taxes.

Loss Contingencies. Potential losses are accrued when: (i) information is available that indicates it is probable (i.e., likely to occur) that a loss has been incurred, given the likelihood of the uncertain future events; and (ii) the amount of the loss can be reasonably estimated. We continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss contingencies are discounted when appropriate. Legal costs are expensed as incurred. See Note 12 for additional information.

Concentrations of Credit Risk. Concentrations of credit risk exist primarily within cash and cash equivalents, receivables and commodity derivative assets. Cash and cash equivalents are generally held in accounts where the amounts deposited exceed the maximum deposit insurance provided by the Federal Deposit Insurance Corporation. Cash and cash equivalents and restricted cash balances are primarily deposited in accounts with major financial institutions with investment grade credit ratings. In certain instances, funds are invested in highly liquid U.S. Treasury securities or other obligations with original maturities of less than 90 days that are issued by or guaranteed by the U.S. Government. Concentrations of credit risk for receivables are primarily attributable to entities that reimburse Talen for certain capital expenditures and operating costs associated with jointly owned facilities. Concentrations of credit risk for commodity derivative assets are primarily attributable to unaffiliated investment grade counterparties which engage in energy marketing activities with Talen Energy Marketing. See Note 5 for additional information on concentrations of credit risk.

Nautilus is subject to concentrations of credit risk associated with its broker and custodial arrangements which provides Nautilus the ability to access markets to liquidate its Bitcoin and to temporarily store Bitcoin prior to liquidation or distribution. Because Nautilus liquidates Bitcoin to support its operations and distributes excess Bitcoin, or proceeds from excess Bitcoin sales, to the joint venture owners at least once every two weeks, Nautilus does not carry any insurance on its broker and custodial accounts.

Cash and Cash Equivalents. Bank deposits, liquid investments, and other similar assets with original maturities of three months or less. Bank deposits, commodity exchange deposits, liquid investments, and other similar assets with original maturities of three months or less that are restricted by agreement are presented as "Restricted cash and cash equivalents" on the Consolidated Balance Sheets. See Note 20 for additional information.

Accounts Receivable. Receivables primarily consist of amounts due from customers, net of any collection allowances. Uncollected receivables greater than 30 days past due are assessed for collectability based on a variety of factors that include, but are not limited to, customer credit worthiness, duration receivables are outstanding, and (or) historical collection experience. Management continuously assesses and considers current economic trends that might impact the amount of future credit losses. Additionally, if it becomes known that a specific customer may have the inability to settle its obligation that is not yet past due, such receivables are assessed for collectability. If these assessments indicate a receivable collection is remote, its carrying value is reduced through an allowance for doubtful accounts measured at management’s best estimate, and a charge is presented on the Consolidated Statements of Operations. If any portion of the original carrying value of the receivable is recovered, the allowance and the associated charge are reversed in the period of collection.

Inventory. Inventory consists of fuel for generation (primarily coal and fuel oil), materials and supplies, and environmental products each of which are valued at the lower of weighted average cost or net realizable value. See Note 8 for additional information on inventory.

Leases. Operating leases primarily relate to office space. Right-of-use assets and lease liabilities are recognized at lease commencement for leases with a term greater than 12 months. Lease terms include options to extend or terminate the lease if Talen is reasonably certain to exercise such options. These leases do not contain any material restrictive covenants or residual value guarantees. Talen has elected to not separate lease and non-lease components for all classes of assets. Right-of-use assets are measured as the present value of lease payments over the lease term. The discount rate used is the rate implicit in the lease if readily available or the Company’s incremental borrowing rate.

Talen has elected to not recognize the right of use assets and the lease liabilities arising from leases with a short-term duration. A short-term lease is less than 12 months and does not include a purchase option or an option to extend beyond 12 months that Talen is reasonably certain to exercise.

Right-of-use assets are presented as "Other current assets" and "Other noncurrent assets" on the Consolidated Balance Sheets and lease liabilities are presented as "Other current liabilities" and "Other noncurrent liabilities" on the Consolidated Balance Sheets. The carrying value of right-of-use assets and lease liabilities and estimated future lease payments were a non-material amount as of December 31, 2023 (Successor). Additionally, lease expense was a non-material amount for the periods: (i) January 1 through May 17, 2023 (Predecessor); (ii) May 18 through December 31, 2023 (Successor); and (iii) the years ended December 31, 2022 (Predecessor) and December 31, 2021 (Predecessor).

Variable Interest Entities. The primary beneficiary (a controlling financial interest) of a VIE is required to consolidate the VIE when it has both: (i) the power to direct the activities that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE. Talen consolidates a VIE when it is determined that it is the primary beneficiary of the VIE. Investments in entities in which Talen has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method.

Investments in Debt and Equity Securities. The NDT holds investments in available-for-sale debt securities and equity securities, which are carried at fair value and presented as "Nuclear decommissioning trust funds" on the Consolidated Balance Sheets.

Unrealized gains and losses, net of income tax, on available-for-sale debt securities are presented as "Other Comprehensive Income (Loss)" on the Consolidated Statements of Comprehensive Income in the period when such gains and losses arise. Realized gains and losses on available-for-sale debt securities are transferred from AOCI to "Nuclear decommissioning trust funds gain (loss), net" on the Consolidated Statements of Operations in the period when the sale of the security occurs. The specific identification method is used to calculate realized gains and losses on debt and equity securities. If an available-for-sale debt security's fair value declines below cost and the decline is determined to be other-than-temporary, the unrealized loss is recognized on the Consolidated Statements of Comprehensive Income in the period when such determination arises.

Unrealized gains and losses and realized gains and losses on equity securities are presented as "Nuclear decommissioning trust funds gain (loss), net" on the Consolidated Statements of Operations in the period when such gains or losses arise.

See Notes 9 and 14 for additional information on investments in debt and equity securities.

Property, Plant and Equipment. Expenditures for land, the construction of facilities, the addition or refurbishment of major equipment, and commercially viable new development projects are capitalized at cost. Such capitalized amounts include interest costs, where appropriate. Facilities, land, and other equipment acquired in a business combination is recognized at fair value. In each case, such amounts are presented as "Property, plant, and equipment, net" on the Consolidated Balance Sheets. Reductions in the carrying value of property, plant and equipment are accumulated over the estimated useful life of each depreciable unit using straight-line or group depreciation methods, where appropriate. Such periodic reduction is presented as a charge to "Depreciation, amortization and accretion" on the Consolidated Statements of Operations. Generally, upon normal retirement of property, plant, and equipment under the group depreciation method, the costs of such assets are retired against accumulated depreciation in the period of the retirement and no gain or loss is recognized. Any remaining carrying value of property, plant and equipment at its retirement date that depreciated under the straight-line depreciation method is presented as a loss within "Other operating income (expense), net" on the Consolidated Statements of Operations. Any remaining carrying value of property, plant and equipment at its sale date and any proceeds from the disposition are presented as a gain or loss net on the Consolidated Statements of Operations.

Expenditures for intangible assets such as contractual rights, software and licenses are capitalized at cost and are presented as "Property, plant and equipment, net" on the Consolidated Balance Sheets. Reductions in the carrying value of intangible assets with finite useful lives are accumulated over the estimated useful life of each intangible asset using an amortization pattern which reflects the economic benefits of the intangible asset. Such periodic reduction is presented as a charge to "Depreciation, amortization and accretion" on the Consolidated Statements of Operations.

See "Impairments" below for additional information regarding impairments on the carrying values of property, plant and equipment.

See Note 10 for additional information on property, plant and equipment.

Impairments. Property, plant and equipment used in operations are assessed for impairment whenever changes in facts and circumstances indicate the carrying value of the asset group may not be recoverable. Indicators of impairment may include changes in the economic environment, negative financial trends, physical damage to assets or decisions of management regarding strategic initiatives. Where applicable, individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. If there is an indication the carrying value of an asset group may not be recovered, management reviews the expected future cash flows of the asset group. If the sum of the undiscounted pre-tax cash flows is less than the carrying value of the asset group, the asset group is written down to its estimated fair value. Impairment charges are presented as "Impairments" on the Consolidated Statements of Operations in the period in which the impairment condition arises. If facts and circumstances indicate that the carrying value of an asset under construction will have no future economic benefit, such amounts are presented on the Consolidated Statements of Operations in the period in which such projects are abandoned, canceled, or management otherwise determines the costs to be unrecoverable.

Fair value may be determined by a variety of valuation methods including third-party appraisals, market prices of similar assets, and present value techniques. However, as there is generally a lack of quoted market prices for long-lived assets, the fair value of impaired assets is typically determined based on the present values of expected future cash flows using discount rates that are believed to be consistent with those used by principal market participants. The estimated cash flows and related fair value computations consider all available evidence at the date of the review, such as estimated future generation volumes, forward capacity and commodity prices, energy prices, operating costs, capital expenditures, and environmental costs.

See Note 10 for information on impairments.

Asset Retirement Obligations. A liability for an ARO or conditional ARO exists when a legal obligation arises from laws, regulations or other contractual requirements for the retirement of tangible long-lived assets. When an ARO liability is incurred, which is typically at asset construction or through assumption of the liability in connection with a business combination, it is initially recognized at fair value. Fair value measurements are estimated under a present value technique and are discounted using a credit-adjusted risk-free rate. Additionally, given the inherent uncertainty in estimating the amount of cash flows to settle an ARO liability or its settlement date, fair value estimates include a market risk premium and a range of possible cash flow outcomes, where applicable. At the initial recognition, the effects on the Consolidated Balance Sheets include: (i) an increase to "Asset retirement obligations and accrued environmental costs" for the portion of ARO to be settled after one year and (or) "Other current liabilities" for the portion of the ARO to be settled within one year; and (ii) an offsetting increase to "Property, plant, and equipment" for the asset retirement capitalized cost. Estimated future ARO cash expenditures and settlement dates are reviewed periodically to identify any required amendments to the carrying value of each ARO liability.

ARO liabilities increase over a period of time through the recognition of accretion expense to recognize changes in the obligation due to the passage of time. The asset retirement capitalized cost is depreciated at a rate consistent with the useful life of the associated long-lived asset. The depreciation of the asset retirement capitalized cost and the accretion of the ARO liability are each presented as "Depreciation, amortization and accretion" on the Consolidated Statements of Operations. An ARO liability amendment associated with a long-lived asset that is not fully impaired or depreciated is recognized through an adjustment to the ARO liability and the asset retirement capitalized cost. Any revision to the asset retirement capitalized cost is generally depreciated over the remaining life of the associated long-lived asset. An ARO liability amendment associated with a fully impaired or depreciated asset is presented as "Other operating income (expense), net" on the Consolidated Statements of Operations. At settlement, a gain or loss will arise if the cash expenditures to settle the ARO liabilities are different than the carrying values. Such gains or losses are presented as "Other operating income (expense), net" on the Consolidated Statements of Operations.

A conditional ARO refers to an entity's legal obligation to perform an asset retirement activity in which the timing or method of settlement is conditional on a future event that may or may not be within the entity's control. There may also be instances when there is no available information regarding the ultimate ARO settlement timing or the fair value of the obligation may not be reasonably estimable. If sufficient information becomes available to reasonably estimate the fair value of the liability for an ARO or a conditional ARO, a liability is recognized in the period in which it is determined.

See Note 11 for additional information on AROs.

Contingencies. Management continuously assesses potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Potential losses are accrued when: (i) information is available that indicates it is probable (i.e., likely to occur) that a loss has been incurred, given the likelihood of the uncertain future events; and (ii) the amount of the loss can be reasonably estimated. Loss contingencies are recognized at management's best estimate, which may be discounted, where appropriate. Loss contingencies exclude estimates for any legal fees, which are recognized as incurred when the legal services are performed. See Note 12 for additional information on loss contingencies.

Business interruption insurance proceeds are considered gain contingencies and not recognized until realized.

Debt. Proceeds received on the issuance of new term loans, secured notes, unsecured notes, bonds, and similar indebtedness are presented as "Long-term debt" or "Long-term debt, due within one year" on the Consolidated Balance Sheets. Interest incurred as paid-in-kind, whether accrued or capitalized as additional principal are presented as "Long-term debt" with the associated outstanding amounts of indebtedness. Costs incurred to issue new indebtedness and any original issuance discounts or premiums are deferred at issuance on the Consolidated Balance Sheets and presented together with the associated outstanding principal amounts of indebtedness.

Interest accrues on outstanding principal amounts of indebtedness based on contractually determined rates during each period. Costs incurred for the issuance of indebtedness and any original issuance discounts or premiums are subsequently amortized through the expected maturity date of the associated indebtedness under the effective interest rate method and are presented as "Interest expense and other finance charges" on the Consolidated Statements of Operations.

Gains and losses on the: (i) early redemption of indebtedness; or (ii) early termination and (or) reduction of revolving credit facility committed capacity are presented as a gain or loss on the Consolidated Statements of Operations. Such amounts include the proportional derecognition of any deferred financing costs, fees, discounts, and (or) premiums associated with the indebtedness.

Direct cash borrowings under secured lines of credit, revolving credit facilities, and similar indebtedness are presented as "Revolving credit facilities" on the Consolidated Balance Sheets. Costs incurred to issue new arrangements are deferred and presented as "Other current assets" or "Other non-current assets" on the Consolidated Balance Sheets. Interest accrues on direct cash borrowings and LCs based on contractually determined rates during each period.

Costs incurred to issue new arrangements are subsequently amortized through the expected expiration of the associated arrangement under the straight-line method. Commitment fees on available but unused credit facility capacity are expensed as incurred. Such costs are presented as "Interest expense and other finance charges" on the Consolidated Statements of Operations.

See Note 13 for additional information on debt.

Postretirement Benefit Obligations. Talen sponsors or participates in, as applicable, various qualified and non-qualified defined benefit pension plans and other postretirement benefit plans. Gains and losses, net of income tax, that arise and are not a component of net periodic defined benefit costs are presented as "Other Comprehensive Income (Loss)" on the Consolidated Statements of Comprehensive Income.

Following Emergence, actuarial gains and losses in excess of the greater of 10% of the plan's projected benefit obligation or the market-related value of plan assets are amortized over (i) the expected average remaining service period of active plan participants for active plans; or (ii) the average future remaining lifetime of the plan participants of frozen plans. Prior to Emergence, Talen used an accelerated amortization method for the recognition of gains and losses for defined benefit pension plans: (i) actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants; and (ii) actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

Following Emergence, a spot rate curve that represents a portfolio of high-quality corporate bonds is used to develop the discount rate utilized to measure the projected benefit obligations and service costs for benefit plans. Prior to Emergence, a bond matching methodology was utilized, based on a specific portfolio of bonds that closely match the overall cash flow timing and duration of the benefit plans.

Talen is obligated to provide health care benefits under the Coal Act and pneumoconiosis (black lung) benefits under the Black Lung Act for retired miners and eligible beneficiaries. Benefits are funded from a VEBA trust and a trust maintained under certain federal and state black lung legislation. Shortfalls in funded status of the plans are assessed as contingent liabilities. As such, Talen recognizes funding shortfalls on its balance sheet, where applicable, if benefit obligations of either plan exceed the fair value of available trust assets.

See Note 15 for additional information about the plans and the accounting for defined benefits.

Recent Accounting Pronouncements, Not Yet Adopted

ASU 2023-07. In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. This ASU requires enhanced disclosures about significant segment expenses. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is evaluating the disclosure impact of this ASU and expects to adopt it in the required period.

ASU 2023-08. In December 2023, the FASB issued ASU 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and disclosure of Crypto Assets*. This ASU requires cryptocurrency assets to be measured at fair value with changes in fair value recognized in net income. The amendments also require disclosures on significant cryptocurrency holdings, contractual sale restrictions, and changes during the reporting period. The ASU is effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued. Nautilus is evaluating the impact of this ASU and expects to adopt it in the required period.

ASU 2023-09. In December 2023, the FASB issued ASU 2023-09 *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* This ASU requires annual disclosures for specific categories in the rate reconciliation and additional information for reconciling items that meet a quantitative threshold. The ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued. The Company is evaluating the disclosure impact of this ASU and expects to adopt it in the required period.

3. Talen Emergence from Restructuring

Voluntary Reorganization Under Chapter 11 of the U.S. Bankruptcy Code

In May 2022, TES and the other initial Debtors filed voluntary petitions seeking relief under Chapter 11 of the Bankruptcy Code. In December 2022, TEC became a Debtor in the Restructuring in order to facilitate certain transactions contemplated by the Plan of Reorganization. The Plan of Reorganization was approved by the requisite parties in November 2022, was confirmed by the Bankruptcy Court in December 2022, and was consummated and became effective in May 2023, when the Debtors emerged from the Restructuring.

Settlements, Restructuring Support Agreement, and Backstop Commitment Letter

Prior to and during the Restructuring, the Debtors reached a number of settlements with certain stakeholders in the Restructuring (including certain holders of claims under the Prepetition Unsecured Notes, Prepetition CAF, Prepetition TLB, and Prepetition Secured Notes, as well as Riverstone and TEC), each of which resolved outstanding issues among the Debtors and those parties. These settlements were agreed to in the RSA. An additional settlement was reached with the Official Committee of Unsecured Creditors of the Debtors, which resolved all of the Committee's outstanding issues in the Restructuring. The terms of the RSA and the settlements were incorporated into the final Plan of Reorganization.

Pursuant to the settlements, the settling parties agreed to support the Plan of Reorganization and the Restructuring transactions outlined below, which included a common equity Rights Offering of up to $1.9 billion. The Backstop Parties, comprised of certain holders of claims under the Prepetition Unsecured Notes, also entered into the Backstop Commitment Letter, under which they agreed to purchase up to $1.55 billion of the new equity offered in the Rights Offering to the extent not fully subscribed. As consideration for their backstop commitments, the Backstop Parties became entitled to subscription rights to purchase 30% of the new equity issued in the Rights Offering and a Backstop Premium payment in the form of cash and (or) new equity. Pursuant to the Rights Offering, TEC raised $1.4 billion of additional equity capital.

Plan of Reorganization and Emergence from Restructuring

The Plan of Reorganization implemented, among other things, the transactions contemplated by the RSA and the related settlements. The Restructuring was completed, and the Debtors emerged from the Restructuring, on May 17, 2023. Pursuant to the Plan of Reorganization, among other things:

- Claims against TEC were paid in full in cash or reinstated. All existing equity interests in TEC were extinguished, and new equity interests in TEC were issued as follows:
    - Holders of claims under TES's Prepetition Unsecured Notes and PEDFA 2009A Bonds received: (i) 99% of the TEC common stock (subject to dilution), less the Retail PPA Incentive Equity issued to Riverstone at Emergence; and (ii) subscription rights to purchase additional shares of TEC common stock in the Rights Offering (or, in the case of certain ineligible holders, cash in lieu thereof).
    - Riverstone received: (i) 1.00% of the TEC common stock (after giving effect to the Rights Offering and payment of the remaining Backstop Premium); (ii) the Retail PPA Incentive Equity; and (iii) warrants to purchase additional shares of TEC common stock.
    - The remaining portion of the Backstop Premium was paid to the Backstop Parties in the form of TEC common stock.
    - The Rights Offering was consummated, which resulted in net cash proceeds of approximately $1.4 billion. Approximately 92% of claims under TES's Prepetition Unsecured Notes and PEDFA 2009A Bonds were tendered in the Rights Offering, and the Backstop Parties were required to purchase the remainder of the unsubscribed for new TEC common stock attributable to the remaining claims under the Prepetition Unsecured Notes and PEDFA 2009A Bonds.
- All intercompany equity interests among the Debtors were reinstated so as to maintain the pre-existing organizational structure of the Debtors. Intercompany claims among the Debtors were cancelled, released, discharged, and extinguished.

- The Exit Financings were consummated, comprised of: (i) the RCF, a $700 million revolving credit facility, including letter of credit commitments of $475 million; (ii) the TLB of $580 million; (iii) the TLC of $470 million (the proceeds of which were used to cash collateralize LCs under the TLC LCF); (iv) the TLC LCF, which provides commitments for up to $470 million in LCs (cash collateralized with the proceeds of the TLC); (v) the Bilateral LCF, which provides commitments for up to $75 million in LCs; and (vi) $1.2 billion of Secured Notes.

- The proceeds of the Rights Offering and the Exit Financings, together with cash on hand, were used to fully repay the DIP Facilities and to pay other claims in cash as follows:

    - Holders of claims under the Prepetition CAF received their share of approximately $1.0 billion, as agreed in the relevant settlement.

    - Holders of prepetition first lien secured claims (other than those under the Prepetition CAF) received their share of approximately $2.1 billion, as agreed in the relevant settlement.

    - Holders of Other Secured Claims (as defined in the Plan of Reorganization) received the unpaid portion of their allowed claims.

- Each holder of a General Unsecured Claim (as defined in the Plan of Reorganization) received its pro rata share of interests in a $26 million pool of cash set aside for general unsecured creditors (the "GUC Trust"). To the extent any proceeds were recovered by the Debtors pursuant to the PPL/Talen Montana litigation, 10% of the net proceeds recovered were to be contributed to the GUC Trust, subject to a cap of $11 million. Talen Montana contributed $11 million to the GUC Trust in December 2023 following the settlement of the PPL/Talen Montana litigation. See Note 12 for additional information on the PPL/Talen Montana litigation and the related settlement.

4. Fresh Start Accounting

At Emergence, TES adopted fresh start accounting as: (i) the holders of existing voting shares before the consummation of the Plan of Reorganization received less than 50% of the voting shares of the Successor; and (ii) the reorganization value of TES's assets immediately prior to confirmation of the Plan of Reorganization of $7.8 billion was less than the total of post-petition liabilities and allowed claims of $9.8 billion. Accordingly, TES allocated its reorganization value to its individual assets based on their estimated fair values.

Reorganization Value

Reorganization value is derived from an estimate of enterprise value, or the fair value of the Company's interest-bearing debt and member's equity. As negotiated in the Plan of Reorganization and related disclosure statement approved by the Bankruptcy Court, the enterprise value as of Emergence was $4.5 billion. Management engaged third-party valuation advisors to assist in estimating the enterprise value and allocating the enterprise value to the assets and liabilities for financial reporting purposes as of Emergence. Enterprise value assumptions incorporated: (i) economic and industry information relevant to the business; (ii) internal financial information and operating data; (iii) historical financial information; and (iv) financial projections and other applicable assumptions. The valuation techniques used to estimate the enterprise value as of Emergence included the income approach, market approach, and cost approach, with consideration of the exit market and nature of the applicable asset or liability subject to valuation.

The Company's principal assets are generation facilities whose values were determined by a discounted cash flow analysis based on management's latest outlook of the business through the end of their expected useful lives. The forward-looking projections considered: (i) company-specific factors, such as unit characteristics, plant dispatch, operating expenses, capital expenditures and estimated economic useful lives; and (ii) macroeconomic factors, such as capacity prices, energy prices, fuel prices, market supply and demand factors, inflation factors, and environmental regulations. Commodity prices used to estimate future cash flows in observable periods were primarily based on adjusted exchange prices, prices provided by brokers, or prices provided by price service companies that are corroborated by market data. Commodity prices for future unobservable periods used third party pricing services that incorporate industry standard methodologies that may consider the historical relationships among various commodities, modeled market prices, inflation assumptions, and other relevant economic measures. Future estimates for capital expenditures and operating expenses, such as major maintenance and employee compensation were estimated considering unit operating experience, recent historical financial information, and expected operating performance. The expected useful lives of the generation facilities were estimated through 2050 and incorporated expectations regarding the economic prospects of each unit, permitting and licensing, regulatory requirements, and (or) other considerations. The cash flow estimates incorporated a federal effective tax rate of 21% and the applicable state tax rate based on the location of each generation facility. The present value of expected future cash flows utilized a weighted average cost of capital discount rate that ranged from 8.5% to 46.5%. The discount rate utilized for nuclear generation was 8.5% and certain natural gas generation facilities were estimated near the low end of the range. Certain coal and natural gas generation units were estimated near the high end of the range. Discount rates for each generation facility considered, among other things, unit characteristics, fuel type, and market location.

The assumptions used to estimate the reorganization value considered all available evidence as of Emergence, are believed to be consistent with those used by the principal market participants and outlook for each generation facility, and represent management's best estimate of reorganization value. However, such assumptions are inherently uncertain and require judgment. Accordingly, changes to sensitive assumptions, which primarily include commodity prices and discount rates, would have a reasonable possibility of significantly affecting the measurement of the reorganization value. See below under "Fresh Start Adjustments" for additional information regarding assumptions used in the measurement of the Company's various other significant assets and liabilities.

Upon the application of fresh start accounting, the Company preliminarily allocated the reorganization value to its individual assets based on their estimated fair values. The following table reconciles the Company's enterprise value to the estimated reorganization value at Emergence:

	May 17, 2023
Enterprise value [(a)]	$ 4,500
Plus: Cash and cash equivalents and Restricted cash and cash equivalents [(b)]	701
Plus: Current liabilities excluding long-term debt due within one year	514
Plus: Non-current liabilities excluding long-term debt and liability-classified warrants	1,234
Plus: Fair value of noncontrolling interest	110
Reorganization value to be allocated	**$ 7,059**

(a) Excludes any value associated with noncontrolling interest.
(b) Excludes $52 million for payment of professional fees.

The following table reconciles TES's enterprise value to the estimated fair value at Emergence:

		May 17, 2023
Enterprise value [a]	$	4,500
Plus: Cash and cash equivalents and Restricted cash and cash equivalents [b]		701
Less: Fair value of debt		(2,845)
Less: Liability-classified warrants		(35)
Fair value of member's equity [c]		**2,321**
Plus: Fair value of noncontrolling interest		110
Fair value of equity	**$**	**2,431**

(a) Excludes any value associated with noncontrolling interest.
(b) Excludes $52 million for payment of professional fees.
(c) Issued in accordance with the Plan of Reorganization. Includes 59,028,843 shares of TEC common stock and $8 million of equity-classified warrants.

Consolidated Balance Sheet

The "Reorganization Adjustments" on the fresh start Consolidated Balance Sheet as of Emergence present the aggregate effect of the transactions contemplated by the Plan of Reorganization. The "Fresh Start Adjustments" present the preliminary fair value and other required adjustments as a result of applying fresh start accounting. The explanatory notes provide additional information related to the adjustments, the methods used to determine fair values, and significant assumptions.

	May 17, 2023			
Assets	**Predecessor**	**Reorganization Adjustments (a)**	**Fresh Start Adjustments**	**Successor**
Cash and cash equivalents	$ 1,302	$ (1,133) [b]	$ —	$ 169
Restricted cash and cash equivalents	240	426 [c]	(81) [q]	585
Accounts receivable, net	148	(3) [d]	—	145
Inventory, net	448	—	(141) [r]	307
Derivative instruments	818	—	(632) [q]	186
Other current assets	135	—	(5) [s]	130
Total current assets	**3,091**	**(710)**	**(859)**	**1,522**
Property, plant and equipment, net	4,322	—	(458) [t]	3,864
Nuclear decommissioning trust funds	1,465	—	—	1,465
Derivative instruments	37	—	(37) [q]	—
Other noncurrent assets	146	(12) [e]	74 [u]	208
Total Assets	**$ 9,061**	**$ (722)**	**$ (1,280)**	**$ 7,059**
Liabilities and Equity				
Revolving credit facilities	$ 848	$ (848) [f]	$ —	$ —
Long-term debt, due within one year	1,005	(1,000) [g]	—	5
Accrued interest	288	(284) [h]	—	4
Accounts payable and other accrued liabilities	382	3 [i]	—	385
Derivative instruments	711	—	(654) [q]	57
Other current liabilities	414	(349) [j]	3 [v]	68
Total current liabilities	**3,648**	**(2,478)**	**(651)**	**519**
Long-term debt	2,504	281 [k]	55 [w]	2,840
Liabilities subject to compromise	2,788	(2,788) [l]	—	—
Derivative instruments	135	—	(93) [q]	42
Postretirement benefit obligations	(1)	302 [m]	34 [x]	335
Asset retirement obligations and accrued environmental costs	580	202 [m]	(340) [y]	442
Deferred income taxes	82	283 [n]	(8) [z]	357
Other noncurrent liabilities	19	60 [o]	14 [aa]	93
Total Liabilities	**9,755**	**(4,138)**	**(989)**	**4,628**
Member's equity	(818)	3,416 [p]	(277) [bb]	2,321
Noncontrolling interests	124	—	(14) [cc]	110
Total Equity	**(694)**	**3,416**	**(291)**	**2,431**
Total Liabilities and Equity	**$ 9,061**	**$ (722)**	**$ (1,280)**	**$ 7,059**

Reorganization Adjustments

The reorganization adjustments required in connection with the application of fresh start accounting and the allocation of the enterprise value were:

(a) Emergence adjustments for the implementation of the Plan of Reorganization. Such adjustments include: (i) settlement of prepetition liabilities subject to compromise; (ii) payment of certain prepetition indebtedness; (iii) issuances of member's equity; (iv) recognition of new indebtedness and related restricted cash; and (v) other items.

(b) The uses of "Cash and cash equivalents" at Emergence resulting from the implementation of the Plan of Reorganization were:

Proceeds from Rights Offering	$	1,400
Proceeds from TLB and TLC		1,019
Proceeds from Secured Notes		1,200
Release of restricted cash		89
Payment of claims under Prepetition CAF		(1,029)
Payment of claims under other Prepetition Secured Indebtedness		(2,136)
Payment of DIP TLB		(1,012)
Restriction of cash relating to TLC LCF		(470)
Payment of debt issuance costs on TLB, TLC and Secured Notes		(54)
Funding of professional fees escrow account		(52)
Payment of hedge rejections		(42)
Payment to general unsecured creditors trust		(26)
Payment of professional fees		(22)
Other [(a)]		2
Total uses of Cash and cash equivalents	**$**	**(1,133)**

(a) Includes $1 million of proceeds from Riverstone for payment to general unsecured creditors trust.

(c) "Restricted cash and cash equivalents" net change:

Restriction of cash relating to TLC LCF	$	470
Funding of professional fees escrow account		52
Release of restricted cash		(89)
Payment of professional fees		(7)
Net change in Restricted cash and cash equivalents	**$**	**426**

(d) "Accounts receivable, net" net change related to settlement of affiliate receivables.

(e) "Other noncurrent assets" net change:

Write-off of debt issuance costs associated with Prepetition CAF	$	(22)
Reclassification of previously capitalized debt issuance costs to Long-term debt		(14)
Capitalization of debt issuance costs		24
Net change in Other noncurrent assets	**$**	**(12)**

(f) Payment of principal amounts owed under Prepetition CAF.

(g) Repayment of DIP Facilities.

(h) "Accrued interest" net change:

Payment of accrued interest on Prepetition CAF	$	(183)
Payment of accrued interest on other Prepetition Secured Indebtedness		(89)
Payment of accrued interest on DIP Facilities		(12)
Net change in Accrued interest	**$**	**(284)**

(i) "Accounts payable and other accrued liabilities" net change:

Payment of hedge contract rejections	$	(42)
Payment of professional fees		(6)
Reinstatement of liabilities subject to compromise		38
Accrual for professional fees incurred at Emergence		13
Net change in Accounts payable and other accrued liabilities	**$**	**3**

(j) "Other current liabilities" net change:

Issuance of equity for Backstop Premium	$	(380)
Reinstatement of liabilities subject to compromise		31
Net change in Other current liabilities	**$**	**(349)**

(k) "Long-term debt" net change:

Payment of claims under Prepetition Secured Indebtedness	$	(2,048)
Borrowings of $1.2 billion under the Secured Notes [a]		1,179
Borrowings of $580 million under TLB [b]		548
Borrowings of $470 million under TLC [c]		446
Reinstatement of PEDFA 2009B Bonds and PEDFA 2009C Bonds [d]		130
Write-off of Prepetition Secured Indebtedness issuance costs		26
Net change in Long-term debt	**$**	**281**

(a) Net of an aggregate initial purchaser discount and debt issuance costs of $21 million. See Note 13 for additional information.
(b) Net of an aggregate original issue discount and debt issuance costs of $32 million. See Note 13 for additional information.
(c) Net of an aggregate original issue discount and debt issuance costs of $24 million. See Note 13 for additional information.
(d) Includes recognition of $4 million of interest expense.

(l) "Liabilities subject to compromise" settled or reinstated at Emergence in accordance with the Plan of Reorganization:

Liabilities subject to compromise prior to Emergence		
Debt	$	1,555
Termination of retail contracts		447
Postretirement benefit obligations		305
Asset retirement obligations and accrued environmental costs		220
Other liabilities		92
Deferred tax liabilities		77
Accounts payable and accrued liabilities		51
Accrued interest		41
Total		**2,788**
Reinstatement and settlements of certain Liabilities subject to compromise		
Reinstatement of liabilities subject to compromise [a]		(801)
Excess fair value ascribed to lenders participating in Rights Offering		(315)
Issuance of member's equity to holders of claims under Prepetition Unsecured Notes and PEDFA 2009A Bonds		(186)
Payment to general unsecured creditors trust		(24)
Total		**(1,326)**
Gain on derecognition of certain Liabilities subject to compromise [b]	**$**	**1,462**

(a) Primarily includes postretirement benefit obligations, AROs, and deferred income taxes.
(b) Represents liabilities subject to compromise that were discharged in accordance with the Plan of Reorganization.

(m) Reinstatement of "Liabilities subject to compromise."

(n) "Deferred income taxes" net change:

Increase in deferred tax liabilities primarily due to estimated tax attribute reduction from the recognition of cancellation of debt income, partially offset by change in valuation allowance	$	206
Reinstatement of liabilities subject to compromise		77
Net change in Deferred income taxes	**$**	**283**

(o) "Other noncurrent liabilities" net change:

Issuance of liability-classified warrants [a]	$	35
Reinstatement of liabilities subject to compromise		25
Net change in Other noncurrent liabilities	**$**	**60**

(a) See Note 16 for additional information.

The estimated fair value of liability-classified warrants was determined using a Black-Scholes Option Pricing Model with the following assumptions at Emergence:

Expected volatility		30.00 %
Expected term (years)		5.00
Expected dividend yield		— %
Risk-free interest rate		3.6 %
Strike price per share	$	52.92
Fair value per share	$	11.29

(p) "Member's equity" net change:

Gain on settlement of liabilities subject to compromise	$	1,462
Other losses attributable to gain on debt discharge		(3)
Gain on debt discharge		**1,459**
Write-off of deferred financing cost		(46)
Professional fees expensed at Emergence		(27)
Restructuring-related compensation expense		(8)
Total reorganization items from reorganization adjustments		**1,378**
Interest expense incurred at Emergence		(4)
Income from reorganization adjustments before income taxes		**1,374**
Income tax expense		(206)
Net income from reorganization adjustments		**1,168**
Issuance of member's equity in connection with Rights Offering		1,715
Issuance of member's equity for Backstop Premium		380
Issuance of member's equity to holders of claims under Prepetition Unsecured Notes and PEDFA 2009A Bonds		186
Issuance of equity-classified warrants [a]		8
Issuance of liability-classified warrants [a]		(35)
Other [b]		(6)
Net change in Member's equity	**$**	**3,416**

(a) See Note 16 for additional information.
(b) Includes $1 million of proceeds from Riverstone for payment to general unsecured creditors trust.

Fresh Start Adjustments

(q) Net presentation of derivatives on the Consolidated Balance Sheets. See Note 2 for additional information on this policy change.

(r) "Inventory, net" fair value adjustments:

Coal	$	(33)
Oil products		11
Materials and supplies		(133)
Environmental products		14
Total adjustment to Inventory, net	**$**	**(141)**

The fair values for oil, coal and environmental products were estimated using current market prices. The fair values of materials and supplies were estimated using an indirect cost approach. The cost approach estimates fair value by considering the amount required to construct or purchase a new asset of equal utility at current prices, with adjustments for asset function, age, physical deterioration and obsolescence.

(s) "Other current assets" primarily represents miscellaneous fair value adjustments.

(t) "Property, plant and equipment" fair value adjustments:

Electric generation	$	(350)
Other property and equipment		(80)
Intangible assets		(65)
Capitalized software		(3)
Construction work in progress		40
Total adjustment to Property, plant and equipment	**$**	**(458)**

The fair value of "Property, plant and equipment" was estimated using the income approach, market approach and cost approach, as applicable. The fair value of land was estimated utilizing the market approach, which considered comparable market-based transactions within a defined area based on size, use and utility.

(u) "Other noncurrent assets" fair value adjustments:

Favorable supply contracts [a]	$	109
Fair value adjustment to equity method investments		3
Eliminate debt issuance costs associated with DIP Facilities		(29)
Fair value reduction to other miscellaneous assets		(9)
Total adjustment to Other noncurrent assets	**$**	**74**

(a) The fair value of supply contracts was determined utilizing the present value of the after-tax difference between the pricing of actual contracts in place and a current market benchmark.

(v) "Other current liabilities" fair value adjustments, primarily related to short-term AROs.

(w) "Long-term debt" fair value adjustments:

Eliminate debt issuance costs associated with Prepetition Secured Notes, Prepetition TLB and LMBE-MC TLB [a]	$	48
Fair value adjustment to Cumulus Digital TLF [a]		11
Fair value adjustment to LMBE-MC TLB [a]		(4)
Total adjustment to Long-term debt	**$**	**55**

(a) See Note 13 for additional information.

Fair value adjustments to "Long-term debt" were determined using a lattice model, given that the debt can be prepaid by the borrower prior to the maturity date.

(x) Change in accounting policy for discount rates used to estimate postretirement obligations from a bond-matching model to yield curve approach. See Note 2 for additional information.

(y) Adjustment to present at fair value AROs using assumptions as of Emergence, including an inflation factor of 2-3% and an estimated 5- to 20-year credit-adjusted risk-free rate of 8-12% based on timing of cash flows for each underlying obligation.

(z) Adjustment to "Deferred income taxes" for the change in financial reporting basis of assets and liabilities as a result of the adoption of fresh start accounting.

(aa) Fair value adjustments primarily related to unfavorable supply contracts of $13 million and the recognition of unfavorable lease liabilities. The fair value of supply contracts was determined utilizing the present value of the after-tax difference between the pricing of actual contracts in place and current market benchmarks.

(bb) Cumulative impact of fresh start accounting adjustments presented herein.

(cc) "Noncontrolling interests" fair value adjustments for certain subsidiaries.

Liabilities Subject to Compromise

As of December 31, 2022 (Predecessor), "Liabilities subject to compromise" on the Consolidated Balance Sheets represents the expected allowed amount of the prepetition claims of the Debtors that were not fully secured and that had at least a possibility of not being repaid at the full claim amount.

	Predecessor	
	December 31, 2022	
Debt [(a)]	$	1,558
Termination of retail power and other contracts		447
Postretirement benefit obligations [(a)]		309
Asset retirement obligations and accrued environmental costs [(a)]		219
Other liabilities [(a)]		114
Deferred tax liabilities		83
Accounts payable and accrued liabilities		53
Accrued interest		41
Derivatives [(a)]		1
Liabilities Subject to Compromise	**$**	**2,825**

(a) Includes both current and noncurrent amounts.

Reorganization Income (Expense), net

"Reorganization income (expense), net" for the periods presented were:

	Successor		Predecessor			
	May 18 through December 31, 2023		January 1 through May 17, 2023		Year Ended December 31, 2022	
Backstop Premium	$	—	$	(70)	$	(310)
Gain (loss) on debt discharge		—		1,459		—
Gain (loss) on revaluation adjustments		—		(460)		—
Professional fees		—		(56)		(210)
Make-whole premiums and accrued interest on certain indebtedness		—		(21)		(183)
Professional fees incurred to obtain the DIP Facilities		—		—		(70)
Write-off of deferred financing cost and original issue discount		—		(46)		(30)
Other		—		(7)		(9)
Reorganization Income (Expense), net	**$**	**—**	**$**	**799**	**$**	**(812)**

In the preceding table, make-whole premiums and accrued interest on certain indebtedness primarily represents charges recognized by the Debtors for estimates related to make-whole premiums and accrued interest, where applicable, on the Prepetition CAF and certain other Prepetition Secured Indebtedness. The charges are presented as "Reorganization income (expense), net" on the Consolidated Statements of Operations and included in "Accrued interest" on the Consolidated Balance Sheets.

Cash paid for certain reorganization expenses was $308 million for the period from January 1 through May 17, 2023 (Predecessor). Cash paid for the year ended December 31, 2022 (Predecessor) for DIP Facilities financing fees is presented as "Financing Activities" on the Consolidated Statements of Cash Flows.

5. Risk Management, Derivative Instruments and Hedging Activities

Risk Management Objectives

We are exposed to risks arising from our business, including but not limited to market and commodity price risk, credit and liquidity risk and interest rate risk. The hedging and optimization strategies deployed by our commercial organization manage and (or) balance these risks within a structured risk management program in order to minimize near-term future cash flow volatility. Our risk management committee, comprised of certain senior management members across the organization, oversees the management of these risks in accordance with our risk policy. In turn, the risk management committee is overseen by the risk committee of the Board of Directors.

The Board of Directors (including the risk committee) and management have established procedures to monitor, measure and manage hedging activities and credit risk in accordance with the risk policy.

Key risk control activities, which are designed to ensure compliance with the risk policy include, among other activities, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, portfolio stress tests, analysis and monitoring of margin at risk and daily portfolio reporting.

Market and Commodity Price Risk. Volatility in the wholesale power generation markets provides uncertainty in the future performance and cash flows of the business. The price risk Talen is exposed to includes the price variability associated with future sales and (or) purchases of power, natural gas, coal, uranium, oil products, environmental products and other energy commodities in competitive wholesale markets. Several factors influence price volatility, including: seasonal changes in demand; weather conditions; available regional load-serving supply; regional transportation and (or) transmission availability; market liquidity; and federal, regional and state regulations.

Within the parameters of our risk policy, we generally utilize conventional first lien, exchange-traded and over-the-counter traded derivative instruments, and in certain instances, structured products, to economically hedge the commodity price risk of the forecasted future sales and purchases of commodities associated with our generation portfolio.

Open commodity purchase (sales) derivatives as of December 31, 2023 (Successor) range in maturity through 2026. The net notional volumes of open commodity derivatives were:

	Successor	Predecessor
	December 31, 2023 (a)	December 31, 2022 (a)
Power (MWh)	(27,557,871)	(34,810,559)
Natural gas (MMBtu)	8,314,060	57,621,580
Emission allowances (tons)	500,000	5,000,000

(a) The volumes may be less than the contractual volumes, as the probability that option contracts will be exercised is considered in the volumes displayed.

Interest Rate Risk. Talen is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows associated with existing floating rate debt issuances. To reduce interest rate risk, derivative instruments are utilized to economically hedge the interest rates for a predetermined contractual notional amount, which results in a cash settlement between counterparties. To the extent possible, first lien interest rate fixed-for-floating swaps are utilized to hedge this risk.

Open interest rate derivatives as of December 31, 2023 (Successor) range in maturity dates through 2026. The net notional volumes of open interest rate derivatives were:

	Successor	Predecessor
	December 31, 2023	December 31, 2022
Interest rate (in millions) [a]	$ 290	$ 289

(a) Value as of December 31, 2023 (Successor) relates to interest rate derivatives for the TLB indebtedness. Value as of December 31, 2022 (Predecessor) relates to interest rate derivatives for the LMBE-MC indebtedness, which was repaid, and the associated derivatives terminated, in August 2023.

Credit Risk. Credit risk, which is the risk of financial loss if a customer, counterparty or financial institution is unable to perform or pay amounts due, is inherent within cash and cash equivalents, restricted cash and cash equivalents, derivative instruments and accounts receivable. The maximum amount of credit exposure associated with financial assets is equal to the carrying value. Credit risk, which cannot be completely eliminated, is managed through a number of practices such as ongoing reviews of counterparty creditworthiness, prepayment, inclusion of termination rights in contracts which are triggered by certain events of default and executing master netting arrangements which permit amounts between parties to be offset. Additionally, credit enhancements such as cash deposits, letters of credit and credit insurance may be employed to mitigate credit risk.

Cash and cash equivalents are placed in depository accounts or high-quality short-term investments with major international banks and financial institutions. Individual counterparty exposure from over-the-counter derivative instruments is managed within predetermined credit limits and includes the use of master netting arrangements and cash-call margins, when appropriate, to reduce credit risk. Exchange-traded commodity contracts, which are executed through futures commission merchants, have minimal credit risk because they are subject to mandatory margin requirements and are cleared with an exchange. However, Talen is exposed to the credit risk of the futures commission merchants arising from daily variation margin cash calls. Restricted cash and cash equivalents deposited to meet initial margin requirements are held by futures commission merchants in segregated accounts for the benefit of Talen.

Outstanding accounts receivable include those from sales of capacity, generated electricity and ancillary services through contracts directly with ISOs and RTOs and realized settlements of physical and financial derivative instruments with commodity marketers. Additionally, Talen carries accounts receivable due from joint owners for their portion of operating and capital costs for certain jointly owned facilities that are operated by the Company. The majority of outstanding receivables, which are continually monitored, have customary payment terms. Allowance for doubtful accounts was a non-material amount as of December 31, 2023 (Successor) and December 31, 2022 (Predecessor).

As of December 31, 2023 (Successor), Talen's aggregate credit exposure, which excludes the effects of netting arrangements, cash collateral, letters of credit and any allowances for doubtful collections, was $431 million and its credit exposure net of such effects was $121 million. Excluding ISO and RTO counterparties, whose accounts receivable settlements are subject to applicable market controls, the ten largest single net credit exposures account for approximately 78% of Talen's total net credit exposure, which are primarily with entities assigned investment grade credit ratings.

Certain derivative instruments contain credit risk-related contingent features, which may require us to provide cash collateral, letters of credit or guarantees from a creditworthy entity if the fair value of a liability eclipses a certain threshold or upon a decline in our credit rating. The fair value of derivative instruments in a net liability position, and that contain credit risk-related contingent features, were non-material amount as of December 31, 2023 (Successor) and December 31, 2022 (Predecessor).

Derivative Instrument Presentation

Balance Sheet Presentation. The fair value of derivative instruments presented within assets and liabilities on the Consolidated Balance Sheets were:

	Successor [(a)]		Predecessor	
	December 31, 2023		December 31, 2022	
	Assets	Liabilities	Assets	Liabilities
Commodity contracts	$ 88	$ 32	$ 2,156	$ 1,928
Interest rate contracts	1	—	9	—
Less: amounts presented as “Liabilities subject to compromise”	—	—	—	1
Total current derivative instruments	**89**	**32**	**2,165**	**1,927**
Commodity contracts	6	5	228	363
Interest rate contracts	—	6	—	—
Total non-current derivative instruments	**$ 6**	**$ 11**	**$ 228**	**$ 363**

(a) See Note 2 for information on our accounting policy revision at Emergence concerning derivative instrument presentation.

All commodity and interest rate derivatives are economic hedges where the changes in fair value are presented immediately in income as unrealized gains and losses. Changes in the fair value and realized settlements on commodity derivative instruments are presented as separate components of “Energy revenues” and “Fuel and energy purchases” on the Consolidated Statements of Operations. See Note 2 for additional information on our derivative instruments and Note 14 for additional information on fair value.

Effect of Netting. Generally, the right of setoff within master netting arrangements permits the fair value of derivative assets to be offset with derivative liabilities. As an election, derivative assets and derivative liabilities are presented on the Consolidated Balance Sheets with the effect of such permitted netting as of December 31, 2023 (Successor), while derivative assets and derivative liabilities are presented on the Consolidated Balance Sheets without the effect of such permitted netting as of December 31, 2022 (Predecessor). See Note 2 for information on the related accounting policy.

The net amounts of “Derivative instruments” presented as assets and liabilities on the Consolidated Balance Sheets considering the effect of permitted netting and where cash collateral is pledged in accordance with the underlying agreement were:

	Gross Derivative Instruments	Eligible for Offset	Liabilities Subject to Compromise	Net Derivative Instruments	Collateral (Posted) Received	Net Amounts
December 31, 2023 (Successor)						
Assets	$ 295	$ (198)	$ —	$ 97	$ (2)	$ 95
Liabilities	300	(198)	—	102	(59)	43
December 31, 2022 (Predecessor)						
Assets	2,393	(2,194)	—	199	—	199
Liabilities [(a)]	2,291	(2,194)	1	96	(75)	21

(a) Includes amounts that are presented as “Liabilities subject to compromise” on the Consolidated Balance Sheets. See Note 4 for additional information.

Statements of Operations Presentation. The location and pre-tax effect of "Derivative instruments" presented on the Consolidated Statements of Operations were:

	Successor	Predecessor		
	May 18 through December 31,	January 1 through May 17,	Year Ended December 31,	Year Ended December 31,
	2023	2023	2022	2021
Realized gain (loss) on commodity contracts				
Energy revenues [a]	$ 360	$ 644	$ (613)	$ (228)
Fuel and energy purchases [a]	(91)	(34)	127	230
Unrealized gain (loss) on commodity contracts				
Operating revenues [b]	55	60	677	(847)
Energy expenses [b]	(3)	(123)	(52)	135
Realized and unrealized gain (loss) on interest rate contracts				
Interest expense and other finance charges	(4)	—	30	12

(a) Does not include those derivative instruments that settle through physical delivery.
(b) Presented as "Unrealized gain (loss) on derivative instruments" on the Consolidated Statements of Operations.

Contract Terminations

Commodity Hedge Terminations. In March and April 2022, Talen Energy Marketing and a counterparty terminated certain derivative contracts in a net liability position with a carrying value and fair value of $124 million prior to the agreements' scheduled maturity dates. As the parties agreed to a monthly settlement through January 2023, repayments are presented as "Derivatives with financing elements" on the Consolidated Statements of Cash Flows.

In May 2022, certain commodity counterparties of Talen Energy Marketing terminated derivative contracts in a net liability position with a carrying value and fair value of $33 million prior to the agreements' scheduled maturity dates. During 2022, Talen Energy Marketing received approximately $7 million in net settlements from counterparties and settled the remaining $40 million liability at Emergence.

ERCOT 2021 Winter Market Conditions

In mid-February 2021, Texas experienced an extreme winter weather event, Winter Storm Uri, that led to systemic energy market disruptions and price volatility throughout ERCOT. Winter Storm Uri precipitated a rapid increase in energy demand due to the storm's historically cold temperatures and a simultaneous decrease in energy supply caused by operational disruptions to the electric grid, natural gas production and distribution systems, water supplies, and other critical infrastructure throughout Texas. Talen incurred an estimated $78 million pre-tax nonrecurring loss associated with its ERCOT activities during Winter Storm Uri for the year ended December 31, 2021 (Predecessor).

See Note 12 for additional information on ERCOT systemic risks including a settlement by ERCOT with a market participant that had defaulted in its payment obligations.

6. Revenue

The disaggregation of our operating revenues for the periods were:

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Capacity revenues	$ 133	$ 108	$ 377	$ 444
Electricity sales and ancillary services, ISO/RTO	880	281	2,534	1,960
Physical electricity sales, bilateral contracts, other	71	62	298	572
Other revenue	81	27	—	—
Total revenue from contracts with customers	**1,165**	**478**	**3,209**	**2,976**
Realized and unrealized gain (loss) on derivative instruments	179	732	(120)	(2,048)
Operating revenues	**$ 1,344**	**$ 1,210**	**$ 3,089**	**$ 928**

Accounts Receivable

"Accounts receivable, net" presented on the Consolidated Balance Sheets were:

	Successor	Predecessor
	December 31, 2023	December 31, 2022
Customer accounts receivable	$ 52	$ 350
Other accounts receivable	85	58
Accounts receivable, net	**$ 137**	**$ 408**

During the years ended December 31, 2023 (Successor) and 2022 (Predecessor), there were no significant changes in accounts receivable other than normal receivable recognition and collection transactions. See Note 5 for additional information on Talen's credit risk on the carrying value of its receivables. See Note 8 for additional information on a Talen Energy Marketing receivables sales arrangement that was terminated in May 2022.

Deferred Revenue

Deferred revenues that were: (i) presented as a liability on the Consolidated Balance Sheets as of December 31, 2023 (Successor) and 2022 (Predecessor); or (ii) recognized as revenue on the Consolidated Statements of Operations were not material.

Future Performance Obligations

In the normal course of business, Talen has future performance obligations for capacity sales awarded through market-based capacity auctions and (or) for capacity sales under bilateral contractual arrangements.

As of December 31, 2023 (Successor), the expected future period capacity revenues subject to unsatisfied or partially unsatisfied performance obligations were:

	2024	2025	2026	2027
Expected capacity revenues	$ 170	$ 70	$ 3	$ 1

The PJM capacity auctions for the 2025/2026 PJM Capacity Year and for any years thereafter have not yet been held. See Note 12 for additional information on the PJM RPM and auctions.

7. Income Taxes

The components of "Income tax benefit (expense)" for the periods were:

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Federal	$ 3	$ (15)	$ (9)	$ (25)
State	1	(2)	(4)	1
Current income taxes	**4**	**(17)**	**(13)**	**(24)**
Federal	(55)	(184)	68	263
State	—	(11)	(21)	60
Deferred income taxes	**(55)**	**(195)**	**47**	**323**
Investment tax credit	—	—	1	1
Income tax benefit (expense)	**(51)**	**(212)**	**35**	**300**
Income (loss) before income taxes	194	677	(1,328)	(1,277)
Effective income tax rate	**26.3%**	**31.3%**	**2.6%**	**23.5%**

Effective Tax Rate Reconciliations

The reconciliations of the effective tax rate for the periods were:

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Income (loss) before income taxes	$ 194	$ 677	$ (1,328)	$ (1,277)
Income tax benefit (expense)	(51)	(212)	35	300
Effective tax rate [(a)]	**26.3%**	**31.3%**	**2.6%**	**23.5%**
Federal income tax statutory tax rate	21%	21%	21%	21%
Income tax benefit (expense) computed at the federal income tax statutory tax rate	(41)	(143)	279	269
Income tax increase (decrease) due to:				
State income taxes, net of federal benefit	1	(34)	19	59
Change in valuation allowance	(43)	129	(198)	—
Permanent differences	22	(16)	(94)	—
Nuclear decommissioning trust taxes	(16)	(9)	28	(28)
Reorganization adjustments	26	(138)	—	—
Other	—	(1)	1	—
Income tax benefit (expense)	**$ (51)**	**$ (212)**	**$ 35**	**$ 300**

(a) The effective tax rate for the Successor period differed from the statutory rate primarily due to the change in valuation allowance, additional 20% trust tax on NDT income, reorganization adjustments, and permanent differences.

Deferred Taxes

The components of deferred tax liabilities and deferred tax assets as of December 31 were:

	Successor 2023	Predecessor 2022
Property, plant and equipment, net	$ 560	$ 436
Nuclear decommissioning trust	443	394
Investment in Subsidiaries	14	—
Unrealized gain on qualifying derivatives	12	25
Deferred tax liabilities	**1,029**	**855**
Less:		
Accrued pension costs	78	68
Federal net operating loss carryforwards	273	258
State net operating loss carryforwards	26	34
Federal credits	8	8
Accrued liabilities	26	155
Interest limitation carryforward	336	242
Investment in Subsidiaries	—	33
Other	2	96
Deferred tax assets	**749**	**894**
Valuation allowance	(128)	(198)
Deferred tax liabilities, net	**$ 408**	**$ 159**

Net Operating Losses

The components of NOL carryforwards as of December 31 were:

	Successor 2023	Predecessor 2022
Federal, expirations 2036 - 2037	$ 43	$ 58
Federal, indefinite expiration, limited to annual utilization of 80%	1,258	1,198
State, expirations 2024 - 2043	555	647

See "Emergence from Restructuring" for information on limitations on our NOLs.

Unrecognized Tax Benefits

	Successor	Predecessor	
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022
Beginning balance	$ 9	$ 9	$ 9
Additions for tax positions of prior years	—	—	—
Ending balance	**$ 9**	**$ 9**	**$ 9**

Included in the balance of unrecognized tax benefits as of both December 31, 2023 (Successor) and 2022 (Predecessor) are potential benefits of $9 million, that, if recognized, would affect the effective tax rate. We do not expect the total amount of unrecognized tax benefit to change significantly within one year.

All tax returns filed for years December 31, 2020 and forward are open to examination by the relevant taxing authorities.

Emergence from Restructuring

The Company evaluated the tax impact of its Restructuring as described in Note 3 including the change in control resulting from its emergence from bankruptcy. As part of the Restructuring, a substantial portion of the Company's prepetition debt was extinguished, resulting in cancellation of indebtedness income ("CODI"). A taxpayer emerging from Bankruptcy may exclude CODI from taxable income but must first reduce its tax attributes by the amount of CODI realized. The Company realized CODI of approximately $1.2 billion, which resulted in a partial reduction in tax basis in property, plant, and equipment assets.

Upon Emergence, the Successor experienced an ownership change under Section 382 of the Internal Revenue Code. The Internal Revenue Code Sections 382 and 383 impose limitations on the ability of a company to utilize tax attributes after experiencing an ownership change. States generally have similar tax attribute limitation rules following an ownership change. The Company also applied fresh start accounting. As a result, deferred tax assets and liabilities were adjusted based on the Successor GAAP financial statements. See Note 4 for additional information on fresh start accounting.

Valuation Allowance

For the period from January 1 through May 17, 2023 (Predecessor), Talen recognized a $129 million benefit for the reduction of federal and state valuation allowance. This movement of valuation allowance was caused by tax attribute reduction from the cancellation of debt income realized upon Emergence. For the period from May 18 through December 31, 2023 (Successor), Talen recognized a $43 million expense for the increase in federal and state valuation allowance based on realizability of existing deferred tax assets. For the period December 31, 2022 (Predecessor) Talen recognized a $198 million federal and state valuation allowance expense for the portion of Talen's net deferred tax asset that is not more likely than not to be realized. Such an allowance resulted from a customary deferred tax asset valuation allowance assessment which is performed on net deferred tax asset positions that utilizes available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. Talen's most significant deferred tax assets are its net operating losses and interest limitation carryforwards. A significant objective input of negative evidence considered in the assessment included the cumulative book losses incurred over a three-year period. The existence of objective negative evidence limits the availability to consider other subjective evidence, including (but not limited to) Talen's projections for future income which may allow for utilization of net operating losses and interest limitation carryforwards. At each period, management will continue to assess the available positive and negative evidence to determine the need for a valuation allowance.

Inflation Reduction Act of 2022

Under the Inflation Reduction Act, the nuclear production tax credit program provides qualified nuclear power generation facilities with a $3 per MWh transferable credit for electricity produced and sold to an unrelated party during each tax year. Electricity produced and sold by Susquehanna after December 31, 2023 through December 31, 2032 is expected to qualify for the credit, which is subject to potential adjustments. Such adjustments include inflation escalators, a five-times increase in tax credit value (to $15 per MWh) if the qualifying generation facility meets prevailing wage requirements, and a pro-rata decrease in tax credit value once the annual gross receipts of a qualifying generation facility exceed $25 per MWh. We believe Susquehanna will qualify for these adjustments. The credit is eliminated when the annual gross receipts are equivalent to $43.75 per MWh (adjusted for inflation).

Susquehanna generated approximately 18 million MWh each year from 2021 through 2023. We believe Susquehanna Nuclear will qualify for nuclear production tax credits that will result in an increase to its income. However, no assurance can be provided as to the magnitude of such increase as the Inflation Reduction Act's provisions, including the computations of the nuclear production tax credit, are subject to implementation regulations. The implementation rules, which are also subject to future legislative revisions, have not yet been published by the Department of Treasury. Accordingly, Talen cannot fully predict the impacts of the Inflation Reduction Act to its liquidity or results of operations.

8. Inventory

	Successor	Predecessor
	December 31, 2023	December 31, 2022
Coal	$ 152	$ 189
Oil products	75	61
Fuel inventory for electric generation	**227**	**250**
Materials and supplies, net	72	195
Environmental products	76	12
Inventory, net	**$ 375**	**$ 457**

Inventory was adjusted to fair value at Emergence. See Note 4 for additional information.

Inventory net realizable value and obsolescence charges are presented as "Other operating income (expense), net" on the Consolidated Statements of Operations. Such non-cash charges were not material for the period from May 18 through December 31, 2023 (Successor). For the period from January 1 through May 17, 2023 (Predecessor), $37 million of charges were recognized, which included $24 million of aggregate adjustments to the Brandon Shores coal and materials and supplies inventories. Net realizable value and obsolescence charges were not material for the years ended December 31, 2022 (Predecessor) and 2021 (Predecessor). See Note 10 for additional information on the Brandon Shores recoverability assessment.

Repurchase Obligations

Prior to May 2022, under an inventory repurchase agreement, Talen from time to time sold and transferred title to certain fuel inventory quantities to an unaffiliated party in exchange for cash consideration. Talen was required to subsequently repurchase the quantities as needed for electric generation or at expiry of the arrangement.

In May 2022, Talen terminated the agreement by repurchasing the remaining inventory and repaying the $165 million outstanding obligation, plus accrued interest and other fees. Talen had no outstanding inventory repurchase obligations and no inventories subject to the arrangement at December 31, 2023 (Successor) and 2022 (Predecessor).

9. Nuclear Decommissioning Trust Funds

	Successor				Predecessor			
	December 31, 2023				December 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash equivalents	$ 9	$ —	$ —	$ 9	$ 6	$ —	$ —	$ 6
Equity securities	491	575	53	1,013	521	485	69	937
Debt securities	570	10	1	579	507	1	31	477
Receivables (payables), net	(26)	—	—	(26)	(20)	—	—	(20)
Nuclear decommissioning trust funds	**$ 1,044**	**$ 585**	**$ 54**	**$ 1,575**	**$ 1,014**	**$ 486**	**$ 100**	**$ 1,400**

See Note 14 for additional information on the NDT fair value. There were no available-for-sale debt securities with credit losses as of December 31, 2023 (Successor) or December 31, 2022 (Predecessor).

As of December 31, 2023 (Successor), there was no intent to sell available-for-sale debt securities with unrealized losses, and it is not more likely than not that each of these investments will be required to be sold before the recovery of its amortized cost. The aggregate related fair value of available-for-sale debt securities with unrealized losses as of December 31, 2023 (Successor) were:

	Fair Value	Unrealized Losses
U.S. Government debt securities	$ 97	$ (1)

There were securities in an unrealized loss position for a duration of one year or longer. As of December 31, 2023 (Successor), the aggregate fair value of these securities were $13 million and the unrealized losses were non-material.

The contractual maturities for available-for-sale debt securities presented on the Consolidated Balance Sheets were:

	Successor	Predecessor
	December 31, 2023	December 31, 2022
Maturities within one year	$ 105	$ 32
Maturities within two to five years	194	173
Maturities thereafter	280	272
Debt securities, fair value	**$ 579**	**$ 477**

The sales proceeds, gains, and losses for available-for-sale debt securities for the periods were:

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Sales proceeds of nuclear decommissioning trust funds investments [(a)]	$ 1,259	$ 839	$ 2,081	$ 1,571
Gross realized gains	5	7	10	13
Gross realized losses	(11)	(12)	(43)	(15)

(a) Sales proceeds are used to pay income taxes and trust management fees. Remaining proceeds are reinvested in the trust.

10. Property, Plant and Equipment

	Estimated Useful Life (years)	Successor December 31, 2023 Gross Value	Successor December 31, 2023 Accumulated Provision	Successor December 31, 2023 Carrying Value	Predecessor December 31, 2022 Gross Value	Predecessor December 31, 2022 Accumulated Provision	Predecessor December 31, 2022 Carrying Value
Electric generation	3-27	$ 3,178	$ (109)	$ 3,069	$ 10,596	$ (6,797)	$ 3,799
Nuclear fuel	1-6	228	(55)	173	491	(316)	175
Other property and equipment	1-20	357	(21)	336	157	(82)	75
Intangible assets	2-26	1	—	1	137	(64)	73
Capitalized software	1-5	6	(1)	5	102	(95)	7
Construction work in progress		255	—	255	576	—	576
Property, plant and equipment, net		**$ 4,025**	**$ (186)**	**$ 3,839**	**$ 12,059**	**$ (7,354)**	**$ 4,705**

Property, plant, and equipment was adjusted to fair value after Emergence. See Note 4 for additional information.

The components of "Depreciation, amortization and accretion" presented on the Consolidated Statements of Operations were:

	Successor May 18 through December 31, 2023	Predecessor January 1 through May 17, 2023	Predecessor Year Ended December 31, 2022	Predecessor Year Ended December 31, 2021
Depreciation expense [(a)]	$ 133	$ 173	$ 432	$ 436
Amortization expense [(b)]	1	4	12	19
Accretion expense [(c)]	31	24	78	71
Other	—	(1)	(2)	(2)
Depreciation, amortization, and accretion	**$ 165**	**$ 200**	**$ 520**	**$ 524**

(a) Electric generation and other property and equipment.
(b) Intangible assets and capitalized software.
(c) ARO and accrued environmental cost accretion. See Note 11 for additional information.

The cost of nuclear fuel is charged to "Nuclear fuel amortization" on the Consolidated Statements of Operations.

Favorable Supply Contracts.

At Emergence, the Company recognized certain favorably priced nuclear fuel supply contracts at their fair value of approximately $109 million. See Note 4 for additional information.

Amortization expense was $53 million for the period from May 18 through December 31, 2023 (Successor). Amortization expense is presented as "Nuclear fuel amortization" on the Consolidated Statements of Operations. The carrying value of these assets as of December 31, 2023 (Successor) was $56 million, presented as "Other noncurrent assets" on the Consolidated Balance Sheets. Estimated amortization expense for the next five years is:

	2024	2025	2026	2027	2028 [(a)]
Estimated amortization expense	$ 33	$ 14	$ 5	$ 3	$ 1

(a) The favorable supply contracts expire in 2028.

2023 Impairments

Brandon Shores Asset Group. Brandon Shores is required by contract and permit to cease coal combustion by December 31, 2025. In the first quarter 2023, Talen canceled its plan to convert Brandon Shores to an oil combustion facility due to an increase in expected conversion costs. This decision triggered a recoverability assessment of the carrying value of the Brandon Shores asset group. Additionally, Brandon Shores notified PJM that it will deactivate electric generation on June 1, 2025.

The recoverability analysis indicated that the Brandon Shores asset group carrying value exceeded its future estimated undiscounted cash flows, which required an impairment charge to amend the asset group's carrying value of its property, plant and equipment to its estimated fair value. The estimated fair value of the asset group was determined by a discounted cash flow technique that utilized significant unobservable inputs including an 11% discount rate. We believe that the utilized discount rate and other discounted cash flow assumptions are consistent with those used by principal market participants. Such assumptions consider available evidence regarding the prospects of future cash flows for the Brandon Shores asset group, including, but not limited to estimated available future generation volumes and useful lives, capacity prices, energy prices, operating costs, capital expenditures, and environmental costs. Accordingly, in 2023, Talen recognized a non-cash pre-tax impairment charge on its undepreciated property, plant and equipment related to Brandon Shores of $361 million for the period from January 1 through May 17, 2023 (Predecessor), which is presented as "Impairments" on the Consolidated Statements of Operations.

Jointly Owned Facilities

Certain of Talen's subsidiaries own undivided interests in jointly owned electric generation facilities and related assets. These generation facilities and other assets are maintained and operated pursuant to their joint ownership participation and operating agreements. Under such arrangements, each participant is responsible for funding its proportional share of construction costs and operating costs and is entitled to its proportionate share of electric generation and (or) other attributes of the relevant jointly owned facilities. Talen's proportional share of gross margin and other operating costs for its undivided interests is presented within the Consolidated Statements of Operations.

Talen Montana owns 30% of Colstrip Unit 3 and does not own any portion of Colstrip Unit 4. However, it is a participant in a joint-owner sharing agreement which governs each party's responsibilities and rights whereby Talen Montana is responsible for 15% of the total operating costs and expenditures of Colstrip Unit 3 and 15% of Colstrip Unit 4. Accordingly, it is entitled of 15% of the available generation from each of these units. In January 2020, Talen Montana and the other co-owner of Colstrip Units 1 and 2 permanently retired the units. Talen Montana is responsible for 50% of the decommissioning and other related costs of Colstrip Units 1 and 2. See Note 22 for information on the potential acquisition by Talen Montana of an additional interest in Colstrip Units 3 and 4.

The Colstrip Units have no carrying value at December 31, 2023 (Successor) and 2022 (Predecessor), and therefore are not displayed in the table below.

The proportionate shares of "Property, plant and equipment, net" presented on the Consolidated Balance Sheets at December 31 were:

	Susquehanna	Conemaugh	Keystone	Merrill Creek Reservoir
Ownership interest	90%	22.22%	12.34%	8.37%
December 31, 2023 (Successor)				
Electric generation	$ 2,187	$ 2	$ —	$ 1
Nuclear fuel	228	—	—	—
Other property and equipment	18	—	—	5
Capitalized software	2	—	—	—
Intangible assets	1	—	—	—
Construction work in progress	95	1	—	—
Proportionate property, plant and equipment, cost	**2,531**	**3**	**—**	**6**
Less: accumulated depreciation and amortization	121	—	—	—
Proportionate property, plant and equipment, net	**$ 2,410**	**$ 3**	**$ —**	**$ 6**
December 31, 2022 (Predecessor)				
Electric generation	$ 4,843	$ 24	$ 14	$ 1
Nuclear fuel	491	—	—	—
Other property and equipment	59	—	—	21
Capitalized software	19	—	—	—
Intangible assets	76	—	—	—
Construction work in progress	83	1	—	—
Proportionate property, plant and equipment, cost	**5,571**	**25**	**14**	**22**
Less: accumulated depreciation and amortization	4,248	7	4	18
Proportionate property, plant and equipment, net	**$ 1,323**	**$ 18**	**$ 10**	**$ 4**

Equity Method Investments

The carrying values of equity method investments which are presented as "Other noncurrent assets" on the Consolidated Balance Sheets were:

			Successor	Predecessor
	Formation	Ownership Interest (a)	December 31, 2023	December 31, 2022
Conemaugh Fuels, LLC	2002	22.22 %	$ 12	$ 15
Keystone Fuels, LLC	2000	12.34 %	6	8
Total			**$ 18**	**$ 23**

(a) Ownership at December 31, 2023 (Successor).

Talen holds equity interests in Conemaugh Fuels and Keystone Fuels equal to its respective undivided ownership interests in Conemaugh and Keystone. Conemaugh Fuels and Keystone Fuels were formed to purchase coal and sell it to Conemaugh and Keystone. Additionally, they may sell coal to any entity that manufactures or produces synthetic fuel from coal for resale to Conemaugh and Keystone. The aggregate affiliated fuel purchases by Talen from Conemaugh Fuels and Keystone Fuels is presented as "Fuel and energy purchases" on the Consolidated Statements of Operations. Talen's aggregate fuel purchases for Conemaugh and Keystone Fuels were $23 million for the period from May 18 through December 31, 2023 (Successor) and $14 million for the period from January 1 through May 17, 2023 (Predecessor). For the years ended December 31, 2022 (Predecessor) and 2021 (Predecessor), Talen's aggregate fuel purchases were $63 million and $52 million.

11. Asset Retirement Obligations and Accrued Environmental Costs

	Successor	Predecessor
	December 31, 2023	December 31, 2022
Asset retirement obligations	$ 464	$ 751
Accrued environmental costs	23	35
Total asset retirement obligations and accrued environmental costs	**487**	**786**
Less: asset retirement obligations and accrued environmental costs due within one year [(a)]	18	—
Less: amounts presented as "Liabilities subject to compromise"	—	219
Asset retirement obligations and accrued environmental costs due after one year	**$ 469**	**$ 567**

(a) Presented as "Other current liabilities" as of December 31, 2023 (Successor) and as "Liabilities subject to compromise" as of December 31, 2022 (Predecessor) on the Consolidated Balance Sheets.

As a result of the Restructuring: (i) certain portions of ARO and accrued environmental costs were presented as "Liabilities subject to compromise" on the Consolidated Balance Sheets as of December 31, 2022 (Predecessor); and (ii) ARO and accrued environmental costs were adjusted to fair value upon completion of the Restructuring. These adjustments included establishing a new discount rate for the AROs, which resulted in a decrease to the value of the obligations for our nuclear facility and an increase in the value of our non-nuclear obligations. See Note 4 for additional information.

Asset Retirement Obligations

Certain subsidiaries of the Company have legal retirement obligations for the decommissioning and environmental remediation costs associated with our generation fleet, which include activities such as structure removal and remediation of coal piles, wastewater basins, and ash impoundments. Most of these obligations, except remediation of some ash impoundments, are not expected to be paid until several years, or decades, in the future. The most significant obligations are associated with the decommissioning of Susquehanna (for which Susquehanna Nuclear has an NDT to assist in funding the ARO) and coal ash disposal units associated with legacy coal-fired generation facilities (for which the Company has posted surety bonds, letters of credit and cash collateral for certain facilities). The carrying value of these obligations include assumptions of estimated future ARO cash expenditures, cost escalation rates, probabilistic cash flow models and discount rates. The ARO carrying value may be impacted by current or future CCR rulemaking. See Note 12 for additional information on the EPA CCR Rule.

Additionally, certain subsidiaries of the Company have legal retirement obligations associated with the removal, disposal, and (or) monitoring of asbestos-containing material at certain generation facilities. Given that the ultimate volume of asbestos-containing material is not yet known, the fair value of these obligations cannot be reasonably estimated. These obligations will be recognized upon a change in economic events or other circumstances which enables the fair value to be estimable.

The changes of the ARO carrying value during the years were:

		ARO Rollforward
Carrying value, December 31, 2021 (Predecessor)	**$**	**760**
Obligations settled		(13)
Changes in estimates and (or) settlement dates		(80)
Obligations incurred		8
Accretion expense		76
Carrying value, December 31, 2022 (Predecessor)	**$**	**751**
Carrying value, December 31, 2022 (Predecessor)	**$**	**751**
Obligations settled		(11)
Changes in estimates and (or) settlement dates		3
Accretion expense		23
Carrying value, May 17, 2023 (Predecessor)	**$**	**766**
Fair value adjustment at Emergence		(321)
Obligations settled		(11)
Accretion expense		30
Carrying value, December 31, 2023 (Successor)	**$**	**464**

	Successor		Predecessor	
	December 31, 2023		December 31, 2022	
Supplemental Information				
Nuclear [(a)]	$	214	$	564
Non-Nuclear [(b)]		250		187
Carrying value	**$**	**464**	**$**	**751**

(a) Obligations are expected to be settled with available funds in the NDT at the time of decommissioning.

(b) Certain obligations are: (i) partially supported by surety bonds, some of which have been collateralized with cash and (or) LCs; or (ii) partially prefunded under phased installment agreements.

Susquehanna Nuclear. Susquehanna Nuclear and the other joint owner of Susquehanna are each obligated to fund their proportional share of Susquehanna's ARO. Susquehanna Nuclear's proportionate share of decommissioning activities will be funded from its NDT when decommissioning commences at the expiration of its licenses. The licenses for Susquehanna Unit 1 and Unit 2 expire in 2042 and 2044 and can be extended subject to NRC approval. The NRC has jurisdiction over the decommissioning of nuclear power generation facilities and requires minimum decommissioning funding based upon a formula. Under the most recent calculation in 2022, Susquehanna Nuclear's NDT funds exceed the NRC's minimum funding requirements. To the extent that Susquehanna Nuclear's actual proportional costs for decommissioning exceed the amounts in the NDT, Susquehanna Nuclear is obligated to fund its remaining proportionate share of the ARO. Susquehanna Nuclear believes its NDT will be adequate to fund its estimated cost of decommissioning. As of December 31, 2023 (Successor), the fair value of the NDT fund was $1.6 billion and the carrying value of Susquehanna Nuclear’s ARO, which is discounted under a present value technique, was $214 million. See Note 2 for additional information on the measurement of AROs.

In the fourth quarter of 2022 a comprehensive site-specific study was completed for Susquehanna Nuclear decommissioning to estimate the required remediation and (or) removal of generation facility structure and materials. Based on a variety of factors including, changes in assumptions regarding inflation, market risk premiums, the present value discount rate, and the timing of spent fuel remediation, the overall asset retirement obligation decreased by $83 million. The asset retirement obligation of Susquehanna Nuclear was revised at Emergence. A new discount rate resulted in a decrease to the carrying value of the obligations. See Note 4 for additional information.

See Note 14 for additional information on Susquehanna Nuclear's NDT.

Talen Montana. Talen Montana has significant decommissioning and environmental remediation liabilities primarily consisting of its proportionate share of remediation, closure and decommissioning costs for coal ash impoundments at the Colstrip Units. Actual cash expenditures associated with these obligations are expected to materially increase over the next five years, due to the expected timing and scope of anticipated remediation activities, and will continue at a reduced spending level for several decades. Talen Montana, along with the other co-owners of the Colstrip Units, are working with the MDEQ to define the scope of required remediation, the scope of closure and decommissioning activities, and an estimate of the costs, including the amount of necessary financial assurance necessary to backstop these obligations. Talen Montana's decommissioning and environmental remediation is expected to be paid by funds available to Talen Montana at the time of decommissioning.

Talen Montana's estimate of its proportionate share of the AROs, discounted using a credit adjusted risk-free rate, was $107 million at December 31, 2023 (Successor) and $89 million at December 31, 2022 (Predecessor).

Future adjustments may be required to the Talen Montana ARO estimates due to the ongoing remediation requirements under MDEQ obligations and the EPA's coal combustion residuals rule. If the assumptions underlying Talen Montana's estimates do not materialize as expected, actual cash expenditures and costs could be materially different than currently estimated. Moreover, regulatory changes and changes due to ongoing discussions with the MDEQ could affect these obligations.

See "Talen Montana Financial Assurance" in Note 12 for additional information on Talen Montana's requirement to provide financial assurance related to certain environmental decommissioning and remediation liabilities related to the Colstrip Units.

Accrued Environmental Costs

Under the Pennsylvania Clean Streams Law, a subsidiary of Talen Generation is obligated to remediate acid mine drainage at a former mine site and may be required to take additional steps to prevent acid mine drainage at this site.

As a result of revisions to estimated spend related to expected future work performed at the site a $5 million and $13 million charge were recognized to "Other operating income (expense), net" on the Consolidated Statements of Operations for the period from May 18 through December 31, 2023 (Successor) and the year ended December 31, 2022 (Predecessor), respectively.

Liabilities related to the remediation were $23 million and $34 million at December 31, 2023 (Successor) and December 31, 2022 (Predecessor), respectively, and were presented as "Other current liabilities" and "Asset retirement obligations and accrued environmental costs" on the Consolidated Balance Sheets. Such liabilities were discounted based on a credit adjusted risk-free rate that was in existence at the time of initial liability recognition of 8.41%. At December 31, 2023 (Successor) the expected undiscounted payments are estimated to be:

	2024	2025	2026	2027	2028	Thereafter	Total
Payments	$ 4	$ 4	$ 6	$ 3	$ 3	$ 14	$ 34

At December 31, 2022 (Predecessor), all accrued environmental costs, including the ones described above, were presented as "Liabilities subject to compromise" on the Consolidated Balance Sheets.

12. Commitments and Contingencies

Legal Matters

Talen is involved in certain legal proceedings, claims and litigation. While we believe that we have meritorious positions and will continue to defend our positions vigorously in these matters, we may not be successful in our efforts. If an unfavorable outcome is probable and can be reasonably estimated, a liability is recognized. In the event of an unfavorable outcome, the liability may be in excess of amounts currently accrued. Because of the inherently unpredictable nature of legal proceedings and the wide range of potential outcomes for any such matter, no estimate of the possible losses in excess of amounts accrued, if any, can be made at this time regarding the matters specifically described below. As a result, additional losses actually incurred in excess of amounts accrued could be substantial.

Pending Legal Matters

Montana Hydroelectric Litigation. Talen Montana is a defendant in litigation in the U.S. District Court for the District of Montana relating to its past ownership and operation of hydroelectric generation facilities in Montana, which were sold to NorthWestern in November 2014 (the "Montana Hydroelectric Sale"). In connection with the sale, Talen Montana agreed to retain liability with respect to this litigation, if any, attributable to time periods prior to closing of the sale.

The lawsuit was originally filed in 2003 and alleges that the streambeds underlying the facilities are owned by the State of Montana (the "State"), and that Talen Montana owes the State compensation for the use of the streambeds. In August 2023, the court held in favor of Talen Montana with respect to streambed segments underlying six of the seven facilities. Regarding the one streambed segment that the court found belongs to the State, the court stated that Talen Montana and NorthWestern will be required to compensate the State for past, present and future use. The State has appealed this holding to the U.S. Court of Appeals for the Ninth Circuit. Damages and defenses related to this proceeding will be addressed in a future adjudication. Nonetheless, because Talen Montana's liability on all claims asserted by the State was discharged under the Plan of Reorganization, Talen Montana does not expect any further liability from this matter.

ERCOT Weather Event Lawsuits. Beginning in March 2021, Talen subsidiaries that own the Barney Davis, Nueces Bay and Laredo generation facilities along with many other market participants in ERCOT were sued in multiple Texas state courts. The lawsuits were consolidated into a multi-district litigation pre-trial court ("MDL"). In these suits, the plaintiffs allege, among other things, that they suffered loss of life, personal injury and/or property damage due to the defendants' failure to properly prepare their facilities to withstand extreme winter weather and other operational failures during Winter Storm Uri in February 2021. Numerous insurance company plaintiffs also seek to recover payments to policyholders for damage to residential and commercial properties caused by the storm. The plaintiffs seek unspecified compensatory, punitive and other damages. In January 2023, the MDL court denied a motion to dismiss filed by the generation defendants. The generation defendants sought appellant review of the decision, and, in December 2023, the Texas First Court of Appeals granted the generation defendants' request for mandamus relief and ordered dismissal of the claims against the generation defendants. Plaintiffs have filed a motion seeking rehearing *en banc* with the First Court of Appeals. If unsuccessful, plaintiffs are expected to petition the Texas Supreme Court to review the decision. Plaintiffs asserting prepetition Winter Storm Uri claims are limited to recovering any damages from the Talen defendants' insurers pursuant to the Plan of Reorganization. Certain plaintiffs filed lawsuits asserting Winter Storm Uri claims after commencement of the Restructuring. If any of these post-commencement plaintiffs did not receive effective notice of the Restructuring under applicable bankruptcy law, they may not be subject to the terms of the Plan of Reorganization. Talen cannot predict the outcome of this matter for any such claims or its effect on Talen.

In June 2021, TEC intervened in five cases in which certain market participants are challenging the validity of two PUCT orders directing ERCOT to ensure energy prices were at their maximum of $9,000 per MWh during Winter Storm Uri. One case has since been dismissed, one case is pending in the Texas Third Court of Appeals and two cases are pending in State District Court in Travis County, Texas. In March 2023, the Third Court of Appeals issued an opinion in *Luminant v. PUCT* that, in part, reversed and remanded the PUCT orders directing ERCOT to ensure prices were at their maximum of $9,000 per MWh during Winter Storm Uri. The PUCT (along with TEC and others) filed petitions for review with the Texas Supreme Court, which were granted on September 29, 2023. Talen cannot predict the timing or outcome of these cases or their ultimate effect on the PUCT's orders during Winter Storm Uri; however, changes in one or more of the PUCT's orders could have a material adverse effect on Talen's results of operations and liquidity.

Pension Litigation. In November 2020, four former Talen employees filed a lawsuit in the U.S. District Court for the Eastern District of Pennsylvania against TES, TEC, the TERP, the TERP committee, and (as amended) ten former retirement plan committee members alleging that they are owed enhanced benefits under the TERP. In September 2023, the parties reached a tentative agreement to settle all claims on a class-wide basis, inclusive of attorneys' fees, in exchange for $20 million, subject to negotiation of mutually acceptable definitive agreements and court approval of the final settlement. In February 2024, the parties agreed upon the definitive settlement documentation and the court approved the settlement on a preliminary basis. The court has scheduled a hearing for June 3, 2024 to hear objections, if any, to the settlement.

If the settlement is approved, we expect a portion of the settlement to be paid by the TERP with the remainder paid by the Company, net of expected insurance recoveries. The amount paid by the TERP will be the full amount of the settlement less any attorneys' fee award approved by the court and certain expenses associated with implementing the settlement. TES, at its discretion, may elect to fund a contribution into the TERP to cover settlement payments paid by the TERP.

If the settlement is not approved and the plaintiffs subsequently prevail on their claims, a material adverse judgment could have an adverse effect on the TERP's assets as well as Talen's results of operations and liquidity. No assurance can be provided that the final settlement agreement will be consummated as expected or if at all. Accordingly, we cannot predict the outcome of this matter or its effect on Talen if the settlement is not consummated as expected or if the matter is litigated to conclusion.

A pre-tax charge of $17 million, net of expected recoveries from Talen's liability insurance policies, was recognized and presented as "Other non-operating income (expense), net" on the Consolidated Statements of Operations for the period from May 18 through December 31, 2023 (Successor).

Railroad Surcharge Litigation. In September 2019, TES and certain of its subsidiaries filed suit in the U.S. District Court for the Southern District of Texas, alleging that the four major railroads in the United States violated U.S. antitrust laws by conspiring during the periods from July 2003 through December 2008 to use fuel surcharges as a means to raise price for rail freight shipments. Numerous other plaintiff shippers in various jurisdictions throughout the United States have filed similar lawsuits. The Talen plaintiffs claim that they paid higher rail freight shipment rates than they otherwise would have paid absent the alleged conspiracy and seek treble damages under the antitrust laws. The litigation has been consolidated in the District Court for the District of Columbia with similar lawsuits under the multi-district litigation rules. At this time, Talen cannot predict the outcome of this matter.

Spent Nuclear Fuel Litigation. Substantial uncertainty exists regarding the nuclear industry's permanent disposal of spent nuclear fuel ("SNF"). Federal law requires the U.S. Government to provide for the permanent disposal of commercial SNF fuel and prior to May 2014, nuclear generation facility operators were required to contribute to a fund to pay for the transportation and disposal of SNF. In May 2014, this fee was reduced to zero. Talen cannot predict if or when the U.S. Government will increase this fee in the future, which could result in significant additional costs to Susquehanna Nuclear.

In addition, in May 2011, Susquehanna Nuclear entered into an agreement with the U.S. Government to settle the U.S. Government's breach of contract to accept and dispose of SNF by the statutory deadline. The settlement agreement, which has been extended four times, requires the U.S. Government to reimburse certain costs to temporarily store SNF at Susquehanna and requires Susquehanna Nuclear to waive any claims against the U.S. Government for costs paid or injuries sustained related to temporarily storing SNF. For the period from May 18 through December 31, 2023 (Successor), and the years ended December 31, 2022 (Predecessor), and December 31, 2021 (Predecessor), Susquehanna Nuclear received reimbursements of $24 million, $7 million, and $20 million for such costs. In May 2023, this agreement was extended through the end of 2025. We cannot be certain that subsequent amendments will extend these arrangements beyond 2025.

Resolved Legal Matters

Talen Restructuring. Upon Emergence in May 2023, pursuant to the Plan of Reorganization, the Debtors' liability was discharged for certain claims arising prior to commencement of the Restructuring. The Debtors may still be liable for certain post-petition claims, including claims arising after commencement of the Restructuring, claims asserted against Talen Energy Corporation, which are unimpaired under the Plan of Reorganization, and claims asserted by parties that did not receive notice of the Restructuring under applicable bankruptcy law. We will continue to defend our positions against any such claims. See Note 3 for additional information on the Restructuring.

Kinder Morgan Litigation. In June 2021, Kinder Morgan filed a suit in Texas state court against Talen Energy Marketing, Nueces Bay and affiliates of Texas Eastern Transmission and NextEra. In the suit, Kinder Morgan alleged, among other things, that Talen agreed to purchase natural gas from it during Winter Storm Uri at the then-prevailing market rate. The case was removed to the Bankruptcy Court. In May 2023, Talen and Kinder Morgan agreed to a settlement in the suit. Under the terms of the settlement, Talen paid Kinder Morgan $10 million, assigned its related claims against NextEra and entered into certain long-term commercial agreements with Kinder Morgan affiliates. During the year ended December 31, 2022, Talen recognized an $18 million charge with respect to this suit, which was presented as "Other operating income (expense), net" on the Consolidated Statements of Operations.

PPL/Talen Montana Litigation. In October 2018, the Talen Montana Retirement Plan filed a class action suit in Montana state court against PPL, its affiliates and certain officers and directors, claiming that PPL and its directors improperly made a distribution of $733 million of net proceeds from the Montana Hydroelectric Sale from Talen Montana to PPL, leaving Talen Montana without adequate funds to pay its obligations. In November 2018, PPL filed a lawsuit in Delaware Court of Chancery (the "Delaware Court") against Talen and certain affiliates seeking, among other things, indemnity from Talen for the claims asserted in the Montana state lawsuit and a declaratory judgment that such claims asserted in the Montana state lawsuit are without merit and that Talen entities do not have standing to bring such claims. Talen Montana filed an adversary complaint against PPL and its affiliates in the Bankruptcy Court asserting claims similar to those in the Montana lawsuit. The lawsuits pending in Montana state court and the Delaware Court were consolidated with the adversary proceeding. The Talen defendants' liability on all claims asserted by the PPL defendants, except for claims asserted against TEC, was discharged under the Plan of Reorganization.

In December 2023, Talen reached a settlement of litigation with PPL. Under the terms of the settlement agreement, PPL paid Talen Montana $115 million in cash in exchange for a full release of all claims. $11 million of the settlement amount was remitted to the general unsecured creditors trust established per the Plan of Reorganization, resulting in a gain of $104 million that is presented as "Other non-operating income (expense), net" on the Consolidated Statements of Operations for the year ended December 31, 2023 (Successor).

Other. In the normal course of Talen's business, we are party to various legal proceedings, claims and litigation arising from current or past operations. While the outcome of these matters is uncertain, the likely results are not presently expected, either individually or in the aggregate, to have a material adverse effect on our financial condition or results of operations.

Regulatory Matters

Talen is subject to regulation by federal and state agencies and other bodies that exercise regulatory authority in the various regions where we conduct business, including but not limited to: FERC; the Department of Energy; Federal Communications Commission; NRC; NERC; public utility commissions in various states in which we conduct business; and RTOs and ISOs in the regions in which we conduct business. Talen is party to proceedings before such agencies arising in the ordinary course of business and has other regulatory exposure due to new or amended regulations promulgated by such agencies from time to time. While the outcome of these regulatory matters and proceedings is uncertain, the likely results are not expected, either individually or in the aggregate, to have a material adverse effect on our financial condition or results of operations, although the effect could be material to our results of operations in any interim reporting period.

PJM MOPR. In July 2021, PJM filed proposed tariff language to significantly reduce the application of the existing PJM MOPR by applying it only when the state requires an entity to act in a certain manner in the capacity market in exchange for receiving a subsidy. FERC did not act on PJM's July 2021 filing, and the PJM MOPR tariff language went into effect in September 2021. In December 2023, the U.S. Court of Appeals for the Third Circuit denied the petitions for review of the MOPR tariff language. The final impacts on Talen's financial condition, results of operations and liquidity are not known at this time.

PJM Market Seller Offer Cap. In March 2021, FERC responded to complaints filed by the PJM IMM on behalf of PJM and various consumer advocates alleging that the PJM MSOC was above a competitive offer level and was, therefore, unjust and unreasonable. In September 2021, FERC issued an order requiring the PJM ACR for each generator to be determined administratively by the PJM IMM. In August 2023, the U.S. Court of Appeals for the District of Columbia Circuit denied petitions by Talen and others for review of FERC's order. On January 12, 2024, the Electric Power Supply Association filed at the U.S. Supreme Court a petition for certiorari asking the Court to review the August 2023 order of the D.C. Circuit. The final impacts of this order on Talen's financial condition, results of operations and liquidity are not known at this time.

PJM Capacity Market Reform. In February 2023, the PJM Board directed PJM and its stakeholders to resolve: (i) key issues that address the energy transition taking place in PJM; and (ii) issues observed from Winter Storm Elliott. The PJM Board directive included reliability risks, risk drivers and resource availability. The stakeholder process is referred to as Critical Issue Fast Path ("CIFP") on resource adequacy. On October 13, 2023, PJM made two filings at FERC regarding certain capacity market reforms developed through the CIFP process. On January 30, 2024, FERC accepted one of PJM's filings, subject to the condition that PJM submit a compliance filing within 30 days. However, on February 6, 2024, FERC rejected the second of PJM's capacity market reform filings. On February 26, 2024, FERC approved a request from PJM for a 35-day delay of Base Rate Auction. PJM has indicated that it plans to open the Base Residual Auction for the 2025/2026 Delivery on July 17, 2024. At this time, Talen cannot fully predict the impacts of PJM's reforms on its operations and liquidity.

In June 2023, FERC accepted a request by PJM to delay certain PJM Base Residual Auctions in order to propose additional changes to the PJM RPM. The delay schedules the PJM Base Residual Auctions for 2026/2027 in December 2024, for 2027/2028 in June 2025, and for 2028/2029 in December 2025. Although PJM has established dates for the next four auctions, there is no guarantee that the auctions will take place on those dates or at all. Depending on the ultimate outcome of matters related to PJM's capacity auctions, capacity revenues in PJM could be affected, but the final impacts on Talen's financial condition, results of operations and liquidity are not known at this time.

Winter Storm Elliott. During December 2022, as a result of Winter Storm Elliott, PJM experienced extreme cold weather conditions that resulted in PJM's declaration of a Capacity Performance event. Certain of Talen's generation facilities failed to meet the Capacity Performance requirements set forth by PJM, while Talen's remaining generation facilities met or exceeded their capacity obligations. As a result, Talen incurred certain Capacity Performance penalties charged by PJM for certain generation facilities and earned bonus revenues from PJM for other generation facilities. In April 2023, Talen and certain other market participants filed complaints at FERC against PJM that disputed a portion of the Capacity Performance penalties assessed by PJM. In September 2023, PJM filed a request for FERC to approve a market-wide settlement agreement that would resolve all Winter Storm Elliot complaints, including those filed by Talen. The settlement agreement results in a 31.7% reduction in the total penalties assessed on all capacity market sellers, including Talen, as well as an additional $8 million credit to Talen. In December 2023, FERC approved the settlement agreement which reduced Talen's aggregate penalties, net of expected bonus revenues, to an estimated $28 million. Talen recognized an estimated $48 million of aggregate net penalties, comprised of: (i) initial penalty of $33 million for the year ended December 31, 2022 (Predecessor); (ii) increase of $13 million for the period of January 1 through May 17, 2023 (Predecessor); and (iii) increase of $2 million for the period of May 18 through December 31, 2023 (Successor) as a result of revised assessments from PJM. Talen remitted aggregate penalty payments of $29 million during the periods of January 1 through May 17, 2023 (Predecessor) and May 18 through December 31, 2023 (Successor). In December 2023, the remaining liability of $19 million was derecognized as a result of the settlement.

ERCOT Market Systemic Risks. Due to the effects of Winter Storm Uri, certain market participants in ERCOT defaulted on settlements and caused a deficit of payments to ERCOT. In May 2022, ERCOT reported a cumulative aggregate payment deficit of approximately $2.3 billion as result of the events. As a result, ERCOT instituted "short payments" that delay the remittance of cash for an uncertain period of time to non-defaulting market participants and will only be paid as ERCOT recovers money from defaulting parties or through the collection of default uplift payments. In September 2022, ERCOT reached a settlement agreement with the largest defaulting market participant. In October 2022, Talen made disbursement elections to receive approximately $5 million for its portion of the $1.3 billion owed to applicable market participants. Each of: (i) Talen's outstanding receivable that is collectible over a 12-year period pursuant to the settlement; and (ii) the portion of the receivable that is ultimately uncollectible by Talen are non-material amounts.

In January 2023, the PUCT adopted the PUCT PCM market design in response to a directive contained within Texas Senate Bill 3 from 2021 to address market reliability concerns in Texas. The details of how the PUCT PCM market will operate are to be developed by the PUCT, ERCOT and the ERCOT stakeholder group. In January 2023, the PUCT directed ERCOT to evaluate bridging options to retain existing assets and build new dispatchable generation until the PUCT PCM can be fully implemented. In response, the PUCT approved a multi-step Operating Reserve Demand Curve floor as a short-term bridge solution, which went into effect on November 1, 2023. Under the approved multi-step Operating Reserve Demand Curve, price floors of $10/MWh and $20/MWh will be triggered when reserves fall below 7 GW and 6.5 GW, respectively. There remains significant uncertainty surrounding the details of the proposed PUCT PCM design, and the timing for implementation. At this time, Talen cannot fully predict the impacts of the PUCT PCM market design, when and if implemented, on its results of operations and liquidity.

Brandon Shores Reliability Impact Assessment. In April 2023, Talen notified PJM that it will deactivate electric generation at Brandon Shores on June 1, 2025. In June 2023, PJM notified Brandon Shores that the units were needed for reliability. Talen subsequently notified PJM that it does not agree to continue to operate Brandon Shores under a Reliability Must Run arrangement. Discussions with PJM are ongoing and may result in Brandon Shores continuing to operate for some period of time until transmission constraints hindering reliability are relieved by PJM.

H.A. Wagner Deactivation. In October 2023, for economic reasons, Talen provided a notice to PJM of its intent to deactivate H.A. Wagner as of June 1, 2025. The coal-to-fuel oil conversion of H.A. Wagner Unit 3 was completed in December 2023 and will allow the generation facility to serve as a capacity resource until deactivation. In January 2024, PJM notified Wagner that Units 3 and 4 are needed for transmission reliability.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to our business, including those related to air emissions, water discharges, and hazardous and solid waste management. From time to time, in the ordinary course of our business, Talen may become involved in other environmental matters or become subject to other, new or revised environmental statutes, regulations or requirements.

It may be necessary for us to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements imposed by regulatory bodies, courts or environmental groups. We may incur costs to comply with environmental laws and regulations, including increased capital expenditures or operation and maintenance expenses, monetary fines, penalties or other restrictions, which could be material. Legal challenges to environmental permits or rules add to the uncertainty of estimating the future cost of complying with these permits and rules. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed.

Water and Waste. Changes made by the EPA to the EPA CCR Rule and the EPA ELG Rule in 2020 allow coal generation facility operators to request an extension to compliance deadlines if the facility commits to cessation of coal-fired generation by the end of 2028. Pursuant to Talen's plans to cease wholly owned coal operations, Talen requested extensions for compliance under these rules for certain of its generation facilities; some have been approved and some are still under review. The most significant extension under review is the EPA CCR Rule Part A extension request for Montour Ash Impoundment 1, and a negative result would have a significant impact on the closure plan for this impoundment.

In 2023, the EPA proposed additional changes to the EPA ELG Rule and to the EPA CCR Rule. The EPA ELG Rule proposal does not add treatment requirements to Talen's coal-fired power generation facilities planning to cease the burning of coal by 2028, but it does propose discharge limits for waters collected from CCR units. With respect to the EPA CCR Rule, the EPA has proposed to impose new requirements on legacy CCR impoundments and facilities where CCR was disposed of or managed on land outside of regulated units at CCR facilities, which could affect several Talen facilities. Furthermore, the EPA's interpretations on the EPA CCR Rule continue to evolve through enforcement. At this time, Talen cannot predict the outcome of these various rule changes on the operations of its coal-fired generation facilities and its results of operations.

Air. Since 2016, the coal-fired generation facilities in which Talen has ownership, including Brunner Island, Montour, Keystone and Conemaugh, have been the subject of various efforts under the Clean Air Act to strengthen applicable nitrogen oxides ("NOx") emission limits. These include Section 126 petitions by downwind states, recommendations by the Ozone Transport Commission, and a ruling on Pennsylvania's RACT2 program by the U.S. District Court for the Southern District of New York. Although the petitions and recommendations are not withdrawn, the EPA's issuance of a federal implementation plan (the "FIP") with short-term (RACT2) NOx limits at these plants in 2022 resulting from the court case and the EPA's "Good Neighbor FIP" issued in June 2023 appear to have addressed open concerns by upwind states regarding NOx controls from Talen's and other coal plants.

However, both the Pennsylvania NOx RACT2 FIP and the preceding State Implementation Plan (the "SIP") NOx RACT are under review. The PA DEP agreed to stay the SIP standard while all the parties consider the FIP standards. The EPA FIP is in effect; however, it has since been appealed by other parties and Talen has intervened in the appellate proceeding. Lastly, in November 2022, Pennsylvania finalized its NOx RACT standards for all power generation facilities to address the EPA 2015 Ozone Standard. Affected Talen facilities have submitted permit applications demonstrating their compliance methods for the new standard. At this time, Talen cannot predict the outcome of these potential rule changes on the operations of its generation facilities and its results of operations.

To address the 2015 ozone standard, in June 2023, the EPA published the final rule covering the EPA CSAPR ozone season nitrogen oxide allowance trading program for 2023 and beyond. The final changes are known as the "Good Neighbor FIP." The EPA made some reductions in allowance allocations, among other changes, to minimize nitrogen oxide emissions during the Ozone Season. Texas, among other states, has received a favorable court ruling, essentially staying its participation in the updated program for 2023. Texas facilities are still subject to the previous version of EPA CSAPR, and Talen's facilities in Maryland, Pennsylvania and New Jersey are subject to the new rule. Additionally, the entire rule has been challenged by multiple parties, and the U.S. Supreme Court heard oral arguments on the emergency applications to stay the rule on February 21, 2024. At this time, Talen cannot predict the long-term outcome of these rule changes on the operations of its generation facilities and its results of operations.

The EPA MATS Rule, which is the original EPA NESHAP for coal plants, has been in effect since 2012. In April 2023, the EPA issued its EPA RTR for coal-fired generation facilities under the EPA NESHAP, which proposes changes to the EPA MATS Rule, most notably to reduce particulate matter emissions from coal plants. Talen submitted formal comments on the EPA RTR, indicating that the new EPA MATS Rule, if finalized, would unreasonably require Colstrip to install new control equipment. At this time, Talen cannot predict the outcome of this potential rule change on the operations of its generation facilities and its results of operations.

RGGI. In April 2022, Pennsylvania formally entered the RGGI program, with compliance set to begin on July 1, 2022. However, certain third parties filed lawsuits and appeals questioning the legality of the regulation and the implementation of RGGI in Pennsylvania was stayed. On November 1, 2023, the Commonwealth Court of Pennsylvania ruled RGGI was an invalid tax and voided the rulemaking. The PA DEP appealed this decision to the Pennsylvania Supreme Court on November 21, 2023, and the following day filed notice with the court that the RGGI program would not be implemented while the appeal is pending. At this time, Talen is unable to determine the full impact of the RGGI program, when and if implemented, on its results of operations and liquidity.

Federal Climate Change Actions. The current federal administration has identified climate change policy as a priority that includes, but is not limited to, greenhouse gas emission reductions. In May 2023, the EPA proposed a new rule under the Clean Air Act that would establish new source performance standards for new electric generating units and emission guidelines for existing EGUs for state implementation. The rule is expected to be finalized in mid-2024. The proposed guidelines would allow all existing EGUs to continue to operate until at least the end of 2031 without having to meet new greenhouse gas limits. Existing baseload-type EGUs, whether combustion turbines or coal-fired steam units (e.g., Colstrip), would be able to operate beyond 2031, but would be subject to Capacity Factor limits or greenhouse gas reduction requirements. Other EGUs would typically not require additional controls; however, EPA is considering further controls in the future. The proposed rule intends to require significant greenhouse gas reductions for large, baseload coal plants like Colstrip. However, until the rule is finalized, Talen is unable to determine the full impact of the proposed rule on its results of operations and liquidity.

Environmental Remediation. From time-to-time, Talen undertakes investigative or remedial actions in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiates with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiates with property owners and other third parties alleging impacts from our operations and undertakes similar actions necessary to resolve environmental matters that arise in the course of normal operations.

Future investigation or remediation work at sites currently under review, or at sites not currently identified, may result in additional costs, but at this time we are unable to determine if such investigation or remediation work will have a material adverse effect on our financial condition or results of operations.

Guarantees and Other Assurances

In the normal course of business, Talen enters into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. These agreements primarily support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or facilitate the commercial activities in which these subsidiaries engage. Such agreements may include guarantees, stand-by letters of credit issued by financial institutions, surety bonds issued by insurance companies, and indemnifications. In addition, they may include customary indemnifications to third parties related to asset sales and other transactions. Based on our current knowledge, the probability of expected material payment/performance for the guarantees and other assurances is considered remote.

Surety Bonds. Surety bonds provide financial performance assurance to third parties on behalf of certain subsidiaries for obligations including, but not limited to, environmental obligations and AROs. In the event of nonperformance by the applicable subsidiary, the beneficiary would make a claim to the surety, and the Company would be required to reimburse any payment by the surety. Talen's liability with respect to any surety bond is released once the obligations secured by the surety bond are performed. Surety bond providers generally have the right to request additional collateral or request that such bonds be replaced by alternate surety providers, in each case upon the occurrence of certain events. As of December 31, 2023 (Successor) and December 31, 2022 (Predecessor), the aggregate amount of surety bonds outstanding was $240 million and $248 million, including surety bonds posted on behalf of Talen Montana as discussed below. Included in TES's outstanding sureties as of December 31, 2023 (Successor) is a bond in the amount of $10 million that was issued on behalf of Cumulus Data for support of its development and construction activities.

Talen Montana Financial Assurance. Pursuant to the Colstrip AOC, Talen Montana, in its capacity as the Colstrip operator, is obligated to close and remediate coal ash disposal impoundments at Colstrip. The Colstrip AOC specifies an evaluation process between Talen Montana and the MDEQ on the scope of remediation and closure activities, requires the MDEQ to approve such scope, and requires financial assurance to be provided to the MDEQ on approved plans. Each of the co-owners of the Colstrip Units have provided their proportional share of financial assurance to the MDEQ for estimates of coal ash disposal impoundments remediation and closure activities approved by the MDEQ.

TES has posted an aggregate $115 million of surety bonds to the MDEQ on behalf of Talen Montana's proportional share of remediation and closure activities as of December 31, 2023 (Successor) and $113 million as of December 31, 2022 (Predecessor). Talen Montana has agreed to reimburse TES and its affiliates in the event that these surety bonds are called. Talen Montana's surety bond requirements may increase due to scope changes, cost revisions and (or) other factors when the MDEQ conducts annual reviews of approved remediation and closure plans as required under the Colstrip AOC. The surety bond requirements will decrease as Colstrip's coal ash impoundments remediation and closure activities are completed.

Cumulus Digital Assurances. As of December 31, 2023 (Successor), TES had issued LCs in the aggregate amount of $50 million to the lenders of the Cumulus Digital TLF, which LCs could be drawn upon, among other events, the acceleration of the loan due to a bankruptcy or other event of default by Cumulus Digital. The LCs were cancelled upon the payment in full of the Cumulus Digital TLF on March 1, 2024.

Additionally, TEC had provided a guarantee to the lenders under the Cumulus Digital TLF for certain shortfalls in interest and principal payments by Cumulus Digital (up to a maximum of 23% of the principal amount of outstanding loans thereunder). The guarantee was cancelled upon the payment in full of the Cumulus Digital TLF on March 1, 2024.

Other Commitments and Contingencies

Nuclear Insurance. The Price-Anderson Act is a United States federal law which governs liability-related issues and ensures the availability of funds for public liability claims arising from a nuclear incident at any U.S. licensed nuclear facility. It also seeks to limit the liability of nuclear reactor owners for such claims from any single incident. As of December 31, 2023 (Successor), the liability limit per incident is $16.2 billion for such claims, which is funded by insurance coverage from American Nuclear Insurers (approximately $450 million in coverage), with the remainder covered by an industry retrospective assessment program. On January 1, 2024, American Nuclear Insurers increased primary insurance coverage to $500 million, resulting in a commensurate increase in total coverage.

As of December 31, 2023 (Successor), under the industry retrospective assessment program, in the event of a nuclear incident at any of the reactors covered by the Price-Anderson Act, Susquehanna Nuclear could be assessed deferred premiums of up to $332 million per incident, payable at a maximum of $49 million per year.

Additionally, Susquehanna Nuclear purchases property insurance programs from NEIL, an industry mutual insurance company of which Susquehanna Nuclear is a member. As of December 31, 2023 (Successor), facilities at Susquehanna are insured against nuclear property damage losses up to $2.0 billion and non-nuclear property damage losses up to $1.0 billion. Susquehanna Nuclear also purchases an insurance program that provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the NEIL property and replacement power insurance programs, Susquehanna Nuclear could be assessed retrospective premiums in the event of the insurers' adverse loss experience. The maximum assessment for this premium is $45 million as of December 31, 2023 (Successor). Talen has additional coverage that, under certain conditions, may reduce this exposure.

Talen Montana Fuel Supply. Talen Montana purchases coal from the Rosebud Mine for its interest in Colstrip Units 3 and 4 under a full requirements contract with an unaffiliated coal mine operator. In 2015, the MDEQ issued the mine operator an amendment to one of its mine permits expanding the area authorized for mining. Certain parties challenged the permit amendment in a proceeding at the MBER and, after the MBER issued a decision upholding the permit amendment, in a lawsuit in Montana state district court. In January 2022, the district court entered an order vacating the permit amendment effective April 1, 2022. Rosebud Mining ceased mining in the expansion area prior to the April 1, 2022 deadline. The mine operator and the MDEQ appealed the district court's decisions to the Montana Supreme Court and filed motions seeking to stay the order vacating the permit. In August 2022, the Montana Supreme Court entered an order staying the district court's order pending resolution of the appeal. In November 2023, the Montana Supreme Court remanded the case to the MBER to reanalyze the administrative record, resolve factual questions, and re-examine its prior conclusion. The MBER is awaiting remand. In the meantime, however, the Montana Supreme Court reinstated vacatur of the permit amendment pending MBER review.

In May 2022, MDEQ issued a second permit amendment expanding the area authorized for mining by the coal-mine operator. A group of complainants initiated proceedings at the MBER and in Montana state district court challenging the second permit amendment. Summary judgment briefing was completed in the MBER case as of January 2024. In December 2023 the Montana state district court challenge was stayed for six months pending a ruling from the Montana Supreme Court in analogous cases.

In September 2022, the Montana Federal District Court entered an order upholding challenges to a third permit amendment expanding the area authorized for mining by the mine operator. The plaintiffs asserted that the OSM violated NEPA when preparing the EIS for the permit amendment. The court ordered OSM to complete an updated EIS in accordance with NEPA's requirements. The permit amendment will be vacated unless OSM completes the updated EIS within 19 months from the date of the court's order. The federal defendants did not appeal and expect to issue a revised decision on the permit amendment within the 19-month deadline, but in November 2022, intervenor-defendants, Westmoreland Rosebud and International Union, appealed the ruling to the Ninth Circuit Court of Appeals. MEIC and the other plaintiffs moved to dismiss the appeal for lack of jurisdiction, and the federal defendants did not oppose the motion to dismiss. The appeal was dismissed in November 2023, and the federal defendants have requested an extension of the deadline to complete the updated EIS until June 30, 2025, which is under consideration by the District Court.

At this time, Talen cannot predict the outcome of these matters or their effect on Talen Montana's operations, results of operations or liquidity.

13. Long-Term Debt and Other Credit Facilities

Long-Term Debt

	Interest Rate [a]	Successor December 31, 2023	Predecessor December 31, 2022
TLB	9.87%	$ 866	$ —
TLC	9.87%	470	—
Secured Notes	8.63%	1,200	—
PEDFA 2009B Bonds [c]	5.05%	50	49
PEDFA 2009C Bonds [c]	5.05%	81	79
Cumulus Digital TLF, including PIK [b]	12.50%	182	185
Settled indebtedness			
DIP TLB	N/A	—	1,000
Prepetition TLB	N/A	—	427
Prepetition Secured Notes	N/A	—	1,620
Prepetition Unsecured Notes [c]	N/A	—	1,330
PEDFA 2009A Bonds [c]	N/A	—	100
LMBE-MC TLB	N/A	—	301
Total principal		**2,849**	**5,091**
Unamortized deferred finance costs and original issuance discounts		(29)	(29)
Total carrying value		**2,820**	**5,062**
Less: long-term debt, due within one year		9	1,010
Less: amounts presented as “Liabilities subject to compromise” [c]		—	1,558
Long-term debt		**$ 2,811**	**$ 2,494**

(a) Computed interest rate as of December 31, 2023 (Successor).
(b) Limited recourse to TES and TEC. See “Cumulus Digital Assurances” in Note 12 for additional information.
(c) As of December 31, 2022 (Predecessor), amounts are presented as “Liabilities subject to compromise” on the Consolidated Balance Sheets. See Note 4 for additional information.

The aggregate long-term debt maturities, including quarterly amortization and early redemption provisions, at December 31, 2023 (Successor) were:

	2024	2025	2026	2027 [a]	2028	Thereafter	Total
Total maturities	$ 9	$ 9	$ 9	$ 191	$ 9	$ 2,622	$ 2,849

(a) Includes $182 million of limited-recourse indebtedness under the Cumulus Digital TLF.

Revolving Credit and Other Facilities

		Successor				Predecessor	
		December 31, 2023				December 31, 2022	
	Expiration	Committed Capacity	Direct Cash Borrowings	LCs Issued	Unused Capacity	Direct Cash Borrowings	LCs Issued
RCF [(a)]	May 2028	$ 700	$ —	$ 62	$ 638	$ —	$ —
TLC LCF [(b)]	May 2030	470	—	404	66	—	—
Bilateral LCF [(b)]	May 2028	75	—	74	1	—	—
Settled indebtedness							
DIP RCF [(c)]	N/A	—	—	—	—	—	33
DIP LCF [(c)]	N/A	—	—	—	—	—	434
Prepetition CAF [(c)(d)]	N/A	—	—	—	—	848	—
LMBE-MC RCF	N/A	—	—	—	—	—	12
Total		**$ 1,245**	**$ —**	**$ 540**	**$ 705**	**$ 848**	**$ 479**

(a) Committed capacity includes $475 million of LC commitments.
(b) Direct cash borrowings are not permitted under the facility.
(c) Extinguished as of Emergence.
(d) The weighted average interest rate was 12.12% at December 31, 2022 (Predecessor).

Outstanding direct cash borrowings under the RCF and the LMBE-MC RCF, when applicable, are each presented as "Revolving credit facilities" on the Consolidated Balance Sheets.

As of December 31, 2023 (Successor) Talen was not in default under any of its indebtedness agreements.

2024 Transactions

Cumulus Digital TLF Repayment. In connection with the Data Center Campus Sale, the Cumulus Digital TLF were paid in full on March 1, 2024, together with all accrued interest and other outstanding amounts. See below under "Non-Recourse Debt and Other Credit Facilities – Cumulus Digital TLF" for additional information on the release of liens, termination of guarantees, and the cancellation of LCs. See Note 22 for additional information on the Data Center Campus Sale.

2023 Transactions

LMBE-MC Refinancing. In August 2023, we incurred an additional $290 million in aggregate principal amount of TLB, resulting in proceeds of $285 million, net of original issue discount and other fees. The additional amount was issued as an incremental borrowing under the TLB and constitutes a single series of indebtedness with the existing TLB incurred at Emergence. The proceeds were used, together with cash on hand, to fully repay the $293 million in aggregate principal amount outstanding under the LMBE-MC TLB. The LMBE-MC Credit Agreement (including the LMBE-MC TLB and LMBE-MC RCF), including an aggregate $12 million of outstanding LCs issued under the agreement, was terminated at settlement.

Successor Emergence Financings. In May 2023, as part of the Exit Financings, TES issued the following long-term debt:

- TLB, due 2030, in an aggregate principal amount of $580 million, resulting in proceeds of $548 million, net of original issue discount and other fees;
- TLC, due 2030, in an aggregate principal amount of $470 million, resulting in proceeds of $446 million, net of original issue discount and other fees; and
- Secured Notes, due 2030, in an aggregate principal amount $1.2 billion, resulting in proceeds of $1.179 billion, net of initial purchaser discounts and other fees.

Proceeds from the TLB and the Secured Notes were used, together with cash on hand, to fund the settlement of the transactions and claims contemplated by the Plan of Reorganization, including cash settlement of the long-term debt and cash revolver borrowings outstanding under the DIP Facilities, Prepetition TLB, Prepetition Secured Notes, and Prepetition CAF, all of which were extinguished as of May 17, 2023 under the Plan of Reorganization. Proceeds from the TLC were used to cash collateralize letters of credit under the TLC LCF.

Also, as part of the Exit Financings, TES entered into the following revolving and letter of credit facilities:

- RCF, a $700 million revolving credit facility, including letter of credit commitments of $475 million;
- TLC LCF, which provides commitments for up to $470 million in letters of credit, cash collateralized with the proceeds of the TLC, and reduced to the extent that borrowings under the TLC are prepaid; and
- Bilateral LCF, which provides commitments for up to $75 million in letters of credit.

At Emergence, LCs were issued under the TLC LCF and the Bilateral LCF to backstop or replace LCs previously outstanding under the DIP Facilities, which were extinguished as of May 17, 2023.

See “Talen Energy Supply Post-Emergence Long-Term Debt, Revolving Credit and Other Facilities” below for additional information on our Credit Facilities and Secured Notes. See Note 3 for additional information on the Restructuring.

Emergence Equitization. All of the Prepetition Secured Notes and the PEDFA 2009A Bonds were extinguished as of May 17, 2023 under the Plan of Reorganization through the issuance of TEC common stock. See Notes 3 and 4 for additional information on the Restructuring and fresh start accounting adjustments related to indebtedness.

2022 Transactions

DIP Facilities. In May 2022, TES entered into the DIP Facilities, including the DIP TLB, a term loan B facility in an aggregate principal amount of $1 billion that provided $971 million of proceeds, net of discount and fees.

Cumulus Digital TLF. In September 2022, as a result of the Cumulus Digital Equity Conversion, TES consolidated Cumulus Digital Holdings for financial reporting purposes and, accordingly, also consolidated the Cumulus Digital TLF.

Talen Energy Supply Pre-Restructuring Long-Term Debt, Revolving Credit and Other Facilities

Outstanding Prepetition Indebtedness. Upon commencement of the Restructuring, (i) TES’s Prepetition Secured Indebtedness consisted of the Prepetition RCF, Prepetition TLB, Prepetition CAF, and Prepetition Secured Notes; and (ii) TES’s Prepetition Unsecured Indebtedness consisted of the Prepetition Unsecured Notes and PEDFA Bonds, as further outlined in the tables above.

Effects of the Restructuring on Prepetition Indebtedness. Commencement of the Restructuring constituted an event of default and accelerated obligations under TES’s then-outstanding Prepetition Indebtedness, other than the PEDFA 2009B and 2009C Bonds.

TES’s Prepetition Indebtedness other than the PEDFA 2009B and 2009C Bonds (i.e., the Prepetition TLB, Prepetition Secured Notes, Prepetition Unsecured Notes, PEDFA 2009A Bonds, and Prepetition CAF) was extinguished as of May 17, 2023 under the Plan of Reorganization. The PEDFA 2009B and 2009C Bonds remained outstanding. See “2023 Transactions - Successor Emergence Financings” above for additional information about the repayment of the Prepetition TLB, Prepetition Secured Notes, and Prepetition CAF, and See “2023 Transactions - Emergence Equitization” above for additional information about the equitization of the Prepetition Unsecured Notes and PEDFA 2009A Bonds.

See Note 3 for additional information on the Restructuring, including the Exit Financings.

Prepetition LCFs. LC issuances were not permitted under the Prepetition LCFs due to the Restructuring. We terminated one Prepetition LCF in May 2023 and the other expired in June 2023.

Prepetition Secured ISDAs. Prior to commencement of the Restructuring, Talen Energy Marketing was party to the Prepetition Secured ISDAs, under which TES and the Prepetition Guarantors provided the applicable counterparties with a first priority lien on and security interest (which ranked pari passu with the liens securing the Prepetition Secured Indebtedness) in certain assets in lieu of posting collateral in the form of cash equivalents or LCs. Following commencement of the Restructuring, a portion of the Prepetition Secured ISDAs were rolled over into DIP Secured ISDAs. As of May 18, 2023, post-emergence from Restructuring, the remaining Prepetition Secured ISDAs were rolled into the Secured ISDAs.

Talen Energy Supply DIP Facilities

DIP Facilities. Upon commencement of the Restructuring, TES entered into the DIP Facilities, comprised of: (i) the DIP RCF, a $300 million revolving credit facility, including a letter of credit sub-facility of up to $75 million; (ii) the DIP TLB, a term loan B facility in an aggregate principal amount of $1 billion; and (iii) the DIP LCF, a letter of credit facility that provided for approximately $458 million of LCs outstanding under the Prepetition RCF as of commencement of the Restructuring to remain outstanding with superpriority status. Amounts owed under the DIP RCF and DIP TLB were repaid in full, and all DIP Facilities terminated, upon the Debtors' Emergence from the Restructuring. However, certain LCs issued (or continued) under the DIP RCF and DIP LCF remain outstanding and are now backstopped by LCs issued under the TLC LCF in favor of the applicable DIP LC issuers.

DIP Secured ISDAs. Following commencement of the Restructuring, and as authorized by a final order of the Bankruptcy Court, Talen Energy Marketing was party to certain DIP Secured ISDAs that were continuations of the Prepetition Secured ISDAs but under which TES and the Debtors provided the applicable counterparties with a superpriority lien on and security interest (which ranked pari passu with the liens securing the DIP Facilities) in certain assets in lieu of posting collateral in the form of cash equivalents or LCs. As of May 18, 2023, post-emergence from Restructuring, the DIP Secured ISDAs were rolled into the Secured ISDAs and the associated superpriority liens were extinguished and replaced with the first priority liens securing the Secured ISDAs.

Talen Energy Supply Post-Emergence Long-Term Debt, Revolving Credit and Other Facilities

Certain key terms of our post-emergence facilities include:

Facility	Maturity	Index	Rate, Applicable Margin, and Amortization	Prepayment Penalty
Secured Notes	June 2030	None	8.625% per annum fixed rate No applicable margin No amortization	**Prior to June 1, 2026:** Redeemable at par plus a customary "make-whole" premium. 10% redeemable during each 12-month period at 103%. 40% redeemable from the proceeds of certain equity offerings at 108.625% **On or after June 1 of the following years:** 2026: 104.313% 2027: 102.156% 2028 and thereafter: 100%
TLB	May 2030	Term SOFR	4.50% per annum applicable margin Amortization 1.00% per annum; paid quarterly	1.00% to the extent prepaid prior to February 9, 2024 in connection with a repricing transaction
TLC (TLC LCF)	May 2030	Term SOFR	4.50% per annum applicable margin No amortization	None
RCF (cash borrowings)	May 2028	Term SOFR	3.50% per annum applicable margin; step-downs to 3.25% and 3.00% based on first lien net leverage ratios in certain fiscal quarters No amortization	None
RCF (LCs)	May 2028	None	0.125% per annum Fronting Fee and 3.50% per annum LC Fees (step-downs to 3.25% and 3.00% based on first lien net leverage ratios in certain fiscal quarters)	None
Bilateral LCF	May 2028	None	3.50% per annum LC Fees and 0.125% per annum Issuance Fee	None

Credit Agreement. The Credit Agreement governs the RCF, TLB, TLC, and TLC LCF.

The Credit Agreement contains customary negative covenants including, but not limited to, limitations on incurrence of liens and additional indebtedness, making investments, payment of dividends, and asset sales. The Credit Agreement also contains customary affirmative covenants. Solely with respect to the RCF, and solely during a compliance period (which, in general, is applicable when the aggregate revolving borrowings and issued revolving LCs (in excess of (i) $50 million of undrawn revolving LCs; and (ii) cash collateralized or backstopped LCs) exceed 35% of the revolving commitments under the RCF), the Credit Agreement includes a covenant that requires TES's consolidated first lien net leverage ratio not to exceed 2.75 to 1.00 as of June 30, 2023 and increasing through a series of step-ups until 4.25 to 1.00 (to be tested as of June 30, 2024 and thereafter). The financial covenant does not apply to the TLB, TLC, or TLC LCF.

The Credit Agreement also contains customary representations and warranties and events of default. If an event of default occurs under the Credit Agreement, the lenders thereunder are entitled to take various actions, including accelerating amounts due and, in the case of the RCF and the TLC LCF, terminating commitments.

TLC LCF. The TLC LCF provides commitments for up to $470 million in letters of credit, cash collateralized with the proceeds of the TLC, with commitments thereunder reduced to the extent that borrowings under the TLC are prepaid. The lenders of the TLC have issued LCs totaling $404 million under the TLC LCF, which have been issued either directly to Talen's counterparties or to lenders under the DIP Facilities to backstop LCs that were previously issued (or continued) thereunder and remain outstanding. These LCs are cash collateralized by $472 million as of December 31, 2023 (Successor) which is presented as "Restricted cash and cash equivalents" on the Consolidated Balance Sheets. Additionally, the restricted cash earns interest income, which varies by rate depending on the corresponding letter of credit issuer. The interest income earned on the restricted cash offsets against the calculated effective interest rate for the TLC when determining the computed interest rate.

Bilateral LCF. The Bilateral LC Agreement provides for letter of credit issuances that collectively cannot exceed $75 million and expires in May 2028. The Bilateral LC Agreement contains substantially the same covenants, representations and warranties, and events of default as the Credit Agreement. The Bilateral LCF includes a covenant that requires TES's consolidated first lien net leverage ratio not to exceed 2.75 to 1.00 as of June 30, 2023 and increasing through a series of step-ups to 4.25 to 1.00 as of June 30, 2024 and thereafter, but such covenant only applies to the extent a compliance period exists under the Credit Agreement. In addition, the Bilateral LC Agreement contains an affirmative covenant requiring disposition of certain minority-owned coal assets. Subject to customary conditions, commitments under the Bilateral LC Agreement can be terminated by the lenders upon an event of default thereunder.

Secured Notes. Interest on the Secured Notes is payable semi-annually on June 1 and December 1 of each year, commencing on December 1, 2023, and at maturity. The Secured Notes are subject to customary negative covenants, including, but not limited to, certain limitations on incurrence of liens and additional indebtedness, making investments, payment of dividends, and transactions involving the Susquehanna assets. The Secured Notes do not contain any financial covenants. The Secured Notes also contain customary affirmative covenants and events of default. If an event of default occurs, the holders of the Secured Notes are entitled to take various actions, including the acceleration of amounts due under the Secured Notes.

PEDFA Bonds. The PEDFA 2009B and 2009C Bonds remained outstanding following Emergence. These bonds are backstopped by LCs totaling $133 million as of December 31, 2023 (Successor). Each series of PEDFA Bonds was issued by the PEDFA on behalf of TES. TES received the proceeds from the original issuance of each series of PEDFA Bonds pursuant to a separate exempt facilities loan agreement. An unsecured promissory note of TES corresponding to each series of PEDFA Bonds contains principal, interest and prepayment provisions of the respective series.

The PEDFA 2009B and 2009C Bonds accrue interest at a variable rate in accordance with the provisions of the trust indentures which is payable monthly. Obligations under the PEDFA 2009B and 2009C Bonds are supported by two irrevocable, direct-pay LCs, each corresponding to the applicable series, that were issued by a third-party lender in favor of the bond trustee in an amount equal to the outstanding principal of each series plus an interest component. Prior to Emergence, TES's obligation to reimburse the third-party lender for payments made under each irrevocable, direct-pay LC was in turn supported by a corresponding backstop LC issued in favor of such lender. Upon Emergence, the backstop LCs were terminated and the direct-pay LCs are outstanding under the TLC LCF.

The PEDFA 2009B and 2009C Bonds: (i) are subject to mandatory purchase by TES at the option of each holder with at least seven days' advance notice; (ii) may be redeemed at the option of TES at any time prior to their stated maturity date at a redemption price of 100% of the principal amount thereof plus accrued interest, if any, to the redemption date; (iii) are subject to mandatory purchase and optional remarketing upon conversion to an interest rate other than the daily rate as defined in the trust indentures or upon the cancellation, termination, expiration or substitution of the irrevocable, direct-pay LC corresponding to the applicable series; and (iv) are subject to mandatory purchase upon an event of default under the Credit Agreement.

Each series of PEDFA Bonds is subject to customary affirmative and negative covenants appropriate for such indebtedness. The loan agreements relating to the PEDFA Bonds do not limit TES's ability to incur additional secured or unsecured indebtedness. Each series of PEDFA Bonds also contains customary events of default. If an event of default occurs, the holders of each series of PEDFA Bonds will be entitled to take various actions, including the acceleration of any outstanding amounts due. The Restructuring constituted an event of default under PEDFA Series 2009A bonds, but was not an event of default under the PEDFA 2009B and 2009C Bonds. The PEDFA 2009B and 2009C Bonds continue to be supported by the irrevocable, direct-pay LCs described above and TES continues to perform its associated reimbursement obligations.

Secured ISDAs. Talen Energy Marketing is party to certain Secured ISDAs, a portion of which are continuations of either the Prepetition Secured ISDAs or the DIP Secured ISDAs. Under the Secured ISDAs, TES and the Subsidiary Guarantors provide the applicable counterparties with a first priority lien on and security interest (which ranks pari passu with the liens securing the Credit Facilities and the Secured Notes) in certain assets in lieu of posting collateral in the form of cash equivalents or LCs. The secured obligations under the Secured ISDAs were approximately $58 million as of December 31, 2023 (Successor).

Security Interests, Guarantees, and Cross-Defaults on TES Post-Emergence Obligations

Secured Obligations. The obligations under the Credit Facilities, Secured Notes, and Secured ISDAs are secured by a first priority lien on and security interest in substantially all of the assets of TES and the Subsidiary Guarantors. The LCs issued pursuant to the TLC LCF are cash collateralized by $472 million as of December 31, 2023 (Successor) (which is presented as "Restricted cash and cash equivalents" on the Consolidated Balance Sheets), with such amounts being held in restricted collateral accounts, first, for the benefit of the issuers of LCs pursuant to the TLC LCF and, thereafter, as security for the obligations under the Credit Facilities (other than the TLC LCF), Secured Notes, and Secured ISDAs.

The Subsidiary Guarantors guarantee the obligations of TES under the Credit Facilities and the Secured Notes. TES and the Subsidiary Guarantors guarantee the obligations of Talen Energy Marketing under the Secured ISDAs. The maximum amount of potential future payments by the Subsidiary Guarantors is equal to the maximum amount of outstanding obligations under such agreements and may include unpaid interest, premiums, penalties, and (or) other fees and expenses. An event of default under the Credit Facilities, Secured Notes, or Secured ISDAs, if not cured or waived, may result in a cross acceleration of amounts due and (or) cross termination across all these agreements.

Unsecured Obligations. The PEDFA 2009B and 2009C Bonds are senior unsecured obligations of TES that are effectively subordinated to the secured obligations of TES, including the Credit Facilities, Secured Notes, and Secured ISDAs, to the extent of the value of the assets securing such secured obligations.

The guarantees under the PEDFA 2009B and 2009C Bonds are the general unsecured obligations of the Subsidiary Guarantors that guarantee such indebtedness, rank equally with all of such Subsidiary Guarantors' other senior unsecured indebtedness, and are effectively subordinated to the secured obligations of the Subsidiary Guarantors, including the Credit Facilities, Secured Notes, and Secured ISDAs, to the extent of the value of the assets securing such secured obligations.

Non-Recourse Debt and Other Credit Facilities

Cumulus Digital TLF. In September 2021, Cumulus Digital executed the Cumulus Digital TLF, which provided for up to $175 million in aggregate principal borrowings and matures in September 2027. Cumulus Digital borrowed $60 million at closing of the loan transaction, and made additional borrowings over time to fund Cumulus Coin's contributions to Nautilus and Cumulus Data's construction of certain data center electrical infrastructure that will support the operations of both Cumulus Data and Nautilus. In connection with a settlement in connection with the Restructuring, Cumulus Digital borrowed the remaining available principal amount in the third quarter 2022. The Cumulus Digital TLF were paid in full on March 1, 2024, together with all accrued interest and other outstanding amounts.

In March 2023, the Cumulus Digital TLF was amended to, among other things, add a requirement that Cumulus Digital procure up to $16 million in equity funding for Cumulus Data to complete construction of the first data center shell and related infrastructure. The required funding was provided during the second quarter 2023.

Interest on outstanding borrowings was payable quarterly at 12.50% per annum. Interest was initially payable in cash or, at Cumulus Digital's election for the first four quarterly payment dates, 10% in cash with the remaining 2.50% capitalized as additional principal. In connection with a settlement in connection with the Restructuring, the Cumulus Digital TLF was amended to provide that all interest that accrued thereunder from July 1, 2022 through June 30, 2023 was capitalized as additional principal, and thereafter paid in cash.

The Cumulus Digital TLF was subject to customary representations and warranties, affirmative covenants, negative covenants, and events of default. Notable covenants included limitations on incurrence of liens and additional indebtedness, payment of dividends and asset sales. The Cumulus Digital TLF was subject to customary events of default, including: nonpayment of principal or interest when due, breach of covenants, and the bankruptcy of Cumulus Digital Holdings or any of its subsidiaries. It was also an event of default if TEC filed for bankruptcy while the TEC guarantee described below was in effect. This event of default was waived for purposes of TEC's inclusion in the Restructuring in December 2022, provided that the guarantee was assumed by TEC in the Restructuring as contemplated in the Plan of Reorganization.

Obligations under the Cumulus Digital TLF were secured equally and ratably by first priority liens and security interests in substantially all the assets of Cumulus Digital and its subsidiaries (other than the assets of Nautilus), as well as a pledge of equity in Cumulus Digital by its direct parent, Cumulus Digital Holdings. These liens and security interests were released upon the payment in full of the Cumulus Digital TLF on March 1, 2024.

All obligations under the Cumulus Digital TLF were guaranteed by Cumulus Digital Holdings and each of Cumulus Digital's subsidiaries (other than Nautilus). The guarantee was terminated upon the payment in full of the Cumulus Digital TLF on March 1, 2024.

TEC provided a guarantee to the lenders under the Cumulus Digital TLF for certain shortfalls in principal and interest payments by Cumulus Digital (up to a maximum of 23% of the principal amount of outstanding loans under the Cumulus Digital TLF). The guarantee was terminated upon the payment in full of the Cumulus Digital TLF on March 1, 2024.

Additionally, TES provided $50 million in LCs to Orion to support certain of Cumulus Digital's obligations under the Cumulus Digital TLF. The LCs could be drawn upon, among other events: (i) the acceleration of the Cumulus Digital TLF due to an event of default; or (ii) a bankruptcy of Cumulus Digital. Cumulus Digital Holdings agreed to issue additional common equity to TES to reimburse it for any amounts drawn on the LCs. Cumulus Digital also agreed to reimburse TES for fees associated with the LCs, in the form of cash or common equity in Cumulus Digital Holdings. These LCs were cancelled upon the prepayment in full of the Cumulus Digital TLF on March 1, 2024.

See Note 12 for information on the guarantee issued by TEC and the LCs issued by TES related to the Cumulus Digital TLF.

LMBE-MC Credit Agreement. LMBE-MC was the borrower under the LMBE-MC Credit Agreement, which included the LMBE-MC RCF and the LMBE-MC TLB. LMBE-MC and its subsidiaries were not included in the Restructuring and therefore the Restructuring was not an event of default under the LMBE-MC Credit Agreement or the facilities thereunder. The LMBE-MC facilities were repaid, and the LMBE-MC Credit Agreement terminated, in August 2023. See "2023 Transactions - LMBE-MC Refinancing" for additional information.

14. Fair Value

Recurring Fair Value Measurements

Financial assets and liabilities reported at fair value on a recurring basis primarily include energy commodity derivatives, interest rate derivatives, and investments held within the NDT.

The classifications of recurring fair value measurements within the fair value hierarchy were:

	Successor						Predecessor				
	December 31, 2023						December 31, 2022				
	Level 1	Level 2	Level 3	NAV	Netting [(a)]	Total	Level 1	Level 2	Level 3	NAV	Total
Assets											
Cash equivalents	$ —	$ —	$ —	$ 9	$ —	$ 9	$ —	$ —	$ —	$ 6	$ 6
Equity securities [(b)]	629	—	—	384	—	1,013	508	—	—	429	937
U.S. Government debt securities	337	—	—	—	—	337	272	—	—	—	272
Municipal debt securities	—	86	—	—	—	86	—	91	—	—	91
Corporate debt securities	—	156	—	—	—	156	—	114	—	—	114
Receivables (payables), net [(c)]						(26)					(20)
Nuclear decommissioning trust funds	**966**	**242**	**—**	**393**	**—**	**1,575**	**780**	**205**	**—**	**435**	**1,400**
Commodity derivatives	98	196	—	—	(200)	94	1,807	565	12	—	2,384
Interest rate derivatives	—	1	—	—	—	1	—	9	—	—	9
Total assets	**$1,064**	**$ 439**	**$ —**	**$ 393**	**$ (200)**	**$1,670**	**$2,587**	**$ 779**	**$ 12**	**$ 435**	**$3,793**
Liabilities											
Commodity derivatives [(d)]	155	139	—	—	(257)	37	1,879	411	—	—	2,290
Interest rate derivatives	—	6	—	—		6	—	—	—	—	—
Less: other	—	—	—	—	—	—	—	1	—	—	1
Total liabilities	**$ 155**	**$ 145**	**$ —**	**$ —**	**$ (257)**	**$ 43**	**$1,879**	**$ 410**	**$ —**	**$ —**	**$2,289**

(a) Amounts represent netting pursuant to master netting arrangements and cash collateral held or placed with the same counterparty.
(b) Includes commingled equity and fixed income funds and real estate investment trusts.
(c) Represents: (i) interest and dividends earned but not received; and (ii) net sold or purchased investments, but not settled.
(d) As of December 31, 2022 (Predecessor) certain amounts were presented as "Liabilities subject to compromise" on the Consolidated Balance Sheets. See Note 4 for additional information.

Nonrecurring Fair Value Measurements

See Note 4 for information on the nonrecurring fair value measurements resulting in the application of fresh start accounting and Note 10 for information on the nonrecurring fair value measurement of Brandon Shores during the year ended December 31, 2023 (Successor). There were no nonrecurring fair value measurements related to impairments of long-lived assets during the nine months ended September 30, 2022 (Predecessor).

Reported Fair Value

The carrying value of certain assets and liabilities on the Consolidated Balance Sheets, including “Cash and cash equivalents,” “Restricted cash and cash equivalents,” “Accounts receivable, net,” and “Accounts payable and other accrued liabilities” approximate fair value.

The fair value measurements of indebtedness are classified as Level 2 within the fair value hierarchy. The fair value of fixed rate debt was estimated primarily by utilizing an income approach whereby the future cash flows of the obligations are discounted at the estimated current cost of funding rates, which incorporates the credit risk associated with the obligations. The carrying value of variable rate indebtedness approximates fair value.

The carrying value and fair value of indebtedness presented on the Consolidated Balance Sheets were:

	Successor		Predecessor	
	December 31, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit facilities	$ —	$ —	$ 848	$ 848
Long-term debt [(a)]	2,820	2,934	5,062	4,386
Other short-term indebtedness [(b)]	6	6	—	—

(a) Aggregate value of “Long-term debt” and “Long-term debt, due within one year” presented on the Consolidated Balance Sheets.
(b) Presented as “Other current liabilities” on the Consolidated Balance Sheets.

15. Postretirement Benefit Obligations

Talen Energy Supply and certain subsidiaries sponsor postemployment benefits which include defined benefit pension plans, health and welfare postretirement plans (other postretirement benefit plans), and defined contribution plans.

Pension and Other Postretirement Defined Benefit Plans

Obligations under the defined benefit pension and other postretirement plans are generally based on factors, among others, such as age of the participants, years of service, and compensation. The pension and other postretirement plans are closed to new participants. Effective December 31, 2018, all participants ceased accruing additional benefits in the TERP, the Company's largest defined benefit pension plan.

Funded Status. The net fair value of underfunded defined benefit pension and other postretirement plans are presented as "Postretirement benefit obligations" on the Consolidated Balance Sheets. Certain other postretirement plans were overfunded by $33 million, $28 million as of December 31, 2023 (Successor) and 2022 (Predecessor) and are presented as "Other noncurrent assets" on the Consolidated Balance Sheets. The current portion of certain unfunded postretirement obligations were not material.

The aggregate funded status and the weighted average assumptions were:

	Pension Benefits		
	Successor	Predecessor	
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022
Change in benefit obligation			
Benefit obligation beginning balance	$ 1,300	$ 1,273	$ 1,721
Service cost	2	1	4
Interest cost	40	25	50
Actuarial (gain) loss	20	6	(408)
Actual benefits paid	(55)	(34)	(94)
Special termination benefits	1	—	—
Benefit obligation ending balance	**1,308**	**1,271**	**1,273**
Change in plan assets			
Plan assets fair value beginning balance	997	994	1,437
Actual return on plan assets	24	35	(359)
Employer contributions	9	2	10
Actual benefits paid	(55)	(34)	(94)
Plan assets fair value ending balance	**975**	**997**	**994**
Funded status	**$ (333)**	**$ (274)**	**$ (279)**
Accumulated benefit obligation	**$ 1,308**	**$ 1,271**	**$ 1,273**
Aggregate amounts of underfunded plans			
Benefit obligation/Accumulated benefit obligation	1,308	1,271	1,273
Fair value of plan assets	975	997	994
Amounts recognized in accumulated other comprehensive income			
Net (gain) loss	37	238	239
Total accumulated other comprehensive income	**$ 37**	**$ 238**	**$ 239**
Assumptions			
Discount rate	5.00%	5.37%	5.41%
Interest crediting rate	6.00%	6.00%	6.00%
Rate of compensation increase	3.45%	3.45%	3.45%

	Other Postretirement Benefits		
	Successor	Predecessor	
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022
Change in benefit obligation			
Benefit obligation beginning balance	$ 78	$ 77	$ 104
Service cost	1	—	2
Interest cost	2	1	3
Actuarial (gain) loss	1	1	(24)
Plan participant contributions	2	1	2
Actual benefits paid	(5)	(4)	(10)
Benefit obligation ending balance	**79**	**76**	**77**
Change in plan assets			
Plan assets fair value beginning balance	74	75	99
Actual return on plan assets	4	2	(17)
Employer contributions	—	—	1
Plan participant contributions	2	1	2
Actual benefits paid	(5)	(4)	(10)
Plan assets fair value ending balance	**75**	**74**	**75**
Funded status	**$ (4)**	**$ (2)**	**$ (2)**
Accumulated benefit obligation	**$ —**	**$ —**	**$ —**
Aggregate amounts of underfunded plans			
Benefit obligation / Accumulated benefit obligation	78	76	51
Fair value of plan assets	75	74	21
Amounts recognized in accumulated other comprehensive income			
Net (gain) loss	(1)	4	4
Prior service cost (credit)	—	(4)	(4)
Total accumulated other comprehensive income	**$ (1)**	**$ —**	**$ —**
Assumptions			
Discount rate	5.01%	5.36%	5.41%
Rate of compensation increase	2.31%	2.31%	2.31%

In 2022 (Predecessor), the decrease in postretirement benefit obligations was primarily attributable to increasing interest rates, offset by actual returns being less than expected returns on plan assets.

Net Periodic Benefit Cost and Amounts Recognized in OCI. Service cost is presented as "Postretirement benefits service (credit) costs, net", while the other components of net periodic defined benefit cost (credit) for pension and other postretirement plans are presented as "Operation, maintenance and development" on the Consolidated Statements of Operations. The portion of net periodic benefit cost capitalized during the periods from May 18 through December 31, 2023 (Successor), January 1 through May 17, 2023 (Predecessor) and the year ended December 31, 2022 (Predecessor) was not material.

The components of net periodic benefit cost (credit), the amounts recognized in OCI and the associated weighted average assumptions for pension and other postretirement plans were:

	Pension Benefits			
	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Net periodic benefit costs (credits):				
Service cost	$ 2	$ 1	$ 4	$ 4
Interest cost	40	25	50	47
Expected return on plan assets	(41)	(30)	(68)	(67)
Amortization of net (gain) loss	—	2	27	52
Special termination benefits	1	—	—	—
Net periodic defined benefit cost (credit)	**2**	**(2)**	**13**	**36**
Net actuarial (gain) loss	38	2	19	(151)
Reclassifications due to settlement and (or) curtailment:				
Amortization of net (gain) loss	—	—	(27)	(52)
Total recognized in OCI	**38**	**2**	**(8)**	**(203)**
Total recognized in net periodic costs and OCI	**$ 40**	**—**	**$ 5**	**$ (167)**
Assumptions				
Discount rate	5.12 %	5.41 %	2.97 %	2.67 %
Rate of compensation increase	3.45 %	3.45 %	3.45 %	2.96 %
Expected return on plan assets	7.25 %	7.50 %	5.75 %	5.75 %

	Other Postretirement Benefits			
	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Net periodic benefit costs (credits):				
Service cost	$ 1	$ 1	$ 1	$ 2
Interest cost	2	1	3	3
Expected return on plan assets	(2)	(2)	(4)	(4)
Amortization of prior service cost (credit)	—	—	(1)	(1)
Net periodic defined benefit cost (credit)	**1**	**—**	**(1)**	**—**
Net actuarial (gain) loss	(1)	—	(3)	—
Reclassifications due to settlement and (or) curtailment:				
Amortization of prior service cost (credit)	—	—	1	1
Amortization of net (gain) loss	—	—	(1)	—
Total recognized in OCI	**(1)**	**—**	**(3)**	**1**
Total recognized in net periodic costs and OCI	**$ —**	**$ —**	**$ (4)**	**$ 1**
Assumptions				
Discount rate	5.13 %	5.41 %	2.94%	2.57%
Rate of compensation increase	2.31 %	2.31 %	2.31%	2.61%
Expected return on plan assets	5.49 %	5.74 %	3.89%	3.89%
Health care grading trend rates [(a)]	6.50% to 4.50%	6.50% to 4.50%	4.50%	6.75% to 4.93%

(a) Trend rates grading to 2027.

The expected long-term rates of return for pension and other postretirement plans are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

Contributions and Payments. Talen Energy Supply contributed $5 million to the TES sponsored pension plan during the period from May 18 through December 31, 2023 (Successor). There were no contributions for the pension plans during the period from January 1 through May 17, 2023 (Predecessor), and the year ended December 31, 2022 (Predecessor). Talen Montana contributed $4 million, $2 million and $10 million of discretionary contributions to the Talen Montana sponsored pension plan during the period from May 18 through December 31, 2023 (Successor), January 1 through May 17, 2023 (Predecessor) and the year ended December 31, 2022 (Predecessor) to the Talen Montana pension plan.

TES expects to contribute $30 million to the TES sponsored pension plan in 2024. Talen Montana expects to contribute $10 million of discretionary contributions to the Talen Montana sponsored pension plan in 2024, of which $7 million is expected to be collected by Talen Montana from the other joint owners of Colstrip.

The aggregate benefits paid to pension and other postretirement plan participants was $60 million during the period from May 18 through December 31, 2003 (Successor), $38 million from January 1 through May 17, 2023 (Predecessor), $104 million in 2022 (Predecessor), and $117 million in 2021 (Predecessor).

The forecasted undiscounted benefit payments to plan participants as of December 31, 2023 (Successor) were:

	2024	2025	2026	2027	2028	2029-2033
Pension plans	$ 97	$ 93	$ 93	$ 93	$ 93	$ 456
Other postretirement plans	7	7	7	6	6	27

Pension plan assets. Pension plan assets are held in external trusts, including a master trust, which includes a 401(h) account that is restricted for certain other postretirement benefit obligations of Talen Energy Supply. The plans' investment policies outline investment objectives.

The risk management framework categorizes the plan assets within three sub-portfolios: growth, immunizing and liquidity. The trust investments within these portfolios are routinely monitored to seek a risk-adjusted return on a mix of assets that, in combination with our funding policy, will provide sufficient assets to provide long-term growth and liquidity for benefit payments, match asset duration with the expected liability duration, and mitigate concentrations of risk with asset diversification.

The weighted-average target asset allocations for the pension plan assets as of December 31, 2023 (Successor) were:

	2023
Equity securities	32%
Debt securities	10%
Other	7%
Growth portfolio	**49%**
Debt securities	36%
Other	11%
Immunizing portfolio	**47%**
Liquidity portfolio	4%
Total	**100%**

The classification of pension plan asset fair value measurements within the fair value hierarchy were:

	Successor					Predecessor				
	December 31, 2023					December 31, 2022				
	Level 1	Level 2	Level 3	NAV	Total	Level 1	Level 2	Level 3	NAV	Total
Cash equivalents	$ —	$ —	$ —	$ 169	$ 169	$ —	$ —	$ —	$ 102	$ 102
Commingled equity securities				288	288				292	292
Commingled debt securities	—	—	—	301	301	—	—	—	349	349
Alternative and other investments	52	—	—	191	243	1	—	—	236	237
Receivables (payables), net [(a)]					(25)					22
Total trust funds	**52**	**—**	**—**	**949**	**976**	**1**	**—**	**—**	**979**	**1,002**
Restricted 401(h) assets [(b)]					(1)					(8)
Total plan assets	**$ 52**	**$ —**	**$ —**	**$ 949**	**$ 975**	**$ 1**	**$ —**	**$ —**	**$ 979**	**$ 994**

(a) Represents: (i) interest and dividends earned but not received; and (ii) net sold or purchased investments, but not settled.

(b) Other postretirement 401(h) benefits assets are a component of the pension plan master trust. Accordingly, these are excluded from pension plan assets.

Level 1 investments consist of U.S. Treasury and (or) U.S. government debt securities and exchange-traded futures contracts, which are valued using unadjusted prices available from the underlying market.

Certain investments in cash equivalent funds, commingled equity securities, commingled debt securities, and alternative investments are not classified within the fair value hierarchy. The fair value measurement of these funds is based on firm quotes of NAV per share, as a practical expedient for valuation, which are not obtained from a quoted price in an active market.

Investments in cash equivalent funds consist of short-term investment funds and commingled cash equivalent funds. Investments in equity funds consist of large and small cap U.S. and international funds that can be redeemed daily. Investments in commingled debt funds consist of funds that invest in investment-grade intermediate and long-duration corporate and government fixed-income securities. These investments can be redeemed daily.

Alternative and other investments consist of investments in funds that invest in a portfolio of exchange-traded futures and forward contracts, hedge funds of funds that employ investment strategies including long/short equity, market neutral, distressed debt, and relative value, private equity partnerships, with limited lives ranging from ten to fifteen years, and real estate investment partnerships. Investments in real estate partnerships have redemption limitations based on available funding and investments in private equity partnerships that cannot be redeemed with the partnership prior to the end of the partnerships' lives, however, the interest may be sold to other parties. Redemptions of hedge funds, private equity, and real estate partnerships are also subject to the respective general partner's approval.

Other postretirement benefit plan assets. The investment strategy with respect to most of the other postretirement benefit obligations is to fund VEBA or similar trusts and (or) 401(h) accounts with voluntary contributions, when appropriate, and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the master trust, other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers, and therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes.

The target asset allocations for other postretirement benefit assets at December 31 were:

	2023
Cash and cash equivalents	7 %
Equity securities	11 %
Debt securities	82 %
Total	**100 %**

The classification of other postretirement benefit plan asset fair value measurements within the fair value hierarchy were:

	Successor					Predecessor				
	December 31, 2023					December 31, 2022				
	Level 1	Level 2	Level 3	NAV	Total	Level 1	Level 2	Level 3	NAV	Total
Cash equivalents	$ —	$ —	$ —	$ 7	$ 7	$ —	$ —	$ —	$ 7	$ 7
Commingled equity securities	—	—	—	9	9	—	—	—	7	7
U.S. Government debt securities	8	—	—	—	8	6	—	—	—	6
Corporate debt securities	—	16	—	—	16	—	17	—	—	17
Commingled debt securities	—	—	—	34	34	—	—	—	31	31
Total trust funds	**8**	**16**	**—**	**50**	**74**	**6**	**17**	**—**	**45**	**68**
Restricted 401(h) assets [(a)]					1					7
Total plan assets	**$ 8**	**$ 16**	**$ —**	**$ 50**	**$ 75**	**$ 6**	**$ 17**	**$ —**	**$ 45**	**$ 75**

(a) Other postretirement 401(h) benefits assets are a component of the pension plan master trust. Accordingly, these are reported as postretirement assets.

Level 1 investments consist of U.S. Treasury and (or) U.S. government debt securities, which are valued using unadjusted prices available from the underlying market.

Level 2 investments consist of corporate debt securities, which are valued using observable inputs such as benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities, and credit valuation adjustments.

Certain investments in money market funds, commingled equity securities, and commingled debt securities are not classified within the fair value hierarchy. The fair value measurements of these funds are based on firm quotes of NAV per share, as a practical expedient for valuation, which are not obtained from a quoted price in an active market.

Investments in equity securities consist of investments in a passively managed equity index fund that invests in securities and a combination of other collective funds. Investments in debt securities represent investments in funds that invest in a diversified portfolio of investment grade fixed income securities.

Defined Contribution Plans

Substantially all Company employees are eligible to participate in 401(k) deferred savings plans. Employer contributions to the plans were $9 million, $10 million, and $18 million during the period from May 18 through December 31, 2023 (Successor), January 1 through May 17, 2023 (Predecessor) and the year ended December 31, 2022 (Predecessor).

Coal Industry Retiree Benefit Plans

Talen is obligated under the Coal Act and the Black Lung Act to pay for certain health care and black lung benefits of retired miners and allowable beneficiaries. These obligations are funded from medical VEBAs and a black lung trust.

The funded status of each plan at December 31, 2023 (Successor) were:

	Trust Asset Fair Value	Obligation Fair Value	Overfunded Status
Benefit Plan for UMWA Represented Retirees of Pennsylvania Mines, LLC	$ 30	$ 18	$ 12
Coal Worker's Pneumoconiosis (Black Lung) Benefit Plan	11	6	5

Shortfalls in funded status of the plans are assessed as contingent liabilities. As the fair value of VEBA and black lung trust assets exceed the plan obligations, both VEBA and black lung trust assets and the plan obligations are not reported on the Talen Consolidated Balance Sheets. See "Postretirement Benefit Obligations" in Note 2 for additional information.

16. Capital Structure

Successor

Our Third Amended and Restated Certificate of Incorporation, which became effective at Emergence, authorizes TEC to issue up to 400,000,000 shares of capital stock, consisting of 350,000,000 shares of common stock, par value $0.001 per share, and 50,000,000 shares of preferred stock, par value $0.01 per share. At Emergence, TEC issued 59,028,843 shares of common stock. The same number of shares remained outstanding as of December 31, 2023 (Successor). No shares of preferred stock are outstanding.

Each share of common stock entitles the record holder to one vote on all matters on which stockholders generally are entitled to vote. Subject to the rights of the holders of preferred stock, if any, the holders of shares of common stock are entitled to receive dividends and other distributions (payable in cash, property or capital stock of TEC) when, as and if declared thereon by the Board of Directors.

Registration Rights Agreement and Stockholders Agreement. In connection with Emergence, TEC entered into a Registration Rights Agreement and a Stockholders Agreement with certain of its stockholders . Under the Registration Rights Agreement, the Reg Rights Holders were granted customary registration rights that may be exercised after the consummation of an initial public offering by the Company, including customary shelf registration rights and piggyback rights. Pursuant to the Stockholders Agreement, the holders party thereto have certain limited information rights, drag-along rights and tag-along rights, and holders holding 5% or more of common stock have the right to designate a representative to an offering committee that, so long as the aggregate TEC ownership represented on the offering committee is at least 20%, will have rights to require TEC to pursue and consummate an initial public offering and to consent to certain key elements of the initial public offering structure.

Equity-Classified Warrants. Pursuant to an employment agreement with a former executive, at Emergence, the Company issued equity-classified warrants to the executive to purchase up to 457,142 shares common stock with a tenor of seven years and a strike price of $43.75, subject to adjustment in certain circumstances. The equity-classified warrants were valued at $8 million using the above strike price, 30.0% volatility, and a risk-free rate of 3.6%.

Liability-Classified Warrants. At Emergence, Riverstone received liability-classified warrants to purchase up to 5%, or 3,106,781 shares of TEC's common stock with: (i) a tenor of five years; (ii) a strike price of $52.92, subject to adjustment in certain circumstances; (iii) Black-Scholes protection in the event of certain change of control transactions; and (iv) a contingent put option providing Riverstone the right to require that the Company redeem the warrants in cash upon certain change of control events.

In the third quarter 2023, TEC, TES, and Riverstone completed a transaction pursuant to which: (i) Riverstone surrendered all of its warrants to purchase TEC common stock to TEC and waived all future rights to the Retail PPA Incentive Equity; and (ii) TEC, TES and Riverstone terminated and canceled a tax indemnity agreement executed by them in connection with the TEC Global Settlement. TEC paid Riverstone $40 million in exchange for these cancellations and waivers and recognized a gain of $9 million presented as “Other non-operating income (expense), net” on the Consolidated Statements of Operations for the period from May 18 through December 31, 2023 (Successor).

Riverstone Cumulus Digital Buyout. In the third quarter 2023, Riverstone and TES completed a transaction in which TES purchased all of the Class A common units of Cumulus Digital Holdings held by Riverstone for an aggregate purchase price of $20 million (the “Riverstone Buyout”), of which TES paid $19 million. Affiliates of Orion also elected to participate in the Riverstone Buyout and acquired an additional 1% interest under the terms of the Cumulus Digital Holdings limited liability company agreement. Upon closing, TES’s ownership interest in Cumulus Digital Holdings increased to approximately 95%. TES has sole control of Cumulus Digital Holdings’ board of managers following the closing of the Riverstone Buyout.

Retail PPA Incentive Equity. Pursuant to the Plan of Reorganization and the TEC Global Settlement, at Emergence, the Company issued approximately 243,000 shares of TEC common stock to Riverstone in partial satisfaction of Riverstone’s right to the Retail PPA Incentive Equity. The Retail PPA Incentive Equity also included a right of Riverstone to receive additional TEC common stock (or, at TEC’s option, a cash payment) in the event Cumulus Data exercised an option with Talen Generation to purchase additional electricity generated by Susquehanna, as further described in the Plan of Reorganization. In August 2023, Riverstone agreed to waive its right to this additional portion of the Retail PPA Incentive Equity in exchange for a cash payment.

Share Repurchase Program. In October 2023, the Board of Directors approved a share repurchase program authorizing the Company to repurchase up to $300 million of the Company’s outstanding common stock through December 31, 2025. Repurchases may be made from time to time, at the Company’s discretion, in open market transactions at prevailing market prices, negotiated transactions, or other means in accordance with federal securities laws, and may be repurchased pursuant to a Rule 10b5-1 trading plan. The Company intends to fund repurchases from cash on hand. Repurchases by the Company will be subject to a number of factors, including the market price of the Company’s common stock, alternative uses of capital, general market and economic conditions, and applicable legal requirements, and the repurchase program may be suspended, modified or discontinued by the Board of Directors at any time without prior notice. The Company has no obligation to repurchase any amount of its common stock under the repurchase program. In January 2024, the Company repurchased 225,000 shares of common stock for $14 million at a weighted average per share price of $63.52.

Orion Cumulus Digital Buyout. On March 11, 2024, TES acquired all of the equity units of Cumulus Digital Holdings held by affiliates of Orion in exchange for $36 million in cash. Following the transaction, TES owns 99.5% of the equity of Cumulus Digital Holdings, with the remaining 0.5% held by two former members of Talen senior management.

Predecessor

As of December 31, 2022 (Predecessor), outstanding shares of TEC owned by Riverstone affiliates and Talen MidCo LLC were:

	Talen MidCo LLC	Raven Power Holdings, LLC	C/R Energy Jade, LLC	Sapphire Power Holdings LLC
Shares (in thousands)	221	130	83	16

These shares were cancelled upon Emergence pursuant to the Plan of Reorganization.

17. Stock-Based Compensation

In June 2023, TEC began granting performance stock units (“PSUs”) and restricted stock units (“RSUs”) to certain employees and non-employee directors under the 2023 Talen Equity Plan. The aggregate number of shares authorized for issuance under the 2023 Talen Equity Plan is 7,083,461 shares.

Performance Stock Units

PSUs vest three years after Emergence or a consummation of a change in control event based on the satisfaction of a continued employment condition and the achievement of certain market conditions over a performance period. Participants will be awarded additional PSUs if market conditions exceed targets at the time of vesting. If the Company declares any cash dividends while the PSUs are outstanding, participants will be credited a dividend, payable at the time of vesting, based on the number of shares of common stock underlying the PSUs. The following table summarizes the Company’s non-vested PSUs and changes during the year:

	Units	Weighted-Average Grant Date Fair Value per Unit
Non-vested as of May 18, 2023 (Successor)	—	$ —
Granted	968,793	54.35
Non-vested as of December 31, 2023 (Successor)	**968,793**	**$ 54.35**

There were no forfeited or vested PSUs for the period from May 18 through December 31, 2023 (Successor). The fair value of the PSUs was determined using a Monte Carlo valuation methodology based on the fair value of the underlying stock price at the grant date and the significant inputs and assumptions summarized below:

	PSUs
Volatility (a)	25 %
Expected term (in years)	3
Risk-free rate (b)	4.35% - 4.59%

(a) Derived from an option pricing method based on the average asset volatility of peer companies and the Company’s leverage ratio.
(b) Grant date value derived from U.S. constant maturity treasury rates matching the terms of the PSUs.

Restricted Stock Units

RSUs have three-year graded vesting schedules beginning on the grant date. The fair value of the RSUs granted is derived from the closing price of TEC common stock on the grant date. The following table summarizes the Company’s non-vested RSUs and changes during the year:

	Units	Weighted-Average Grant Date Fair Value per Unit
Non-vested as of May 18, 2023 (Successor)	—	$ —
Granted	845,269	48.46
Non-vested as of December 31, 2023 (Successor)	**845,269**	**$ 48.46**

There were no forfeited or vested RSUs for the period from May 18 through December 31, 2023 (Successor).

Stock-based Compensation Expense

Stock-based compensation expense was $19 million for the period from May 18 through December 31, 2023 (Successor) presented as "General and administrative" on the Consolidated Statements of Operations. There was no income tax benefit recognized due to the PSUs and RSUs during the period from May 18 through December 31, 2023 (Successor) and deferred tax assets related to PSUs and RSUs were not material as of December 31, 2023 (Successor).

See Note 2 for additional information regarding our accounting policy for stock-based compensation.

18. Earnings Per Share

Basic EPS is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the applicable period. Diluted EPS is computed by dividing income by the weighted-average number of shares of common stock outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common stock as calculated using the treasury stock method.

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Numerator: (Millions)				
Net Income (loss)	**$ 143**	**$ 465**	**$ (1,293)**	**$ (977)**
Exclude:				
Net income (loss) attributable to noncontrolling interest	9	(14)	(4)	—
Net Income (loss) attributable to the Company	**$ 134**	**$ 479**	**$ (1,289)**	**$ (977)**
Denominator: (Thousands)				
Weighted-average shares outstanding - Basic	59,029	—	—	—
Warrants	84	—	—	—
Restricted stock units	166	—	—	—
Performance stock units	120			
Weighted-average shares outstanding - Diluted	**59,399**	**—**	**—**	**—**
Basic earnings per share	**$ 2.27**	**$ —**	**$ —**	**$ —**
Diluted earnings per share	**2.26**	**—**	**—**	**—**

For the period from May 18 through December 31, 2023 (Successor), basic earnings per share of $2.27 includes 59,028,843 shares of common stock outstanding. For the periods from January 1 through May 17, 2023 and years ended 2022 and 2021 (Predecessor), there were no outstanding shares of common stock.

Diluted earnings per share during the period from May 18 through December 31, 2023 (Successor) excludes 134,798 performance stock units ("PSUs") outstanding due to their anti-dilutive nature. These awards are excluded from the calculation of EPS because the performance conditions have not been met during the reporting period.

19. Accumulated Other Comprehensive Income

The total changes in AOCI for the periods were:

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Beginning balance	$ —	$ (167)	$ (152)	$ (294)
Gains (losses) arising during the period	(36)	6	(84)	138
Reclassifications to Consolidated Statements of Operations	7	5	59	53
Income tax benefit (expense)	6	(5)	10	(49)
Other comprehensive income (loss)	**(23)**	**$ 6**	**(15)**	**142**
Cancellation of equity at Emergence		161		
Accumulated other comprehensive income	**$ (23)**	**$ —**	**$ (167)**	**$ (152)**

The components of AOCI, net of tax, as of December 31 were:

	Successor	Predecessor	
	2023	2022	2021
Available-for-sale securities unrealized gain (loss), net	$ 5	$ (16)	$ 4
Qualifying derivatives unrealized gain (loss), net	—	9	11
Postretirement benefit prior service credits (costs), net	—	7	6
Postretirement benefit actuarial gain (loss), net	(28)	(167)	(173)
Accumulated other comprehensive income	**$ (23)**	**$ (167)**	**$ (152)**

The locations of pre-tax gains (losses) reclassified from AOCI and included on the Consolidated Statements of Operations for the periods were:

	Successor	Predecessor		
Location of gain (loss)	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Nuclear decommissioning trust funds gain (loss), net [(a)]	$ (7)	$ (4)	$ (33)	$ (2)
Depreciation, amortization and accretion [(b)]	—	1	2	2
Operation, maintenance and development [(c)]	—	—	(1)	(1)
Other non-operating income (expense), net [(d)]	—	(2)	(27)	(52)
Total	**$ (7)**	**$ (5)**	**$ (59)**	**$ (53)**

(a) Available-for-sale securities unrealized gain (loss), net.
(b) Qualifying derivatives unrealized gain (loss).
(c) Postretirement benefit prior service credits (costs), net
(d) Postretirement benefit actuarial gain (loss), net.

The postretirement obligations components of AOCI are not presented in their entirety on the Consolidated Statements of Operations during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits). See Note 15 for additional information.

20. Supplemental Cash Flow Information

Supplemental information for the Consolidated Statements of Cash Flows for the periods was:

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash paid (received) during the period				
Interest and other finance charges, net of capitalized interest [(a)]	$ 133	$ 283	$ 277	$ 316
Income taxes, net	12	7	14	20
Non-cash investing and operating activities				
Capital expenditure accrual increase (decrease)	7	(28)	2	(2)
Accounts receivable contributed to equity method investment	—	—	2	6
Non-cash preferred equity method investment contribution and accounts payable accrual (a)	—	—	—	5
Depreciation, amortization and accretion included on the Statements of Operations:				
Depreciation, amortization and accretion	165	200	520	524
Amortization of deferred finance costs and original issuance discounts (interest expense) [(b)]	1	8	29	31
Other	(9)	—	—	—
Total depreciation, amortization and accretion	**$ 157**	**$ 208**	**$ 549**	**$ 555**
Non-cash financing/investing activities				
Non-cash hypothetical liquidation at book value contribution to equity and noncurrent assets	$ —	$ —	$ —	$ 11
Non-cash increase to PP&E and decrease to other current assets for transfer of miners by Cumulus Coin [(c)]	—	14	30	—
Non-cash decrease to PP&E and decrease to noncontrolling interest for transfer of miners to TeraWulf	—	3	—	—
Non-cash increase to PP&E and increase to noncontrolling interest for transfer of miners by TeraWulf [(b)]	—	38	14	—
Unrealized (gain) loss on derivatives:				
Commodity contracts	(52)	63	(625)	712
Interest rate swap contracts	12	2	(23)	(28)
Total unrealized (gain) loss on derivatives	**$ (40)**	**$ 65**	**$ (648)**	**$ 684**

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Operating activities reconciliation adjustments, other:				
Net periodic defined benefit cost	$ 2	$ (3)	$ 12	$ 36
Stock-based compensation	19	—	—	—
Derivative option premium amortization	52	29	67	(176)
Bitcoin revenue	(81)	(27)	—	—
Non-cash environmental liability revisions	—	—	13	—
Gain on sale of mineral rights and western gas portfolio	—	(44)	—	—
Non-cash ARO revisions	—	—	—	(3)
Gain on cancellation of lease	—	(7)	—	—
Nonrecourse PIK interest	3	9	(1)	—
Mark-to-market on warrants	4	—	—	—
Derivatives with financing elements	—	—	104	—
Debt restructuring (gain) loss, net	5	—	6	2
Other	(4)	—	(1)	(9)
Total	**$ —**	**$ (43)**	**$ 200**	**$ (150)**

(a) Capitalized interest totaled $10 million for May 18 through December 31, $12 million for January 1 through May 17 in 2023, $12 million in 2022, and $4 million in 2021.
(b) Includes previously recognized fair value adjustments on certain exchanges of indebtedness.
(c) In 2023, each of the joint venture partners of Nautilus made non-cash contributions to Nautilus of cryptocurrency miners that increased PP&E.

Cash and Restricted Cash

The following provides a reconciliation of "Cash and cash equivalents" and "Restricted cash and cash equivalents" presented on the Consolidated Statements of Cash Flows to line items within the Consolidated Balance Sheets:

	Successor	Predecessor
	December 31, 2023	December 31, 2022
Cash and cash equivalents	**$ 400**	**$ 724**
Restricted cash and cash equivalents:		
Commodity exchange margin	—	85
Collateral deposits [a]	—	89
TES TLC debt restricted deposits	472	—
Cumulus Digital Holdings debt restricted deposits	19	49
Nautilus project restricted deposits	10	19
LMBE-MC major maintenance reserve deposits	—	7
LMBE-MC debt service reserve deposits [b]	—	7
TEC Global Settlement deposits [c]	—	7
Other	—	1
Restricted cash and cash equivalents	**501**	**264**
Total	**$ 901**	**$ 988**

(a) Collateral deposits that supported the DIP LCF. Funds were returned to Talen upon Emergence.
(b) Outstanding indebtedness was repaid in August 2023 and these funds were released. See Note 13 for additional information on the repayment.
(c) Funds were released to a third party upon Emergence.

21. Related Party Transactions

Registration Rights Agreement and Stockholders Agreement

See Note 16 for information on a Registration Rights Agreement and Stockholders Agreement entered into with certain TEC stockholders at Emergence.

Predecessor Transactions

Prior to the Restructuring, Talen incurred and paid customary management fees for services provided by Riverstone and its affiliates and reimbursed Riverstone for certain costs. In November 2021, Riverstone agreed to suspend Talen's payment obligations for these management fees. In the third quarter 2022, as a result of the TEC Global Settlement, Talen adjusted the amounts previously accrued for these fees and Riverstone waived further payment of fees following Emergence. The aggregate fees incurred for services and reimbursements were:

	Predecessor	
	Year Ended December 31, 2022	Year Ended December 31, 2021
Riverstone Holdings, LLC management fees [a]	$ —	$ 1
Riverstone Holdings, LLC litigation fees [a]	(5)	6

(a) Presented as "General and administrative" on the Consolidated Statements of Operations. Includes adjustments recognized in September 2022. See below for additional information.

Pursuant to the TEC Global Settlement: (i) upon confirmation of the Plan of Reorganization in December 2022 (Predecessor), TES paid $8 million in fees and expenses of TEC's professional advisors; and (ii) deposited $7 million in a custodial account presented as "Restricted cash" on the December 31, 2022 (Predecessor) Consolidated Balance Sheets that was to be used to pay fees and expenses of TEC's advisors when due. The $7 million was paid to TEC's advisors from the custodial account upon Emergence.

During the year ended December 31, 2022 (Predecessor), as a result of the TEC Global Settlement and UCC Settlement, Talen: (i) reversed $5 million of accrued amounts due to Riverstone for unpaid management fees and expenses presented as "General and administrative"; and (ii) recognized $8 million of charges presented as "Reorganization income (expense), net" on the Consolidated Statements of Operations for TEC advisor fees payable by TES pursuant to the TEC Global Settlement.

Additionally, prior to the Restructuring, TES had paid certain expenses and liabilities incurred by TEC. Accordingly, as of December 31, 2022 (Predecessor), TES carried a $2 million receivable due from TEC presented as "Accounts receivable, net" within the Consolidated Balance Sheets. Such amounts were settled pursuant to the Plan of Reorganization upon Emergence.

See Note 3 for information on the TEC Global Settlement and the UCC Settlement.

During 2022 and 2021, Talen engaged parties related to two employees in management positions, both under two separate independent contractor agreements for office maintenance and IT services. During the years ended December 31, 2022 and 2021 (Predecessor), Talen paid approximately $88 thousand and $140 thousand, respectively, under these agreements. The contracts with these independent contractors were terminated in July 2022.

22. Acquisitions and Divestitures

Potential Acquisition

Talen Montana Colstrip Units 3 and 4 Transaction. In September 2022, Talen Montana entered into an agreement under which Puget Sound Energy, Inc. will abandon its 25% share of Colstrip Units 3 and 4 to Talen Montana for no cash consideration. Under the agreement, Puget Sound will retain certain liabilities attributable to pre-closing operations, including environmental remediation and decommissioning costs, and Talen Montana will assume those liabilities for post-closing operations. The agreement is subject to customary closing conditions, including Bankruptcy Court approval. Subject to satisfaction of the closing conditions set forth in the agreement, the parties have agreed on a closing date of December 31, 2025. Talen also has a right of first refusal on any other changes in ownership in Colstrip Units 3 and 4.

Talen Montana did not obtain Bankruptcy Court approval of the agreement and continues to evaluate the circumstances under which it would acquire Puget Sound's interest in Colstrip Units 3 and 4. In February 2024, Puget Sound informed Talen Montana that it was in breach of the agreement for failing to obtain Bankruptcy Court approval and that the agreement is unenforceable. Talen Montana has agreed that the agreement is unenforceable and disputed that it breached the agreement.

Completed Divestitures

Data Center Campus Sale. On March 1, 2024, the Company completed its disposition of certain assets of Cumulus Data, which included our zero-carbon data center campus currently being developed adjacent to Susquehanna, to Amazon Data Services, Inc. for gross proceeds of $650 million, $300 million of which is to be held in escrow until the achievement of development milestones that are expected to be achieved in 2024. In connection with the Data Center Campus Sale, the Company entered into a power purchase agreement with Amazon Energy LLC, pursuant to which (i) the Company agreed to supply up to 960MW of long-term, carbon-free power to the Data Center Campus from Susquehanna; (ii) the parties agreed to fixed-price power commitments that increase in 120 MW increments over several years; and (iii) Amazon Energy LLC has a one-time option to cap commitments at 480 MW.

Pennsylvania Minerals Divestiture. In March 2023, Talen sold certain mineral interests located in Pennsylvania for $29 million, while preserving the right to certain royalty payments from existing and future producing natural gas wells. In 2023, For the period January 1 through May 17, 2023 (Predecessor), a $29 million gain was presented as "Other non-operating income (expense), net" on the Consolidated Statements of Operations.

Western Gas Book Divestiture. In April 2023, Talen sold certain contracts relating to the transportation of natural gas in the southwestern United States for approximately $15 million. For the period January 1 through May 17, 2023 (Predecessor), a $15 million gain was presented as "Other non-operating income (expense), net" on the Consolidated Statements of Operations.

23. Segments

Talen's reportable segments are based upon the market areas in which our generation facilities operate and reflect the manner in which our chief operating decision makers review results and allocates resources. Adjusted EBITDA is the key profit metric used to measure financial performance of each segment. Total assets or other asset metrics are not considered a key metric or reviewed by the chief operating decision makers.

Our reportable segments are engaged in electricity generation, marketing activities, commodity risk and fuel management within their respective RTO or ISO markets. The segments include:

- **PJM** - a reportable segment that includes the operating and marketing activities within the PJM market. PJM is comprised of Susquehanna Nuclear and Talen's natural gas and coal generation facilities located within the PJM market; and

- **ERCOT and WECC** - a reportable segment that includes the operating and marketing activities within the ERCOT market for the operations of the Talen Texas power generation facilities, and the operating and marketing activities for Talen Montana's proportionate share of the Colstrip Units. We have determined it appropriate to aggregate results from these markets into one reportable segment, based on a combination of size and economic characteristics.

Corporate, Development, and Other, or CD&O, represents the remaining non-segment grouping that includes: (i) General and administrative expenses incurred by our corporate and commercial functions that are not allocated to our reportable segments; (ii) the development activities of Cumulus Growth; (iii) the development and operating activities of Cumulus Digital; (iv) other non-material components that are not regularly reviewed by our chief operating decision makers; and (v) intercompany eliminations. This grouping is presented to reconcile the reportable segments to our consolidated results.

Financial data for the segments and reconciliation to consolidated results are:

	May 18, 2023 through December 31, 2023 (Successor)			
	PJM	ERCOT and WECC	Corporate, Development, and Other	Total
Operating revenues	$ 1,114	$ 241	$ (11)	$ 1,344
Interest expense	—	—	176	176
Capital expenditures	111	17	33	161
Adjusted EBITDA	376	78		454

	January 1, 2023 through May 17, 2023 (Predecessor)			
	PJM	ERCOT and WECC	Corporate, Development, and Other	Total
Operating revenues	$ 1,052	$ 149	$ 9	$ 1,210
Interest expense	—	—	163	163
Capital expenditures	131	4	52	187
Adjusted EBITDA	687	31		718

	Year Ended December 31, 2022 (Predecessor)			
	PJM	ERCOT and WECC	Corporate, Development, and Other	Total
Operating revenues	$ 2,867	$ 313	$ (91)	$ 3,089
Interest expense	—	—	359	359
Capital expenditures	237	10	65	312
Adjusted EBITDA	964	105		1,069

	Year Ended December 31, 2021 (Predecessor)			
	PJM	ERCOT and WECC	Corporate, Development, and Other	Total
Operating revenues	$ 813	$ 109	$ 6	$ 928
Interest expense	—	—	325	325
Capital expenditures	166	21	37	224
Adjusted EBITDA	372	61		433

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Adjusted EBITDA:				
PJM	$ 376	$ 687	$ 964	$ 372
ERCOT and WECC	78	31	105	61
Total Adjusted EBITDA	**$ 454**	**$ 718**	**$ 1,069**	**$ 433**
Reconciling Items:				
Bankruptcy, Liability Management and Restructuring Activities	$ (48)	$ 782	$ (1,538)	$ (42)
Interest expense and other finance charges	(181)	(163)	(365)	(336)
Income tax benefit (expense)	(51)	(212)	35	300
Depreciation, amortization and accretion	(165)	(200)	(520)	(524)
Nuclear fuel amortization	(108)	(33)	(94)	(96)
Unrealized (gain) loss on commodity derivative contracts	52	(63)	625	(712)
Nuclear decommissioning trust funds gain (loss), net	108	57	(184)	196
Gain (loss) on non-core asset sales, net	7	50	3	3
Legal settlements and litigation costs	84	(1)	(20)	(8)
Unusual market events	19	(14)	(33)	(78)
Impairments, canceled projects, inventory net realizable value and obsolescence, and receivables allowance	(7)	(437)	4	(24)
Consolidation of subsidiary gain (loss), net	—	—	(170)	—
Corporate, development and other	(21)	(19)	(105)	(89)
Net Income (Loss)	**$ 143**	**$ 465**	**$ (1,293)**	**$ (977)**

24. Subsequent Events

TEC evaluated subsequent events through March 14, 2024, the date the financial statements are available to be issued; all significant subsequent events are included in their respective notes to the financial statements.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (UNAUDITED)

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Interim Financial Statements, the Annual Financial Statements, and their accompanying notes. In addition, the following discussion contains forward-looking statements, which involve risks and uncertainties. See "Forward-Looking Statements and Significant Business Risks" for additional information on forward-looking statements. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

Overview

Talen owns and operates power infrastructure in the United States. We produce and sell electricity, capacity and ancillary services into wholesale power markets in the United States, primarily in PJM, ERCOT and WECC, with our generation fleet principally located in the Mid-Atlantic, Texas and Montana. While the majority of our generation is already produced at zero-carbon nuclear and lower-carbon gas-fired facilities, we are reducing the carbon profile of our fleet through conversions and retirements of wholly-owned coal facilities. In addition, we are developing a hyperscale data center campus adjacent to our zero-carbon Susquehanna nuclear facility that will utilize carbon-free, low-cost energy provided directly from the plant. Consistent with our risk management initiatives, we may execute physical and financial commodity transactions involving power, natural gas, nuclear fuel, oil and coal to economically hedge and optimize our generation fleet. As of December 31, 2023, our generation capacity was 12,374 MW (summer rating). Talen is headquartered in Houston, Texas.

See "Organizational Structure" and "Generation Fleet" for additional information on our organization and generation portfolio.

Recent Developments

Orion Cumulus Digital Buyout

On March 11, 2024, TES acquired all of the equity units of Cumulus Digital Holdings held by affiliates of Orion in exchange for $36 million in cash. Following the transaction, TES owns 99.5% of the equity of Cumulus Digital Holdings, with the remaining 0.5% held by two former members of Talen senior management.

Data Center Campus Sale

On March 1, 2024, the Company completed its disposition of certain assets of Cumulus Data, which included our zero-carbon data center campus currently being developed adjacent to Susquehanna, to Amazon Data Services, Inc. for gross proceeds of $650 million, $300 million of which is to be held in escrow until the achievement of development milestones that are expected to be achieved in 2024. See Note 22 to the Annual Financial Statements for additional information.

PPL/Talen Montana Litigation Settlement

In December 2023, Talen reached a litigation settlement with PPL. Under the terms of the settlement agreement, PPL paid Talen Montana $115 million in cash in exchange for a full release of Talen Montana's claims against PPL. Separately, Talen Montana remitted $11 million of the PPL settlement proceeds to the general unsecured creditors trust that was established pursuant to the Plan of Reorganization. Accordingly, Talen Montana recognized a $104 million net gain presented as "Other non-operating income (expense), net" on the Consolidated Statements of Operations. See Note 12 in Notes to the Annual Financial Statements for additional information.

Share Repurchase Program

In October 2023, the Board of Directors approved a share repurchase program authorizing the Company to repurchase up to $300 million of the Company's outstanding common stock through December 31, 2025. In January

2024, the Company repurchased 225,000 shares of common stock with an aggregate purchase price of $14 million. See Note 16 in Notes to the Annual Financial Statements for additional information.

Riverstone Repurchase

In September 2023, TEC paid Riverstone $40 million in exchange for the cancellation of all of its TEC common stock warrants and a tax indemnity agreement, as well as waiving its future rights to the Retail PPA Incentive Equity. Also, in September 2023, TES and Orion purchased all of the Class A common units of Cumulus Digital Holdings held by Riverstone for an aggregate purchase price of $20 million, of which TES paid $19 million. See Note 16 in Notes to the Annual Financial Statements for additional information.

Emergence from Restructuring

In May 2022, Talen commenced a reorganization under Chapter 11 of the Bankruptcy Code to allow the Debtors to, among other things, strengthen their financial position and provide additional liquidity to fund their operations and protect their investments in certain energy transition projects.

The Plan of Reorganization became effective in May 2023. At Emergence, TES adopted “fresh start” accounting, which required our assets and liabilities to be remeasured at fair value. Such measurement affected the carrying value of our assets and liabilities, and by extension, the comparability of our financial statements between periods.

Through consummation of the Exit Financings and the Plan of Reorganization, we achieved a significant reduction in debt and interest, provided for full repayment of TES’s Prepetition Secured Indebtedness and completed the consensual equitization of all of TES’s Prepetition Unsecured Notes and PEDFA 2009A Bonds.

Upon Emergence, the Successor experienced an ownership change under Section 382 of the Internal Revenue Code. The Internal Revenue Code Sections 382 and 383 impose limitations on the ability of a company to utilize tax attributes after experiencing an ownership change. As a result, we have estimated our annual base limitation is approximately $72 million against the utilization of our loss carryforwards and other tax attributes. The Company can increase its annual Section 382 base limitation for the amount of recognized built-in gain (“RBIG”) pursuant to the application of Notice 2003-65. The additional deemed RBIG is approximately $859 million over a 5-year recognition period. States generally have similar tax attribute limitation rules following an ownership change.

See Notes 2, 3 and 4 in Notes to the Annual Financial Statements for additional information regarding the Restructuring. See “Liquidity and Capital Resources” for additional information on the Exit Financings and Note 13 in Notes to the Annual Financial Statements for additional information on Talen’s indebtedness.

Factors Affecting Our Financial Condition and Results of Operations

Earnings in future periods are subject to various uncertainties and risks. See “Forward-Looking Statements and Significant Business Risks” and Notes 5 and 12 in Notes to the Annual Financial Statements for additional information on our risks.

Generation Facility Updates

H.A. Wagner Deactivation. In October 2023, for economic reasons, the Company provided a notice to PJM to deactivate H.A. Wagner as of June 1, 2025. The coal-to-fuel oil conversion of H.A. Wagner Unit 3 was completed in December 2023 and will allow the generation facility to serve as a capacity resource until its deactivation. In January 2024, PJM notified Wagner that Units 3 and 4 are needed for reliability and Talen responded that it cannot agree to a Reliability-Must-Run arrangement due to various limitations and economic factors.

Montour Coal-to-Natural Gas Conversion. In August 2023, Montour completed its natural gas fuel conversion. Units 1 and 2 are now dispatchable on either coal or natural gas. Permanent retirement of coal at Montour is required by the end of 2025, with an earlier retirement at the Company’s election. Montour incurred aggregate conversion capital expenditures of $16 million from May 18 through December 31, 2023 (Successor), $40 million from January 1 through May 17, 2023 (Predecessor) and $90 million for the year ended December 31, 2022 (Predecessor).

Brandon Shores Fuel Conversion Cancellation, Planned Retirement, and Reliability Impact Assessment. In the first quarter 2023, due to increased project costs and declining PJM capacity revenues, management concluded that the lower return on investment to convert Brandon Shores' fuel source from coal to fuel oil no longer met Talen's investment criteria. In April 2023, Brandon Shores notified PJM that it will deactivate electric generation on June 1, 2025. Accordingly, an aggregate $379 million of non-cash, pre-tax charges was recognized for the period from January 1 through May 17, 2023 (Predecessor), including a $361 million charge for the generation facility and $18 million of net realizable value and obsolescence charges for materials and supplies inventories and coal inventories.

In June 2023, PJM notified Brandon Shores that the units were needed for reliability. Talen subsequently notified PJM that it does not agree to continue to operate Brandon Shores under a Reliability Must Run arrangement. Discussions with PJM are ongoing and may result in Brandon Shores continuing to operate for some period of time until transmission constraints hindering reliability are relieved by PJM. See Notes 8 and 10 in Notes to the Annual Financial Statements for additional information.

Unusual Market Events

Winter Storm Elliott. During December 2022, as a result of Winter Storm Elliott, PJM experienced extreme cold weather conditions that resulted in PJM's declaration of a Capacity Performance event requiring generators to operate at their maximum output capacity. Certain of Talen's generation facilities failed to meet the Capacity Performance requirements set forth by PJM, while Talen's remaining generation facilities met or exceeded their capacity obligations. Talen and certain other market participants filed complaints at FERC against PJM that disputed a portion of the Capacity Performance penalties assessed by PJM. In December 2023, FERC approved a market-wide settlement that resolved the disputes. Talen's final aggregate net penalty payments of $29 million were remitted during the period from May 18 through December 31, 2023 (Successor) and the period from January 1 through May 17, 2023. See Note 12 in Notes to the Annual Financial Statements for additional information.

Commodity Markets

The following tables summarize average on-peak power prices and natural gas prices for each of the major markets in which Talen operates for the years ended December 31, 2023, 2022 and 2021. During 2023, despite higher power generation from natural gas generation sources, natural gas prices for Texas Eastern M-3 and Houston Ship Channel settled below each of their ten-year averages as a result of increased natural gas production and natural gas held in storage. In PJM, reduced power demand and significantly lower natural gas prices during 2023 as a result of milder temperatures throughout the year contributed to decreased on-peak power prices. In ERCOT, increased demand resulting from seasonally above-average temperatures during the third quarter of 2023 contributed to higher annual average on-peak power prices and generation in the region.

PJM. The average settled market prices for the years ended December 31 were:

	2023	2022	2021
PJM West Hub Day Ahead Peak - $/MWh	$ 39.22	$ 83.59	$ 45.55
PJM PL Zone Day Ahead Peak - $/MWh	29.59	76.06	40.30
PJM BGE Zone Day Ahead Peak - $/MWh	45.80	95.45	51.43
Texas Eastern M-3 - $/MMBtu	1.90	6.80	3.40

The average January and February forward market prices as of December 31 were:

	2023	2022
2024 PJM West Hub Day Ahead Peak - $/MWh	$ 48.23	$ 108.57
2025 PJM West Hub Day Ahead Peak - $/MWh	58.36	99.00
2024 Texas Eastern M-3 - $/MMBtu	3.98	12.40
2025 Texas Eastern M-3 - $/MMBtu	5.59	10.05

The PJM West Hub Day Ahead Peak 2023 calendar year average settled prices declined approximately 53% compared to the prior year.

The PJM West Hub 2024 and 2025 January and February average on-peak forward prices decreased approximately 56% and 41%, respectively, compared to the prior year.

ERCOT. The average settled market prices for the years ended December 31 were:

	2023	2022	2021
ERCOT South Hub Day Ahead Peak - $/MWh	$ 77.14	$ 74.92	$ 178.33
ERCOT South Hub Day Ahead Spark Spreads - $/MWh[a]	61.73	34.16	124.70
Houston Ship Channel - $/MMBtu	2.20	5.81	7.59

(a) Spark Spreads are computed based on a heat rate of 7 MMBtu/MWh.

The 2021 average settled prices in the preceding table include the effects of Winter Storm Uri. Excluding the effects of Winter Storm Uri: (i) ERCOT South Hub Day Ahead Peak power settled at $40.90/MWh; (ii) ERCOT South HUB Day Ahead Spark Spreads settled at $3.62/MWh; and (iii) Houston Ship Channel settled at $15.63/MMBtu.

The average July and August forward market prices as of December 31 were:

	2023	2022
2024 ERCOT South Hub Real Time Spark Spreads - $/MWh [a]	$ 99.57	$ 53.28
2025 ERCOT South Hub Real Time Spark Spreads - $/MWh [a]	66.33	39.74

(a) Spark Spreads are computed based on a heat rate of 7 MMBtu/MWh.

The ERCOT South Hub Day Ahead Spark Spreads 2023 calendar year average settled prices increased approximately 81% compared to the prior year.

The ERCOT South Hub 2024 and 2025 July and August average on-peak forward spark spreads prices increased approximately 87% and 67%, respectively, compared to the prior year.

WECC. The average settled market prices for the years ended December 31 were:

	2023	2022	2021
Mid-Columbia Day Ahead Peak - $/MWh	$ 85.56	$ 93.01	$ 58.38
Sumas - $/MMBtu	4.21	8.12	3.96

The average third quarter forward market prices as of December 31 were:

	2023	2022
2024 Mid-Columbia Day Ahead Peak - $/MWh	$ 164.00	$ 165.86
2025 Mid-Columbia Day Ahead Peak - $/MWh	149.13	161.79

The Mid-Columbia Day Ahead Peak 2023 calendar year average settled prices decreased approximately 8% compared to the prior year.

The Mid-Columbia 2024 and 2025 third quarter average on-peak forward prices decreased approximately 1% and 8%, respectively, compared to the prior year.

Capacity Market

Approximately 84% of our generation capacity is located in markets with capacity products, which are intended to ensure long-term grid reliability for customers by securing sufficient power supply resources to meet predicted future demand. Capacity prices are affected by supply and demand fundamentals, such as generation facility additions and retirements, capacity imports from and exports to adjacent markets, generation facility retrofit costs, non-performance risk premium penalties, demand response products, ISO demand forecasts, reserve margin targets and adjustments to PJM MSOC as determined by the PJM IMM.

PJM Capacity Auctions. Under the RPM, PJM conducts a series of capacity auctions. Most capacity is procured in the auctions conducted each May for the delivery of generation capacity for the PJM Capacity Year, which is three years from the date of the auction. Capacity auctions have recently been delayed, resulting in the auctions being held with less than 3 years between the auctions and the PJM Capacity Year. The capacity market construct provides generation owners the opportunity for some revenue visibility on a multiyear basis. The results of each of these auctions impacts Talen's capacity revenues in the specific PJM Capacity Year.

See “Capacity Prices” below for additional information on capacity prices and see Note 12 in Notes to the Annual Financial Statements for additional information on the PJM RPM and other PJM matters.

Capacity Prices. The following table displays the PJM Base Residual Auction’s cleared capacity prices for the markets and zones in which we primarily operate as of December 31, 2023:

	2024/2025	2023/2024	2022/2023	2021/2022
PJM Capacity Performance ($/MW-day) [(a)]				
MAAC	$ 49.49	$ 49.49	$ 95.79	$ 140.00
PPL	49.49	49.49	95.79	140.00
BGE	73.00	69.95	126.50	200.30
PSEG	54.95	49.49	97.86	204.29

(a) Displayed prices are from the applicable market publications.

Nuclear Production Tax Credit

The Inflation Reduction Act of 2022 was signed into law in August 2022. Among the Act’s provisions are amendments to the Internal Revenue Code to create a nuclear production tax credit program.

The nuclear production tax credit program provides qualified nuclear power generation facilities with a $3 per MWh transferable credit for electricity produced and sold to an unrelated party during each tax year. Electricity produced and sold by Susquehanna Nuclear after December 31, 2023 through December 31, 2032 will qualify for the credit, which is subject to potential adjustments. Such adjustments include inflation escalators, a five-times increase in tax credit value (to $15 per MWh) if the qualifying generation facility meets prevailing wage requirements, and a pro-rata decrease in tax credit value once the annual gross receipts of a qualifying generation facility exceeds $25 per MWh. As the credit is eliminated when the annual gross receipts are equivalent to $43.75 per MWh (adjusted for inflation), the nuclear production tax credit program is expected to create a minimum price e Susquehanna Nuclear is expected to receive for its generation. Susquehanna Nuclear generated approximately 18 million MWh in each of the calendar years 2023, 2022 and 2021.

The credit would be:

Annual Gross Receipts	Credit Amount
$25 per MWh or less	$15 per MWh
Greater than $25 per MWh	Ratably reduced until gross receipts equal $43.75 per MWh, $0 after that threshold

The Inflation Reduction Act's provisions are subject to implementation regulations, whose terms are not yet known. No assurance can be provided as to the magnitude of the benefit to Susquehanna Nuclear as the Inflation Reduction Act's provisions, including the computations of the nuclear production tax credit, are subject to implementation regulations. As such, Talen cannot fully predict the realization of any minimum price for Susquehanna's Nuclear generation and (or) impacts to Talen's liquidity or results of operations. See Note 7 to the Audited Financial Statements for additional information on the Inflation Reduction Act.

Seasonality/Scheduled Maintenance

The demand for and market prices of electricity and natural gas are affected by weather. As a result, our operating results in the future may fluctuate substantially on a seasonal basis. For example, a lack of sustained cold weather in the Mid-Atlantic region may suppress regional natural gas prices and reduce our future capacity and energy revenues. Alternatively, above-average temperatures in the summer tend to increase summer cooling electricity demand, energy prices and revenues, and below-average temperatures in the winter tend to increase winter heating electricity demand, energy prices and revenues. Inversely, the milder weather during spring and fall tend to decrease the need for both cooling electricity demand and heating electricity demand. In addition, our operating expenses typically fluctuate geographically on a seasonal basis, with peak power generation during the winter in the Mid-Atlantic region and during the summer in Texas.

We ordinarily perform facility maintenance during lower or non-peak demand periods to ensure reliability during periods of peak usage. The pattern of the fluctuations in our operating results varies depending on the type and location of the power generation facilities being serviced, capacity markets served, the maintenance requirements of our facilities and the terms of bilateral contracts to purchase or sell electricity. The largest and recurring maintenance project is the annual spring refueling outage at Susquehanna. The outages normally occur during late March and into April each year. Susquehanna Unit 2 entered its spring refueling outage on March 20, 2023 and successfully completed the outage on April 24, 2023.

Results of Operations

The results of operations presented below should be reviewed in conjunction with the Annual Financial Statements and the respective notes. Our financial results for the period January 1 through May 17, 2023, and for the years ended December 31, 2022 and 2021, are referred to as the "Predecessor" periods. Our financial results for the period from May 18 through December 31, 2023 is referred to as the "Successor" period. The operating results of May 18 through December 31, 2023 cannot be adequately compared with any of the previous periods reported in the Annual Financial Statements. Our results of operations as reported in the Annual Financial Statements are prepared in accordance with GAAP.

In the explanations below, "Energy and other revenues" and "Fuel and energy purchases" are evaluated collectively because the price for power is generally determined by the variable operating cost of the next marginal generator dispatched to meet demand. Energy revenues relate to sales to an ISO or RTO, sales under wholesale bilateral contracts or realized hedging activity. Fuel and energy purchases includes costs for fuel to generate electricity and settlements of financial and physical transactions related to fuel and energy purchases.

In addition, unrealized gains (losses) on derivatives instruments resulting from changes in fair value during the period and are presented separately as revenues within "Operating Revenues" and expenses within "Total Energy Expenses" in the Annual Financial Statements. We evaluate them collectively because they represent the changes in fair value of Talen's economic hedging activities.

Results for the period from May 18 through December 31, 2023 (Successor), the period from January 1 through May 17, 2023, and the years ended December 31, 2022 and December 31, 2021 (Predecessor)

The following table and subsequent sections display the results of operations for the Successor and Predecessor periods:

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Capacity revenues	$ 133	$ 108	$ 377	$ 444
Energy and other revenues	1,156	1,042	2,035	1,331
Unrealized gain (loss) on derivative instruments	55	60	677	(847)
Operating Revenues	**1,344**	**1,210**	**3,089**	**928**
Energy Expenses				
Fuel and energy purchases	(424)	(176)	(938)	(856)
Nuclear fuel amortization	(108)	(33)	(94)	(96)
Unrealized gain (loss) on derivative instruments	(3)	(123)	(52)	135
Total Energy Expenses	**(535)**	**(332)**	**(1,084)**	**(817)**
Operating Expenses				
Operation, maintenance and development	(358)	(285)	(610)	(584)
General and administrative	(93)	(51)	(106)	(88)
Depreciation, amortization and accretion	(165)	(200)	(520)	(524)
Impairments	(3)	(381)	—	—
Operational restructuring	—	—	(488)	—
Other operating income (expense), net	(30)	(37)	(40)	(15)
Operating Income (Loss)	**160**	**(76)**	**241**	**(1,100)**
Nuclear decommissioning trust funds gain (loss), net	108	57	(184)	196
Interest expense and other finance charges	(176)	(163)	(359)	(325)
Consolidation of subsidiary gain (loss)	—	—	(170)	—
Reorganization income (expense), net	—	799	(812)	—
Other non-operating income (expense), net	102	60	(44)	(48)
Income (Loss) Before Income Taxes	**194**	**677**	**(1,328)**	**(1,277)**
Income tax benefit (expense)	(51)	(212)	35	300
Net Income (Loss)	**143**	**465**	**(1,293)**	**(977)**
Less: Net income (loss) attributable to noncontrolling interest	9	(14)	(4)	—
Net Income (Loss) Attributable to Stockholders (Successor) / Member (Predecessor)	**$ 134**	**$ 479**	**$ (1,289)**	**$ (977)**

Successor Period — May 18, 2023 through December 31, 2023

Net Income (Loss) Attributable to Members totaled $134 million for the period of May 18, 2023 through December 31, 2023 (Successor). Results were driven by:

- *Capacity Revenues* totaled $133 million. This primarily included earned capacity awards based on resource clearing prices received from the PJM Base Residual Auction for the 2023/2024 delivery period. Capacity revenues were positively impacted by $19 million, as a result of the FERC approved settlement agreement for net PJM capacity penalties assessed related to the 2022 Winter Storm Elliot. See Note 12 in Notes to the Annual Financial Statements for additional information on PJM capacity penalties.

- *Energy and Other Revenues, net of Fuel and Energy Purchases*, totaled $732 million. This consisted of: (i) $950 million in third-party wholesale electricity sales and ancillary revenues; (ii) $81 million in other revenue primarily related to Nautilus operations; and (iii) $33 million in net realized gains from hedging activities. Such amounts were partially offset by $(328) million in fuel and purchased power costs.

- *Unrealized Gain (Loss) on Derivative Instruments* totaled $52 million gain, net. This consisted of: (i) unrealized gains incurred as a result of decreases in forward power prices; and (ii) unrealized gains from the reversal of positions previously recognized as mark-to-market liabilities which settled during the period.

- *Nuclear Fuel Amortization* totaled $(108) million. This consisted of the periodic expense of nuclear fuel costs capitalized as property, plant and equipment. Activity also included $(53) million of amortization on certain nuclear fuel contracts that were recognized at fair value at Emergence. See Note 4 in Notes to the Annual Financial Statements for additional information.

- *Operation, Maintenance, and Development* totaled $(358) million. This consisted of generation facility operating costs, including wages and benefits for employees, the costs of removal, repairs and maintenance that are not capitalized, contractor costs, and certain materials and supplies.

- *Depreciation, Amortization and Accretion* totaled $(165) million. This consisted of the periodic expense of long-lived property, plant and equipment and ARO accretion.

- *Nuclear Decommissioning Trust Funds Gain (Loss), net*, totaled $108 million. This consisted of realized and unrealized gains on equity securities, dividends, and interest income on investments in the NDT. See Notes 9 and 14 in Notes to the Annual Financial Statements for additional information.

- *Interest Expense and Other Finance Charges* totaled $(176) million. This primarily consisted of interest expense incurred on the Secured Notes, Term Loans and LMBE-MC TLB.

- *Other Non-operating Income (Expense), net*, totaled $102 million. This primarily consisted of the gain on the PPL/Talen Montana litigation settlement. See Note 12 in Notes to the Annual Financial Statements for additional information.

Predecessor Period — January 1, 2023 through May 17, 2023

Net Income (Loss) Attributable to Members totaled $479 million for the period from January 1, 2023 through May 17, 2023 (Predecessor). Results were driven by:

- *Capacity Revenues* totaled $108 million. This primarily included earned capacity awards based on resource clearing prices received from the PJM Base Residual Auction for the 2022/2023 delivery period. Capacity revenues were negatively impacted by $13 million of net PJM capacity penalties related to the 2022 Winter Storm Elliot. See Note 12 in Notes to the Annual Financial Statements for additional information on PJM capacity penalties.

- *Energy and Other Revenues, net of Fuel and Energy Purchases*, totaled $866 million. This consisted of: (i) $637 million in net realized gains from hedging activities; (ii) $343 million in third-party wholesale electricity sales and ancillary revenues; and (iii) $27 million in other revenue primarily related to Nautilus operations. Such amounts were partially offset by $(141) million in fuel and purchased power costs.

- *Unrealized Gain (Loss) on Derivative Instruments* totaled $(63) million loss, net. This consisted of: (i) unrealized losses from the reversal of positions previously recognized as mark-to-market assets which settled during the period; and (ii) unrealized gains incurred as a result of decreases in forward power prices.

- *Operation, Maintenance, and Development* totaled $(285) million. This consisted of generation facility operating costs, including wages and benefits for employees, the costs of removal, repairs and maintenance that are not capitalized, contractor costs, and certain materials and supplies.

- *Depreciation, Amortization and Accretion* totaled $(200) million. This consisted of the periodic expense of long-lived property, plant and equipment, and ARO accretion.

- *Impairments* totaled $(381) million. This primarily consisted of the Brandon Shores asset group impairment. See Note 10 in Notes to the Annual Financial Statements for additional information.

- *Nuclear Decommissioning Trust Funds Gain (Loss), net*, totaled $57 million. This consisted of realized and unrealized gains on equity securities, dividends, and interest income on investments in the NDT. See Notes 9 and 14 in Notes to the Annual Financial Statements for additional information.

- *Interest Expense and Other Finance Charges* totaled $(163) million. This primarily consisted of interest expense incurred on the Prepetition Secured Notes, Prepetition RCF, Prepetition TLB, LMBE-MC TLB and certain LC fees.

- *Reorganization Income (Expense), net*, totaled $799 million. This primarily consisted of: (i) $1,459 million gain on debt discharge recognized upon Emergence; and (ii) $460 million loss on revaluation adjustments. See Note 4 in Notes to the Annual Financial Statements for additional information.

- *Other Non-operating Income (Expense), net*, totaled $60 million. This primarily consisted of non-recurring sales during the period. See Note 22 in Notes to the Annual Financial Statements for additional information.

- *Income Tax Benefit (Expense)* totaled $(212) million. This primarily consisted of federal/state income taxes, reorganization adjustments, and changes in the valuation allowance. See Note 7 in Notes to the Annual Financial Statements for additional information.

Predecessor Periods — Year Ended December 31, 2022 vs Year Ended December 31, 2021

- *Capacity Revenues.* $(67) million unfavorable decrease. This primarily consisted of: (i) $(34) million due to lower cleared capacity prices and less MWs cleared through PJM's capacity auction for 2022/2023 PJM Capacity Year compared to the 2021/2022 PJM Capacity Year and partially offset by higher cleared capacity prices and additional MWs cleared in PJM's base capacity auction for the 2021/2022 compared to the 2020/2021 PJM Capacity year; and (ii) $(33) million decrease primarily due to a net PJM capacity penalty related to the 2022 Winter Storm Elliot extreme weather event.

- *Energy and Other Revenues, net of Fuel and Energy Purchases*. $622 million favorable increase. This consisted of: (i) $1 billion increase in margin associated with electric generation resulting from higher realized prices received at our generation facilities partially offset by lower generation volumes; (ii) $(357) million decrease in realized hedges; (iii) $(157) million decrease from losses incurred on early terminated commodity contract agreements; and (iv) $78 million increase due to losses incurred as a result of Winter Storm Uri in 2021.

- Unrealized *Gain (Loss) on Derivative Instruments.* $1.3 billion favorable increase. This consisted of: (i) unrealized gains from the reversal of positions previously recognized as mark-to-market liabilities which settled during the period; and (ii) unrealized gains incurred as a result of decreases in forward power prices.

- *Operation, Maintenance and Development*. $(26) million unfavorable increase. This consisted of: (i) higher operation expense in 2022 throughout PJM due to employee retention payments and an increase in short-term incentive compensation in 2022; and (ii) higher operation and maintenance expense primarily at Susquehanna due to an increase in the cost of material and chemicals, higher utilities, and disposal costs.

- *Operational Restructuring*. $(488) million charge recognized in 2022. This consisted of: (i) $(453) million within PJM, primarily for the charge related to Talen Energy Marketing retail power contracts that were rejected in connection with the Restructuring; and (ii) $(35) million within ERCOT primarily due to the charges for long-term service agreements that were rejected in connection with the Restructuring See Note 3 in Notes to the Annual Financial Statements for additional information on the Restructuring.

- *Other Operating Income (Expense), net*. $(25) million unfavorable increase. This primarily consisted of an increase in expense within PJM for environmental obligation revisions and accrued legal settlements for the Kinder Morgan litigation. See Note 12 in Notes to the Annual Financial Statements for additional information.

- *Nuclear Decommissioning Trust Funds Gain (Loss), net*. $(380) million unfavorable decrease. This consisted of: (i) unrealized losses primarily due to inflation, geopolitics, and rising interest rates weighing on the equity markets in 2022 compared to favorable equity market conditions in 2021; and (ii) an unfavorable change due to realized gains recognized in 2021 as a result of asset portfolio re-balancing activities.

- *Interest Expense and Other Finance Charges*. $(34) million unfavorable increase. This primarily consisted of: interest expense incurred on the Prepetition RCF, DIP TLB, and affiliate borrowing by Montana from TEM.

- *Consolidation of Subsidiary Gain (Loss), net*. $(170) million unfavorable decrease. This consisted of losses recognized from the consolidation of Cumulus Digital Holdings due to a change of control. See Note 2 in Notes to the Annual Financial Statements for additional information.

- *Reorganization income (expense), net*. $(812) million unfavorable increase. This primarily consisted of: (i) $(310) million for Backstop Premiums; (ii) $(210) million for Restructuring professional fees; (iii) $(183) million for make-whole premiums and accrued interest on certain indebtedness; (iv) $(70) million for professional fees incurred to obtain the DIP Credit Agreements; and (v) $(30) million for the write-off of the aggregate prepetition debt issuance cost carrying value.

- *Income tax benefit (expense).* $(265) million unfavorable decrease. This primarily consisted of: (i) $(198) million increase in valuation allowance expense; (ii) $(94) million increase in unfavorable permanent differences; and (iii) $(53) million decrease in federal and state tax benefit due to change in pre-tax book income; partially offset by: (i) $56 million decrease in NDT tax expense; and (ii) $24 million favorable remeasurement of deferred taxes related to a change in the Pennsylvania state rate.

Liquidity and Capital Resources

Our liquidity and capital requirements are generally a function of: (i) debt service requirements; (ii) capital expenditures; (iii) maintenance activities; (iv) liquidity requirements for our commercial and hedging activities, including cash collateral and other forms of credit support; (v) legacy environmental obligations; and (vi) other working capital requirements.

Our primary sources of liquidity and capital include available cash deposits, cash flows from operations, amounts available under our debt facilities and incremental financing proceeds. Generating sufficient cash flows for our business is primarily dependent on capacity revenue, the production and sale of power at margins sufficient to cover fixed and variable expenses, hedging and optimization strategies to manage price risk exposure, and the ability to access a wide range of capital market financing options.

Our hedging strategy is focused on establishing appropriate risk tolerances with an emphasis on protecting cash flows across our generation fleet. Our strong balance sheet provides ample capacity and counterparty appetite for lien-based hedging, which does not require cash collateral posting. Specifically, our hedging strategy prioritizes a first lien-based hedging program in which hedging counterparties are granted a lien in the same collateral securing our first-lien debt obligations. This strategy limits the use of exchange-based hedging and the associated margin requirements, which helps minimize collateral positing requirements. Additionally, there are lower overall hedging needs given the cash-flow stability afforded by the Nuclear PTC and significantly reduced debt service requirements.

We are partially exposed to financial risks arising from natural business exposures including commodity price and interest rate volatility. Within the bounds of our risk management program and policies, we use a variety of derivative instruments to enhance the stability of future cash flows to maintain sufficient financial resources for working capital, debt service, capital expenditures, debt covenant compliance and (or) other needs.

In August 2023, we incurred an additional $290 million in aggregate principal amount of the TLB, resulting in proceeds of $285 million, net of original issue discount and other fees. The additional amount, issued as an additional borrowing under the TLB, constitutes a single series of indebtedness with the existing TLB incurred at Emergence. The proceeds of TES's new debt issuance, together with approximately $12 million of cash on hand at LMBE-MC, were used to fully repay an aggregate $297 million comprised of outstanding principal, accrued interest, and LC Fees. The LMBE-MC Credit Agreement along with an aggregate $12 million of outstanding LCs issued under the agreement were terminated at settlement. See Note 13 for additional information on the LMBE-MC Credit Agreement termination.

In May 2023, effective with Talen's Emergence, Talen completed several secured financing transactions including the issuance of: (i) $1.2 billion aggregate principal of Secured Notes, due 2030; and (ii) approximately $1.1 billion Term Loans, due 2030. See "Indebtedness-Exit Financings" below for additional information. This included settling claims under the Plan of Reorganization such as the cash settlement of the following recourse long-term debt and revolver facility outstanding cash borrowings: DIP TLB; Prepetition TLB; Prepetition Secured Notes; and the Prepetition CAF and the settlement of Prepetition Unsecured Notes and PEDFA 2009A Bonds through the issuance of our common stock. Proceeds from the TLC were initially used to collateralize letters of credit.

See Notes 3, 5, 11 and 20 in Notes to the Annual Financial Statements for additional information regarding various liquidity topics discussed below.

Talen Liquidity

	Successor		Predecessor	
	December 31, 2023		December 31, 2022	
Cash and cash equivalents, unrestricted	$	400	$	724
RCF		638		—
DIP RCF [(a)]		—		267
Available liquidity	**$**	**1,038**	**$**	**991**

(a) Extinguished at Emergence in May 2023. See Note 13 in Notes to the Annual Financial Statements for additional information.

Based on current and anticipated levels of operations, industry conditions and market environments in which we transact, we believe available liquidity from financing activities, cash on hand and cash flows from operations (including changes in working capital) will be adequate to meet working capital, debt service, capital expenditures and (or) other future requirements for the next twelve months and beyond.

Financial Performance Assurances

	Successor		Predecessor	
	December 31, 2023		December 31, 2022	
Outstanding surety bonds	$	240	$	248

TES has provided financial performance assurances in the form of surety bonds to third parties on behalf of certain subsidiaries for obligations including, but not limited to, environmental obligations and AROs. Surety bond providers generally have the right to request additional collateral to backstop surety bonds.

Forecasted Uses of Cash

Capital Expenditures and Development Funding. Capital expenditure plans and funding requirements for development activities are revised periodically for changes in operational needs, market conditions, regulatory requirements and cost projections. Accordingly, the expected cash requirements for these projects are subject to revision.

	2024		2025	
Generation facilities				
Nuclear fuel	$	88	$	113
PJM nuclear generation facility		31		50
PJM fossil generation facilities		34		32
ERCOT and WECC		27		28
Total generation facilities [(a)]	**$**	**180**	**$**	**223**
Fuel conversion and other [(b)]		10		—
Total	**$**	**190**	**$**	**223**

(a) Expected capitalized interest on capital expenditures is a non-material amount in 2024 and 2025.
(b) Primarily for expected settlements for work completed in 2023. See “Montour Coal-to-Natural Gas Conversion” above for information.

Projected ARO and Accrued Environmental Liability Cash Flows

We have significant legal obligations related to our ARO and accrued environmental liabilities. Our undiscounted projected spending on AROs and accrued environmental liabilities is presented in the table below. The majority of the estimated non-nuclear spend is related to ash impoundments at Colstrip and Brunner Island. The carrying value of these obligations include certain assumptions, including a rate of inflation of approximately 2.5%. Projections are subject to revision based on changes in estimated inflation rates, changes in the estimated timing of settling AROs and escalating retirement costs. Susquehanna Nuclear's AROs are expected to be settled with funds available in the NDT at the time of decommissioning. See Note 11 for additional information.

(in millions)	2024	2025	2026	2027	2028	Thereafter
Non-nuclear AROs [(a)]	16	47	69	55	50	319
Accrued environmental liabilities	4	4	6	3	3	14

(a) Certain obligations are: (i) partially supported by surety bonds, some of which have been collateralized with cash and (or) LCs; or (ii) partially prefunded under phased installment agreements.

Indebtedness

Exit Financings. In May 2023, as part of the Exit Financings, Talen consummated several secured financings, the proceeds of which, together with proceeds from the Rights Offering and cash on hand, were used to fund the settlement of the transactions and claims contemplated by the Plan of Reorganization and to provide liquidity and working capital for Talen's business following Emergence. The Exit Financings included the:

- Secured Notes, due 2030, in an aggregate principal amount of $1.2 billion;
- RCF, due 2028, a $700 million revolving credit facility, including LC commitments of $475 million;
- TLB, due 2030, in an aggregate principal amount of $580 million (and subsequently increased to $870 million in August 2023);
- TLC, due 2030, in an aggregate principal amount of $470 million, the proceeds of which are used to cash collateralize LCs under the TLC LCF;
- TLC LCF, which provides commitments for up to $470 million in LCs, cash collateralized with the proceeds of the TLC, and reduced to the extent that borrowings under the TLC are prepaid; and
- Bilateral LCF, which provides commitments for up to $75 million in LCs.

See Note 13 in the Annual Financial Statements for additional information on our indebtedness.

Cash Flow Activities

The net cash provided by (used in) operating, investing and financing activities for the Successor period from May 18, 2023 through December 31, 2023 and Predecessor periods from January 1, 2023 through May 17, 2023 and the years ended December 31, 2022 and 2021 were:

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Operating activities	$ 402	$ 462	$ 187	$ (294)
Investing activities	(171)	(157)	(368)	(280)
Financing activities	(84)	(539)	426	956

Successor Period — May 18, 2023 through December 31, 2023

- *Operating Cash Flows.* Cash provided by operating activities totaled $402 million. This primarily consisted of: (i) cash provided from operations; and (ii) the net receipt of $104 million, related to the settlement of the PPL litigation.
- *Investing Cash Flows.* Cash (used in) investing activities totaled $(171) million. Capital expenditures, including those for nuclear fuel, totaled $(161) million and primarily consisted of: (i) $(116) million for capital projects including the Montour fuel conversion and projects at Cumulus Data; and (ii) $(45) million for nuclear-fuel expenditures.
- *Financing Cash Flows.* Cash (used) by financing activities totaled $(84) million. This primarily consisted of $(59) million for payments to Riverstone to settle warrants and to repurchase Riverstone's noncontrolling interest in Cumulus Digital Holdings. See Note 16 in Notes to the Annual Financial Statements for additional information on these transactions.

Predecessor Period — January 1, 2023 through May 17, 2023

- *Operating Cash Flows.* Cash provided by operating activities totaled $462 million. This consisted of cash provided from the operations of the Company, including declines in accounts receivable, partially offset by payments made for accrued interest and other claims at Emergence.
- *Investing Cash Flows.* Cash (used in) investing activities totaled $(157) million. This primarily consisted of capital expenditures offset by $46 million in proceeds from the sale of non-core assets. Capital expenditures, including those for nuclear fuel, totaled $(187) million and consisted of: (i) $(138) million for capital projects including the Montour fuel conversion, growth projects at Cumulus Data and Nautilus, and Susquehanna activities; and (ii) $(49) million for nuclear-fuel expenditures. See Note 22 in Notes to the Annual Financial Statements for additional information on the sales.
- *Financing Cash Flows.* Cash (used in) financing activities totaled $(539) million. This consisted of $(1.9) billion net cash outflow due to the net effect of issuances and repayments of Prepetition Secured Indebtedness and make-whole premiums partially offset by $1.4 billion of cash contributions from the Rights Offering. See Note 3 in Notes to the Annual Financial Statements for additional information.

Predecessor Periods — Year Ended December 31, 2022 vs Year Ended December 31, 2021

Operating Cash Flows. Cash (used by) operating activities increased by $481 million. This consisted of:

		Change
Energy and Other Revenues, net of Fuel and Energy Purchases between periods (See “Results of Operations”)	$	622
Increase in cash collateral deposits paid to counterparties		(50)
Overall lower recourse interest payments due to stayed interest payments during the Restructuring partially offset in increases of interest paid on the Talen Commodity Accordion RCF issued in December 2021and on the DIP TLB issued in May 2022)		35
Lower capacity payments between periods (See “Results of Operations”)		(67)
Higher operation and maintenance expenditures between periods (See “Results of Operations”)		(26)
Other changes in cash provided by (used in) operating activities		(33)
Total	**$**	**481**

Investing Cash Flows. Cash provided by (used in) investing activities had an unfavorable increase of $88 million. This consisted of:

		Change
Higher contributions to equity method and preferred equity investments.	$	(97)
Higher capital expenditures between periods for the Montour fuel conversion		(87)
Higher capital expenditures between periods on the renewable, battery and digital infrastructure growth projects		(22)
Increase in cash and restricted cash due to consolidation of affiliate subsidiaries, TRF and Cumulus Digital Holdings		123
Other changes in cash provided by (used in) investing activities		(5)
Total	**$**	**(88)**

In September 2022, TES consolidated Cumulus Digital Holdings. In the preceding table: (i) amounts contributed by TES for Cumulus Digital Holdings projects before consolidation of Cumulus Digital Holdings are displayed as changes in equity method and preferred equity investment contributions; and (ii) amounts incurred by Cumulus Digital Holdings for growth projects after consolidation of Cumulus Digital Holdings are displayed as changes in growth capital expenditures.

Financing Cash Flows. Cash provided by (used in) financing activities had an unfavorable decrease of $(530) million. This consisted of:

		Change
Proceeds, net of premium paid on Talen Commodity Accordion RCF in 2021	$	(827)
Net proceeds and repayments of the Prepetition Deferred Capacity Obligations between periods		(337)
Net proceeds and repayments of the Prepetition Inventory Repurchase Obligations in 2022		(165)
Proceeds from the issuance of PEDFA Bonds in 2021		(131)
Payments made on the termination of certain economic hedge contracts		(104)
Higher LMBE-MC 2025 TLB repayments between periods		(25)
Higher debt issuance costs between periods		(36)
Proceeds, net of premium paid on DIP TLB in 2022		987
Repayment of 4.6% Senior Notes due December 2021 at maturity		114
Other changes in cash provided by (used in) operating activities		(6)
Total	**$**	**(530)**

Contractual Obligations and Commitments

Guarantees of Subsidiary Obligations

TES guarantees certain agreements and obligations for its subsidiaries. Certain agreements may contingently require payments to a guaranteed or indemnified party. See Note 12 in Notes to the Annual Financial Statements for additional information regarding guarantees.

Quantitative and Qualitative Disclosures About Market Risk

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and 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 possible losses under normal market conditions at a given confidence level.

Commodity Price Risk

Volatility in the wholesale power generation markets provides uncertainty in the future performance and cash flows of the business. The price risk Talen is exposed to includes the price variability associated with future sales and (or) purchases of power, natural gas, coal, uranium, oil products, environmental products and other energy commodities in competitive wholesale markets. Several factors influence price volatility, including: seasonal changes in demand; weather conditions; available regional load-serving supply; regional transportation and (or) transmission availability; market liquidity; and federal, regional and state regulations.

Within the parameters of our risk policy, we generally utilize conventional first lien, exchange-traded and over-the-counter traded derivative instruments, and in certain instances, structured products, to economically hedge the commodity price risk of the forecasted future sales and purchases of commodities associated with our generation portfolio.

Margin Sensitivities

The table below displays sensitivities for changes in projected margins based upon consistent changes in power prices across our entire portfolio. Actual price changes may differ by market and commodity, which could result in different results than displayed.

The base case for these sensitivities incorporates market prices, our economic hedge position, expected PTC, and expected generation (including cost inputs and planned outages) as of December 31, 2023 (Successor):

	Sensitivity Range		2024 Margin Effect [(a)]		2025 Margin Effect [(a)]	
	Low	High	Low	High	Low	High
Change in power price per $/MWh [(b)]	$ (5.00)	$ 5.00	$ (55)	$ 65	$ (98)	$ 107

(a) Margin price sensitivities hold constant certain microeconomic and macroeconomic factors that may impact our margin and the impact of changes in prices; value in millions and includes value of PTC.

(b) Power price sensitivities hold market heat rate constant for each month; therefore, gas prices are adjusted accordingly.

Interest Rate Risk

Talen is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows associated with existing floating rate debt issuances. To reduce interest rate risk, derivative instruments are utilized to economically hedge the interest rates for a predetermined contractual notional amount, which results in a cash settlement between counterparties. To the extent possible, first lien interest rate fixed-for-floating swaps are utilized to hedge this risk.

The following table displays the net fair value of interest rate swaps (including accrued interest, if applicable) outstanding at December 31, 2023 (Successor):

	Notional Exposure	Asset (Liability)	10% Adverse Movement [(a)]	Maturities Through
Interest rate swaps	$ 290	$ (5)	$ (3)	2026

(a) Effect of a 10% adverse interest rate movement decreases assets or increases liabilities, as applicable, which could result in an asset becoming a liability.

Additionally, we are exposed to a potential increase in interest expense and to changes in the fair value of debt. The estimated impact of a 10% adverse movement in interest rates at December 31, 2023 (Successor) would have caused a $6 million increase in interest expense and a $53 million increase in the fair value of debt compared with a non-material increase in interest expense and a $11 million increase in the fair value of the debt at December 31, 2022 (Predecessor).

Credit Risk

Credit risk is the risk of financial loss if a customer, counterparty, or financial institution is unable to perform or pay amounts due causing a financial loss to Talen. Financial assets are considered credit-impaired when facts and circumstances reasonably indicate an event has occurred where the carrying value of the asset will not be recovered through cash settlement. Such events may include deterioration of a customer’s or counterparty’s financial health leading to a probable bankruptcy or reorganization, a breach of contract, or other economic reasons. Credit risk is inherent within cash and cash equivalents, restricted cash and cash equivalents, derivative instruments, and primarily within accounts receivable. The maximum amount of credit exposure associated with financial assets is equal to the carrying value. The carrying values of derivative instruments consider the probability that a counterparty will default when contracts are out of the money (from the counterparty’s standpoint). Additionally, a credit impairment is recognized on receivables when facts indicate a high probability that amounts owed to Talen will not be paid. Such allowances are presented as "Accounts receivable, net" on the Consolidated Balance Sheets. As of December 31, 2023 (Successor) and December 31, 2022 (Predecessor), there were no material credit impairments.

We maintain credit procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit standards) and require other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, we have concentrations of suppliers and customers among electric utilities, financial institutions, marketing and trading companies and the U.S. government. These concentrations may impact our overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

See Note 5 in the Annual Financial Statements for additional information on credit risk.

Investment Price Risk

In accordance with certain NRC requirements, Susquehanna Nuclear maintains trust funds comprised of restricted assets that were established in order to fund its proportional share of Susquehanna Nuclear's future decommissioning obligations. As of December 31, 2023 (Successor), the NDT was invested primarily in domestic equity securities, fixed-rate, fixed-income securities and short-term cash-equivalent securities and is presented as fair value on the Consolidated Balance Sheets. The mix of securities is intended to provide returns sufficient to fund Susquehanna Nuclear's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the NDT are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. We actively monitor the investment performance and periodically review the asset allocation in accordance with our nuclear decommissioning trust investment policy statement.

As of December 31, a hypothetical 10% increase in interest rates and a 10% decrease in equity values would have resulted in:

	Successor	Predecessor
	2023	2022
Estimated increase (decrease) in the fair value of NDT assets	$ (91)	$ (85)

See Notes 9 and 14 in Notes to the Annual Financial Statements for additional information regarding the Susquehanna NDT.

Cybersecurity

Talen maintains policies and controls designed to identify, assess, manage, mitigate, and respond to cybersecurity threats. Our cybersecurity risk mitigation strategy is established at board management level and is implemented by the business units in which the potential threats may occur. The Company maintains business continuity and disaster recovery plans that are expected to be deployed in response to a significant cyberattack.

Cybersecurity and Risk Mitigation

Our cybersecurity policies incorporate standards and (or) recommendations issued by the National Institute of Standards and Technology, the International Organization for Standardization, the NRC, and NERC. These standards: (i) provide guidelines for organizations to establish, implement and improve their information security management system; (ii) form a framework for an intelligence-driven multilayered risk mitigation strategy which incorporates advanced security measures; and (iii) attempt to protect digital computer and communications systems and equipment against cyberattacks that would materially and adversely affect our operational safety, security, or emergency preparedness. We deploy, configure, and maintain technologies designed to enforce security policies, detect and protect against cybersecurity threats, and help safeguard our material assets.

Our digital and cybersecurity controls are augmented with physical controls such as security systems, security site plans, security systems monitoring, and access control to mitigate physical security risks at our facilities. Talen’s procurement policies and organizational controls require vendors to be assessed and vetted, with an enhanced protocols on purchases and installations involving nuclear equipment. Additionally, cybersecurity assessments and monitoring are performed on significant third-party service providers. This process involves reviewing the supplier's available cybersecurity controls and test of controls results. Additionally, where warranted, we request a detailed cybersecurity questionnaire from our vendors to assess the vendor's practices and preparedness in addressing cyber threats.

Through a multi-functional coordinated effort, Talen assesses and mitigates cybersecurity risks based on likelihood of the risk and potential impact to the Company and its stakeholders. Such risks are identified using tactical, operational and compliance-based approaches. Each risk and associated consequences of each risk, should they materialize, are evaluated using likelihood of occurrence considering existing controls.

The relevant operational employees, corporate employees, as well as certain contractors are each required to complete cybersecurity awareness, technical, and specialized training programs. Mandatory technical training is provided to personnel performing, verifying, or managing cybersecurity activities. Specialized training is required for individuals who have programmatic and procedural cybersecurity authority to develop the necessary skills and knowledge to execute a cyber defensive strategy. Responses for cybersecurity incidents are implemented through qualifications, training, and mandatory annual exercises, cyber crisis response simulations, and annual training exercises to assess the Company’s ability to adapt to information and operational technology threats.

We conduct regular monitoring of our environment either directly or through third-party organizations working on our behalf. In addition to the real-time monitoring, third parties conduct periodic vulnerability assessments on protective systems. To measure its non-nuclear cybersecurity framework maturity, Talen utilizes internal and external audits and assessments, vulnerability testing, and governance processes over outsourced service providers. The nuclear cybersecurity program is inspected biennially by the NRC and assessed annually by quality assurance audit. Nuclear vulnerability management is implemented in collaboration with Department of Homeland Security and the Cybersecurity & Infrastructure Security Agency.

We have an established Cyber Incident Response Plan (CIRP) to manage cybersecurity incidents. CIRP is structured to respond to and manage the effects of cyber events and, if necessary, includes steps for notifying the applicable regulatory and government authorities. Under the CIRP, cybersecurity incidents are escalated based on materiality throughout our business to the Senior Vice President of IT, Chief Administrative Officer, Chief Nuclear Officer, Chief Fossil Officer, General Counsel, Chief Financial Officer, Chief Executive Officer and (or) our Board of Directors. These escalation protocols are in place to ensure that relevant stakeholders are informed promptly to enable appropriate mitigation efforts, regulatory notifications, and (or) cooperation with authorities as necessary.

Governance

The Audit Committee of the Board of Directors oversees Talen's cybersecurity risk exposures and the steps taken by management to monitor and mitigate cybersecurity risks. Periodic reports are given by senior management to the Committee about material cyber events and our mitigation efforts. Cybersecurity risks are reviewed by the Board of Directors, at least annually.

The senior executive team is responsible for coordination of cybersecurity across the Company. Our cybersecurity teams, which include professionals certified with Certified Information Systems Security Professional credentials, are responsible for assessing and managing the Company's cyber risk management protocols in their respective areas regarding the prevention, detection, mitigation, and remediation of material cybersecurity incidents as well as communicating risk management matters to key stakeholders. The cybersecurity teams have experience selecting, deploying, and operating cybersecurity technologies, initiatives, and processes, and relies on threat intelligence as well as other information obtained from governmental, public, or private sources. In coordination with Talen senior management, the SVP of IT and the relevant cybersecurity teams review risk management strategy to mitigate cybersecurity risks. Additionally, as needed, the Company engages specialists, consultants, auditors, and (or) other third parties to assist with assessing, identifying, and managing cybersecurity risks.

While cybersecurity incidents have not materially affected the Company, its business strategy, results of operations or financial condition to date, no assurance can be provided that the Company would not be subject to a significant cyber incident in the future. See Risk Factors for additional information on the Company's cybersecurity risks.

Non-GAAP Financial Measure

We include Adjusted EBITDA, which the Company uses as a measure of its performance and is not a financial measure prepared under GAAP, in these Annual Financial Statements. Non-GAAP financial measures do not have definitions under GAAP and may be defined and calculated differently by, and not be comparable to, similarly titled measures used by other companies. Non-GAAP measures are not intended to replace the most comparable GAAP measures as indicators of performance. Generally, non-GAAP financial measures are numerical measures of financial performance, financial position, or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. Management cautions readers of this financial information not to place undue reliance on this non-GAAP financial measure, but to also consider them along with their most directly comparable GAAP financial measure. Non-GAAP measures have limitations as an analytical tool and should not be considered in isolation or as a substitute for analyzing our results as reported under GAAP.

Adjusted EBITDA

We use Adjusted EBITDA to: (i) assist in comparing operating performance and readily view operating trends on a consistent basis from period to period without certain items that may distort financial results; (ii) plan and forecast overall expectations and evaluate actual results against such expectations; (iii) communicate with our Board of Directors, shareholders, creditors, analysts, and the broader financial community concerning our financial performance; (iv) set performance metrics for the Company's annual short-term incentive compensation; and (v) assess compliance with our indebtedness.

Adjusted EBITDA is computed as net income (loss) adjusted, among other things, for certain: (i) nonrecurring charges; (ii) non-recurring gains; (iii) non-cash and other items; (iv) unusual market events; (v) any depreciation, amortization, or accretion; (vi) mark-to-market gains or losses; (vii) gains and losses on the NDT; (viii) gains and losses on asset sales, dispositions, and asset retirement; (ix) impairments, obsolescence, and net realizable value charges; (x) interest expense; (xi) income taxes; (xii) legal settlements, liquidated damages, and contractual terminations; (xiii) development expenses; (xiv) Cumulus Digital and noncontrolling interests; and (xv) other adjustments. Such adjustments are computed consistently with the provisions of our indebtedness to the extent that they can be derived from the financial records of the business.

Additionally, we believe investors commonly adjust net income (loss) information to eliminate the effect of nonrecurring restructuring expenses, and other non-cash charges which vary widely from company to company, from period to period, and impair comparability. We believe Adjusted EBITDA is useful to investors and other users of the financial statements to evaluate our operating performance because it provides an additional tool to compare business performance across companies and across periods. Adjusted EBITDA is widely used by investors to measure a company’s operating performance without regard to such items described above. These adjustments can vary substantially from company to company depending upon accounting policies, book value of assets, capital structure and the method by which assets were acquired.

The following table presents a reconciliation of the GAAP financial measure of "Net Income (Loss)" presented on the Consolidated Statements of Operations to the non-GAAP financial measure of Adjusted EBITDA:

	Successor	Predecessor		
	May 18 through December 31, 2023	January 1 through May 17, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021
Net Income (Loss)	**$ 143**	**$ 465**	**$ (1,293)**	**$ (977)**
Less: Bankruptcy, Liability Management, and Restructuring Activities				
Hedge termination losses, net [(a)]	—	—	158	—
Reorganization (gain) loss, net [(b)]	—	(799)	812	—
Operational and other restructuring activities [(c)]	38	17	522	13
Bankruptcy exit fees	10	—	—	—
Liability management costs and other professional fees	—	—	46	29
Total Bankruptcy, Liability Management, and Restructuring Activities	**$ 48**	**$ (782)**	**$ 1,538**	**$ 42**
Other Adjustments				
Interest expense and other finance charges	181	163	365	336
Income tax (benefit) expense	51	212	(35)	(300)
Depreciation, amortization and accretion	165	200	520	524
Nuclear fuel amortization	108	33	94	96
Unrealized (gain) loss on commodity derivative contracts	(52)	63	(625)	712
Nuclear decommissioning trust funds (gain) loss, net	(108)	(57)	184	(196)
Stock-based and other long-term incentive compensation expense	21	—	—	—
Environmental and ARO revisions on fully depreciated property, plant and equipment [(d)]	5	—	18	(7)
(Gain) loss on non-core asset sales, net [(e)]	(7)	(50)	(3)	(3)
Non-cash impairments [(f)]	3	381	—	—
Legal settlements and litigation costs [(g)]	(84)	1	20	8
Unusual market events [(h)]	(19)	14	33	78
Net periodic defined benefit cost [(i)]	2	(3)	12	36
Development expenses	7	10	17	8
Non-cash inventory net realizable value, obsolescence, and other charges [(j)]	4	56	(4)	24
Consolidation of subsidiary (gain) loss, net	—	—	170	—
Cumulus Digital activities and noncontrolling interest	(42)	(14)	3	—
Other	—	3	1	6
Total Adjusted EBITDA	**$ 426**	**$ 695**	**$ 1,015**	**$ 387**

(a) Nonrecurring terminated commercial contracts. See Note 5 in Notes to the Annual Financial Statements for additional information.
(b) See Note 3 in Notes to the Annual Financial Statements for additional information.
(c) 2022 primarily includes non-cash charges for estimates of damages for contracts terminated in connection with Talen's bankruptcy. See Note 3 in Notes to the Annual Financial Statements for additional information.
(d) See Note 11 in Notes to the Annual Financial Statements for additional information.
(e) See Note 22 in Notes to the Annual Financial Statements for additional information.
(f) See Note 10 in Notes to the Annual Financial Statements for additional information.
(g) See Note 12 in Notes to the Annual Financial Statements for additional information.
(h) Represents the effect of market losses and settlements for Winter Storm Elliott that occurred in 2022 and Winter Storm Uri that occurred in 2021.
(i) Consists of postretirement benefits service cost and postretirement benefits gain (loss).
(j) See Note 8 in Notes to the Annual Financial Statements for additional information.

Critical Accounting Policies and Estimates

Financial statements prepared in conformity with GAAP require the application of appropriate accounting policies to form the basis of estimates utilizing methods, judgments, and (or) assumptions that materially affect: (i) the measurement and carrying values of assets and liabilities as of the date of the financial statements; (ii) the revenues recognized and expenses incurred during the presented reporting periods; and (iii) financial statement disclosures of commitments, contingencies, and other significant matters. Such judgments and assumptions may include significant subjectivity due to inherent uncertainties of future events which exist to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions or if different assumptions had been used. We believe the following areas contain the most significant accounting judgments, the highest levels of subjectivity, or relate to uncertain matters that are susceptible to material changes in estimates that are critical to understanding the Company's financial results. Due to such inherent uncertainties, actual results may differ substantially from estimates and (or) estimates may change materially in periods where new information becomes known. Management develops these estimates based on best available information, historical experience, and subject matter experts. See Note 2 in Notes to the Annual Financial Statements for additional information on accounting policies for each of the following topics.

Derivative Instruments

"Derivative instruments", which assist with commodity-price management by our commercial function, is presented on our Consolidated Balance Sheets at fair value, either as an asset or liability, and are comprised primarily of power and natural gas commodity contracts. Derivative identification is challenging. While a conventional financially settled contract, such as swap or option, generally contains standard terms that facilitate its identification as a derivative instrument, judgment is required to determine whether contracts to buy or sell commodities with physical delivery or contracts that contain certain embedded settlement or fluctuating price features meet the definition of a derivative instrument. This judgment typically includes, among other things, an evaluation of the contract, its expected cash flows and the activity levels of its principal market. Additionally, judgment is required to determine if a commodity contract intended for physical delivery meets an allowable exemption prior to accounting for its income effects under the accrual accounting method rather than at fair value. This typically includes assumptions regarding the probability of physical delivery and the quantities used in normal business activities.

As the Company's derivative contracts generally settle within future time periods supportable by commodity exchange markets and the frequent occurrence of commercial transactions, the majority of our derivative contracts utilize quoted prices in active markets or other observable market inputs to determine fair value. However, such prices are expected to be subject to volatility between periods based on weather, local market events, macroeconomic trends, and (or) other events and factors. Accordingly, changes in fair value for contracts identified as derivatives may result in material changes to unrealized gains or losses presented on the Consolidated Statements of Operations between periods. Changes in fair value of commodity derivatives are presented as "Unrealized gain (loss) on derivative instruments," as a component of either "Operating Revenues" or "Fuel and energy purchases" on the Consolidated Statements of Operations, in a consistent manner with the presentation of its realized net gains or losses.

See Note 5 in Notes to the Annual Financial Statements for additional information on derivative instruments.

Nuclear Decommissioning Asset Retirement Obligations

We have significant legal obligations associated with Susquehanna Nuclear's decommissioning. Susquehanna's Unit 1 and Unit 2 licenses, if not renewed, will expire in 2042 and 2044, respectively, at or before which time the units will shut down.

Judgment is required to make reasonable ARO assumptions regarding the range of likely outcomes, for cost estimates, as these obligations are not expected to be paid until years or decades in the future, and potentially many years after shutdown. Inflation rates and discount rates may be subject to revision until the ARO settlement date. As such, changes in assumptions to the range of likely outcomes could result in different cash outlay for AROs at the settlement date than the current carrying value of the ARO on our Consolidated Balance Sheets. Susquehanna Nuclear periodically assesses its ARO through third-party engineering studies in order to determine expected scope, costs, and timing of decommissioning activities. Generally, its decommissioning cost study is updated every 7 years. As part of the annual cost study update process, we and the third-party engineering firm evaluate cost projections based on the latest engineering techniques and the latest information which incorporates nuclear plant retirements in the industry. We incorporate the results of the study as well as our experience, knowledge and professional judgment to the specific characteristics of Susquehanna Nuclear's decommissioning plan to update the carrying value of the ARO.

AROs are recognized at fair value at the time of installation and as an increase to property, plant, and equipment. The income effect of AROs is generally presented as "Depreciation, amortization and accretion" on our Consolidated Statements of Operations through the expected ARO settlement date. However, for an asset that has a fully depreciated property, plant, and equipment carrying value, revisions in ARO estimates have an immediate effect in earnings. Revisions to the estimated ARO are presented as "Other operating income (expense), net" on our Consolidated Statements of Operations.

See Note 11 in Notes to the Annual Financial Statements for additional information on AROs.

Recoverability of Long-Lived Assets

Property, plant, and equipment used in operations are assessed for impairment whenever changes in facts and circumstances indicate the carrying amount of the asset group may not be recoverable. Judgment exists in identifying these events. In certain instances, the events could be external to us and may include, among other events, changes in the economic environment, such as a decrease in the market price of an asset, significant changes to market rules and regulations in the power markets in which we operate and changes in federal or state environmental regulations that would materially affect the cash flows of our generation fleet. In other instances, the events result from negative financial trends, physical damage to assets or decisions of management regarding strategic initiatives, such as sales of assets, generation facility retirements or significant changes in planned capital expenditures or operating costs.

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. There is significant judgment in identifying the lowest level of independent cash flows in the merchant power market given certain groups of our generation facilities participate in the same market. In determining the appropriate level of aggregation, we considered the manner in which we make economic decisions regarding the revenue and commercial activities of the generation facilities and the manner in which we make operational and maintenance decisions. Accordingly, we generally aggregate assets for impairment at the reporting unit level, unless there are additional facts and circumstances present which indicate that an asset should be tested for recoverability on a standalone basis. Periodically, we evaluate whether conditions such as changes in market conditions, regulatory changes, or other events require a change in aggregation.

If there is an indication the carrying value of an asset group may not be recovered, we review the expected future cash flows of the asset group. If the sum of the undiscounted pre-tax cash flows is less than the carrying value of the asset group, the asset group is written down to its estimated fair value. Fair value for property, plant, and equipment may be determined by a variety of valuation methods including third-party appraisals, market prices of similar assets, and present value techniques. However, as there is generally a lack of quoted market prices for long-lived assets, the fair value of impaired assets is typically determined based on the present values of expected future cash flows using discount rates which are believed to be consistent with those used by principal market participants. The estimated cash flows and related fair value computations consider all available evidence as of the date of the review such as estimated future generation volumes, capacity prices, energy prices, operating costs, and capital expenditures.

Impairment charges are presented on our Consolidated Statements of Operations in the period in which the impairment determination is made.

See Note 10 in Notes to the Annual Financial Statements for additional information on recognized impairments.

Postretirement Benefit Obligations

Our subsidiaries sponsor postemployment benefits that include defined benefit pension plans and health and welfare postretirement plans (other postretirement benefit plans). Accounting for defined benefit pensions and other postretirement benefits involves significant estimates to determine projected benefit obligations and company contribution requirements, which inherently require assumptions be made regarding many uncertainties. Such uncertainties include discount rates, expected return on assets, expected wages for participants at retirement, estimated retirement dates, mortality rates and future health care costs. Over a period of time, we are required to fund all vested benefits for postretirement defined benefit pension plans through plan assets, investment returns or contributions to the plans.

Actuarial assumptions required under GAAP to determine the projected benefit obligations and actuarial assumptions required under the Employee Retirement Income Security Act to determine contribution assumptions differ in their objectives. Actuarial assumptions regarding projected benefit obligations under GAAP affect the net periodic defined benefit cost presented within our Consolidated Statements of Operations. Actuarial assumptions used in the computation to estimate required contributions to the plan affect funding requirements over a period of time.

We are responsible for the estimates regarding our postemployment benefits. However, we engage actuarial firms, who apply professional standards in the determination of the judgmental assumptions for plan contributions, to estimate both the contribution requirements for postemployment benefits and the associated projected benefit obligations under GAAP.

Projected benefit obligations are particularly sensitive to expected return on plan assets and the discount rate. The expected return on plan assets is the estimated long-term rates of return on plan assets that will be earned over the life of each plan. These projected returns reduce the net periodic defined benefit costs. The discount rate is used to compute the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due. Please see Note 15 in Notes to the Annual Financial Statements for the weighted-average assumptions used for discount rate and expected return on plan assets for all plans.

A variance in the discount rate or expected return on plan assets could have a significant impact on postretirement benefit obligations and annual net periodic pension costs. The following table displays the estimated increase / (decrease) of a 1% increase and a 1% decrease in the discount rate and expected return on plan assets on the postretirement benefit obligation and net periodic pension cost as of December 31, 2023.

	Sensitivity	
Actuarial Assumption	**1% Increase**	**1% Decrease**
Discount rate		
Postretirement benefit obligation	$ (131)	$ 157
Net periodic pension cost	5	(5)
Expected return on plan assets		
Net periodic pension cost	(10)	10

Income Taxes

Significant management estimates and judgments are involved to determine the provision for income taxes, deferred tax assets and liabilities and valuation allowances.

An assessment is performed on a quarterly basis to determine the likelihood of realizing deferred tax assets. This assessment includes evaluating positive and negative evidence, such as: (i) creation and timing of future taxable income associated with the reversal of deferred tax liabilities in excess of deferred tax assets; (ii) expiration of net operating losses; and (iii) historical amounts of income or losses. Based on this assessment, valuation allowances are utilized to reduce deferred tax assets to the extent necessary to result in an amount that is more likely than not to be realized in future periods.

Actual income taxes could vary from estimated amounts due to the future impacts of various items, including changes in income tax laws, forecasted financial conditions and results of operations in future periods, as well as results of audits and examinations of filed tax returns by taxing authorities. See Note 7 in Notes to the Annual Financial Statements for additional information on income taxes.

Recent Accounting Pronouncements

See Note 2 in Notes to our Annual Financial Statements for a description of recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted.

FORWARD-LOOKING STATEMENTS AND SIGNIFICANT BUSINESS RISKS

These Annual Financial Statements contain forward-looking statements concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not statements of historical fact. These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," "target," "project," "forecast," "seek," "will," "may," "should," "could," "would" or similar expressions. Although we believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements.

Such risks and uncertainties include, but are not limited to:

- any continued effects of the Restructuring on our liquidity, results of operations or business prospects or the interests of various constituents;
- our ability to comply with the covenants under the agreements governing our post-Emergence indebtedness;
- the limitations our level of indebtedness may place on our financial flexibility;
- our inability to access the capital markets on favorable terms or at all;
- the availability of cash flows from operations and other funds to finance reserve replacement costs or satisfy our debt obligations;
- risks related to future changes in the market price of electricity, natural gas and other commodities;
- risks related to weather and the demand for electricity;
- declines in wholesale electricity prices or decreases in demand for electricity due to macroeconomic factors;
- risks related to competition in the competitive power generation market;
- adverse developments or losses from pending or future litigation and regulatory proceedings;
- risks related to regulation and compliance with government permits and approvals;
- risks related to environmental regulation of our fossil fuel-fired power generation business and uncertainty surrounding the associated environmental liabilities and asset retirement obligations;
- risks related to potential changes to environmental regulatory requirements related to coal-combustion byproducts, the operation and remediation of coal ash ponds and other regulatory oversight to our operations;
- risks related to armed conflicts, war, terrorist attacks or threats and other significant events;
- risk related to our reliance on the operations and financial results of Susquehanna to fund our other operations and satisfy our liquidity and other financial requirements;
- risks related to the impact of our operations on the environment, including the risk of exposure to hazardous substances;

- risks associated with Susquehanna, including risks relating to: (i) the operation of, and unscheduled outages at, the facility; (ii) the availability and cost of nuclear fuel and fuel-related components; (iii) increased nuclear industry security, safety and regulatory requirements; and (iv) the substantial uncertainty regarding the storage and disposal of spent nuclear fuel;
- risks related to the continuation of capacity auctions in the PJM ISO, or changes to the capacity auction rules and procedures;
- credit risk and potential concentrations of credit risk resulting from market counterparties, financial institutions, customers and other parties;
- risks related to pandemics, epidemics, outbreaks or other public health events that are outside of our control, and could significantly disrupt our operations and adversely affect our financial condition;
- risks related to potential disruptions in the supply of fuel and other products necessary for the operation of our generation facilities;
- unplanned outages or periods of reduced output at our generation facilities;
- effects of transmission congestion, including due to line maintenance outages, on the realized margins of our generation fleet;
- risks associated with the collection of shared expenses from co-owners of jointly owned facilities;
- the expiration or termination of hedging contracts;
- risks related to our ability to retain and attract a qualified workforce;
- operational, price and credit risks associated with selling and marketing products in the wholesale power markets, including uncertainty around unknown future changes in market constructs, market responses (such as penalties) to extraordinary events and potential negative financial impacts (such as short payments) stemming from shortfalls of other market participants;
- market and liquidity risks arising from our purchase and sale of power, capacity and related products, fuel, transmission services and emission allowances;
- risks related to our generation facilities being part of interconnected regional grids, including the risk of a blackout due to a disruption on a neighboring interconnected system;
- cyber-based security and related integrity risks;
- the impacts of climate change, including related changes in legislation, regulation, market rules or enforcement;
- risks related to any change in the structure and operation of, or the various pricing limitations imposed by, the RTOs and ISOs in regions where our generation is located;
- the availability and cost of emission allowances;
- risks related to our ability to fund and otherwise successfully execute on our carbon deleveraging plans, including our renewable energy, battery storage and digital infrastructure growth projects, and our efforts to repower facilities to run on alternate fuel sources, and the risk that our plans may not achieve its desired results;
- construction and development risks relating to projects undertaken as part of our carbon deleveraging plans, including risks relating to our ability to acquire the necessary permits, the performance of third-party contractors and fluctuating construction costs;

- operational risks relating to the data center and coin campus, including the risk of interruptions to the provision of power, as well as cyber or other breaches of its infrastructure;
- risks relating to our ability to attract and retain customers, including data center tenants or power purchasers for our renewable energy projects, on reasonable business terms or at all;
- risks relating to cryptocurrency mining, including price volatility of digital assets, increasing scrutiny from investors, lenders and other stakeholders and the likelihood of increased regulation of digital assets; and
- other risks identified in these Annual Financial Statements.

We caution you that the foregoing list may not contain all of the forward-looking statements made in these Annual Financial Statements.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in these Annual Financial Statements primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition and results of operations. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described elsewhere in these Annual Financial Statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in these Annual Financial Statements. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

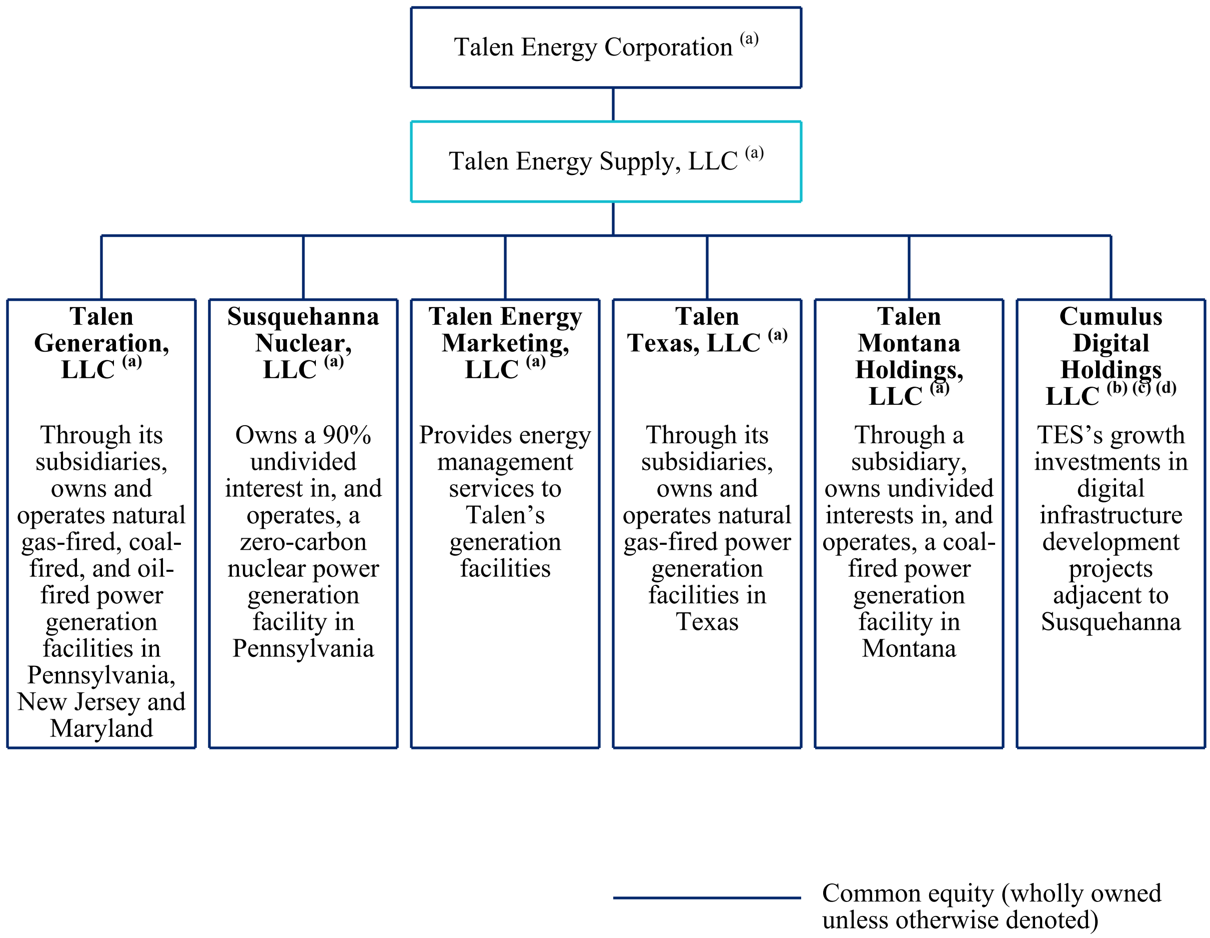
In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of these Annual Financial Statements. While we believe such information provides a reasonable basis for these statements, such information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in these Annual Financial Statements relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in these Annual Financial Statements to reflect events or circumstances after the date of these Annual Financial Statements or to reflect new information, actual results, revised expectations or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

ORGANIZATIONAL STRUCTURE

DECEMBER 31, 2023 (UNAUDITED)



(a) See Note 3 in Notes to the Annual Financial Statements for additional information on the Restructuring that was completed in May 2023.
(b) Such entities were not Debtors in the Restructuring that was completed in May 2023.
(c) Cumulus Digital indebtedness is limited-recourse to TES and TEC. See Note 12 for additional information on guarantees and LCs issued.
(d) Talen owns 95% common equity interest in Cumulus Digital Holdings LLC.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

GENERATION FLEET AS OF DECEMBER 31, 2023 (UNAUDITED)

Generation Facility	MW Capacity (a)	Percentage Ownership	MW Ownership	Fuel Type	State	Market	Organizational Structure
PJM							
Susquehanna (b)	2,476	90 %	2,228	Nuclear	PA	PJM	Susquehanna Nuclear
Martins Creek	1,716	100 %	1,716	Natural Gas/Oil	PA	PJM	Talen Generation
Montour (c) (g)	1,508	100 %	1,508	Coal/Natural Gas	PA	PJM	Talen Generation
Brunner Island (d) (g)	1,429	100 %	1,429	Coal/Natural Gas	PA	PJM	Talen Generation
Brandon Shores (e)	1,283	100 %	1,283	Coal	MD	PJM	Talen Generation
H.A. Wagner (e) (f)	834	100 %	834	Coal/Natural Gas/Oil	MD	PJM	Talen Generation
Lower Mt. Bethel	606	100 %	606	Natural Gas	PA	PJM	Talen Generation
Conemaugh (b) (g)	1,739	22.22 %	386	Coal	PA	PJM	Talen Generation
Keystone (b) (g)	1,733	12.34 %	214	Coal	PA	PJM	Talen Generation
Camden	145	100 %	145	Natural Gas	NJ	PJM	Talen Generation
Peaking units	13	100 %	13	Oil	MD	PJM	Talen Generation
Total	**13,482**		**10,362**				
ERCOT							
Barney Davis	897	100 %	897	Natural Gas	TX	ERCOT	Talen Texas
Nueces Bay	635	100 %	635	Natural Gas	TX	ERCOT	Talen Texas
Laredo	178	100 %	178	Natural Gas	TX	ERCOT	Talen Texas
Total	**1,710**		**1,710**				
Other Power Markets							
Colstrip Unit 3 (b)	740	30 %	222	Coal	MT	WECC	Talen Montana
Dartmouth	80	100 %	80	Natural Gas/Oil	MA	ISO-NE	Talen NE
Total	**820**		**302**				
Generation Fleet	**16,012**		**12,374**				

(a) Electric generation capacity (summer rating) is based on factors, among others, such as operating experience and physical conditions which may be subject to revision.

(b) See Note 10 in Notes to the Annual Financial Statements for additional information regarding jointly owned facilities.

(c) Montour completed its coal to natural gas fuel conversion in August 2023 with Montour's Unit 3 dispatchable on natural gas or coal.

(d) Coal-fired electric generation is restricted during the EPA Ozone Season, which is May 1 to September 30 of each year.

(e) Notice was provided to PJM of deactivation as of June 1, 2025 for Brandon Shores and H.A. Wagner. See Note 10 in Notes to the Annual Financial Statements for additional information on the Brandon Shores deactivation.

(f) The coal to fuel-oil conversion of H.A. Wagner's Unit 3 was completed in December 2023.

(g) Coal-fired electric generation is required to cease at Montour by December 2025 and at Brunner Island, Keystone, and Conemaugh by December 2028 with an earlier retirement of coal at the wholly owned facilities of Montour and Brunner Island at the Company's election.

GLOSSARY OF TERMS AND ABBREVIATIONS

2023 Equity Plan. The 2023 Equity Plan of Talen Energy Corporation, effective as of May 17, 2023.

Adjusted EBITDA. Net income (loss) adjusted, among other things, for certain: (i) nonrecurring charges; (ii) non-recurring gains; (iii) non-cash and other items; (iv) unusual market events; (v) any depreciation, amortization or accretion; (vi) mark-to-market gains or losses; (vii) gains and losses on the NDT; (viii) gains and losses on asset sales, dispositions and asset retirement; (ix) impairments, obsolescence and net realizable value charges; (x) interest; (xi) income taxes; (xii) legal settlements, liquidated damages and contractual terminations; (xiii) development expenses; (xiv) Cumulus Digital activities and noncontrolling interest; and (xv) other adjustments.

Adjusted Equity Value. An amount per share of TEC common stock equal to the sum of: (i) (a) if the measurement date is a "change in control event," the implied per share value achieved in connection with such change in control event or, (b) if the measurement date is not a "change in control event," the per share value (x) if the Company is listed on a national securities exchange, based on the 120-day volume-weighted average price or, (y) if the Company is not listed on a national securities exchange, as determined by the Company in good faith, *plus;* (ii) the aggregate per share value of any distributions or dividends paid with respect to shares between Emergence and the measurement date, or approved for distribution within the next quarter but not yet paid.

Annual Financial Statements. The audited Consolidated Balance Sheets of TEC as of December 31, 2023 (Successor) and TES as of December 31, 2022 (Predecessor); the related audited consolidated statements of operations, statements of comprehensive income, statements of cash flows, and statements of equity for the period from May 18, 2023 through December 31, 2023 (Successor), and for the period from January 1, 2023 through May 17, 2023 and the years ended 2022 and 2021 (Predecessor), and the related notes.

AOCI. Accumulated other comprehensive income or loss, which is a component of stockholder's equity on the Consolidated Balance Sheets.

ARO. Asset retirement obligation.

Backstop Commitment Letter. The Backstop Commitment Letter, dated as of May 31, 2022, by and among the Debtors and the Backstop Parties, as subsequently amended, supplemented or otherwise modified.

Backstop Parties. Those certain holders of claims under the Prepetition Unsecured Notes and PEDFA 2009A Bonds party to the Backstop Commitment Letter.

Backstop Premium. A premium, comprised of: (i) a periodic premium, paid monthly by the Debtors to each Backstop Party at a rate equal to 10% per annum of each Backstop Party's portion of the aggregate backstop commitment under the Backstop Commitment Letter; and (ii) an additional premium, payable by the Debtors in cash or equity upon consummation of the Plan of Reorganization, equal to 20% of each Backstop Party's portion of the aggregate backstop commitment under the Backstop Commitment Letter, reduced by the amount of monthly Backstop Premium previously paid.

Bankruptcy Code. Title 11 of the United States Code, 11 U.S.C. §§ 101–1532, as amended.

Bankruptcy Court. The United States Bankruptcy Court for the Southern District of Texas, Houston Division.

Barney Davis. A Talen-owned and operated generation facility in Corpus Christi, Texas.

Bilateral LC Agreement. The Letter of Credit Facility Agreement, dated as of May 17, 2023, by and among TES, as borrower, Barclays Bank PLC, as administrative agent and LC issuer, and Citibank, N.A., as collateral agent, which governs the Bilateral LCF, as the same may be amended, amended and restated, supplemented or otherwise modified from time-to-time.

Bilateral LCF. The senior secured bilateral letter of credit facility in an aggregate committed amount of $75 million under the Bilateral LC Agreement, which is available for the issuance of standby LCs. Obligations under the Bilateral LCF are guaranteed by the Subsidiary Guarantors and secured by a first priority lien and security interest in substantially all of the assets of TES and the Subsidiary Guarantors.

Board of Directors. The board of directors of Talen Energy Corporation.

Brandon Shores. A Talen-owned and operated generation facility in Curtis Bay, Maryland.

Brunner Island. A Talen-owned and operated generation facility in York Haven, Pennsylvania.

Camden. A Talen-owned and operated generation facility in Camden, New Jersey.

Capacity Factor. The ratio of actual electrical energy output of one or more generating units over a given period of time to the theoretical maximum electrical energy output of the same unit or units over that period.

Capacity Performance. The sole class of capacity product that electricity providers within PJM can offer to satisfy PJM's capacity obligation and thereby receive capacity payments from PJM. Auctions for this opportunity, generally referred to as capacity auctions, are scheduled by PJM periodically, up to three years in advance of the applicable PJM Capacity Year and in accordance with the terms of PJM's Tariff and FERC's orders. Capacity Performance providers assume higher performance requirements during system emergencies and are subject to penalties for non-performance.

CCR. Coal Combustion Residuals, including but not limited to fly ash, bottom ash and gypsum, that are produced from coal-fired electric generation facilities.

CIFP. Critical Issue Fast Path.

Code. The Internal Revenue Code of 1986, as amended.

Colstrip. A generation facility comprised of four coal-fired generation units located in Colstrip, Montana (collectively, the "Colstrip Units"). Talen Montana operates the Colstrip Units, owns an undivided interest in Colstrip Unit 3, and has an economic interest in Colstrip Unit 4. Colstrip Units 1 and 2 were permanently retired in January 2020. See Note 10 in Notes to the Annual Financial Statements for additional information on jointly owned facilities and Talen Montana's ownership interests in the Colstrip Units. See Note 22 in Notes to the Annual Financial Statements for information on the potential acquisition by Talen Montana of additional interests in Colstrip Units 3 and 4.

Colstrip AOC. The "Administrative Order on Consent" entered into in 2012 (with minor amendments in 2017) between Talen Montana (on behalf of the co-owners of the Colstrip Units and in its capacity as the operator of Colstrip) and the MDEQ.

Conemaugh. A generation facility located in New Florence, Pennsylvania, in which Talen Generation, through a direct subsidiary, owns a 22.22% undivided interest. Conemaugh is operated by an unaffiliated party. See Note 10 in Notes to the Annual Financial Statements for additional information on jointly owned facilities.

Conemaugh Fuels. Conemaugh Fuels, LLC, an entity in which Talen Generation owns a 22.22% equity interest, which engages in the purchase of coal, the subsequent sale of coal to Conemaugh and other fuel-related activities.

Credit Agreement. The Credit Agreement, dated as of May 17, 2023, by and among TES, as borrower, the lending institutions from time to time parties thereto, Citibank, N.A., as administrative agent and collateral agent, and the joint lead arrangers and joint bookrunners parties thereto, which governs the RCF, the Term Loans and the TLC LCF, as the same may be amended, amended and restated, supplemented or otherwise modified from time-to-time.

Credit Facilities. Collectively, the RCF, the Term Loans, the TLC LCF and the Bilateral LCF.

Cumulus Affiliates. Collectively includes Cumulus Growth Holdings, Cumulus Digital Holdings and their respective subsidiaries.

Cumulus Coin. Cumulus Coin LLC, a direct subsidiary of Cumulus Coin Holdings that owns a 75% equity interest in Nautilus as of December 31, 2023.

Cumulus Coin Holdings. Cumulus Coin Holdings LLC, a direct subsidiary of Cumulus Digital that, through its direct subsidiary, Cumulus Coin, owns an equity interest in Nautilus. Talen Energy Supply and Talen Growth previously held voting, convertible preferred equity interests in this entity. In September 2022, in connection with the Cumulus Digital Equity Conversion, the preferred equity interests in this entity were converted to common equity interests in Cumulus Digital Holdings.

Cumulus Data. Cumulus Data LLC, formerly Susquehanna Data LLC, a direct subsidiary of Cumulus Data Holdings that is developing the Cumulus Data Center Campus.

Cumulus Data Holdings. Cumulus Data Holdings LLC, a direct subsidiary of Cumulus Digital and the direct parent of Cumulus Data. Talen Energy Supply and Talen Growth previously held voting, convertible preferred equity interests in this entity. In September 2022, in connection with the Cumulus Digital Equity Conversion, the preferred equity interests in this entity were converted to common equity interests in Cumulus Digital Holdings.

Cumulus Digital. Cumulus Digital LLC, a direct subsidiary of Cumulus Digital Holdings and the direct parent of Cumulus Data Holdings and Cumulus Coin Holdings.

Cumulus Digital Equity Conversion. The conversion of preferred equity in Cumulus Coin Holdings and Cumulus Data Holdings held by TES, Talen Growth and Riverstone V Coin Holdings L.P., and the conversion of class B units of Cumulus Digital Holdings held by Orion affiliates, in each case into common equity of Cumulus Digital Holdings, as contemplated by the Cumulus Term Sheet, dated as of August 29, 2022, by and among TES, TEC, Cumulus Digital Holdings, Orion, Riverstone and certain of their respective affiliates, which was an attachment to the fifth amendment to the RSA.

Cumulus Digital Holdings. Cumulus Digital Holdings LLC, a subsidiary of TES and the direct parent of Cumulus Digital. Prior to September 2022, Cumulus Digital Holdings was a subsidiary of Cumulus Growth. As a result of the Cumulus Digital Equity Conversion, TES obtained a controlling financial interest in Cumulus Digital Holdings. Accordingly, TES consolidates this entity and its subsidiaries in accordance with accounting rules. As of March 11, 2024, TES owned 99.5% of the common equity of Cumulus Digital Holdings.

Cumulus Digital TLF. The Cumulus Digital term loan facility, due September 2027, under that certain Credit Agreement, dated as of September 20, 2021, by and among Cumulus Digital and its subsidiaries, Cumulus Digital Holdings and affiliates of Orion, as the same was amended, amended and restated, supplemented or otherwise modified from time-to-time, under which Cumulus Digital borrowed $175 million to support Cumulus Coin’s required contributions to Nautilus, as well as Cumulus Data’s construction of certain shared infrastructure supporting both Nautilus and the Cumulus Data Center Campus. The Cumulus Digital TLF was paid in full on March 1, 2024.

Cumulus Growth Holdings. Cumulus Growth Holdings LLC, a direct subsidiary of TES that owns interests in real estate and renewable development projects.

Dartmouth. A Talen-owned and operated generation facility in Dartmouth, Massachusetts.

Data Center Campus Sale On March 1, 2024, the Company completed its disposition of certain assets of Cumulus Data, which included our zero-carbon data center campus currently being developed adjacent to Susquehanna, to Amazon Data Services, Inc.

Debtors. Prior to December 12, 2022, Talen Energy Supply and all of its direct and indirect subsidiaries, other than: (i) LMBE-MC Holdco and its subsidiaries; (ii) TRF; and (iii) the Cumulus Affiliates. From and after December 12, 2022, the foregoing Debtors together with TEC. See Note 3 in Notes to the Annual Financial Statements for additional information.

DIP Facilities. Collectively, the DIP RCF, DIP TLB and DIP LCF.

DIP LCF. The letter of credit facility established under the Debtors' Superpriority Secured Debtor-In-Possession Letter of Credit Facility Agreement, dated as of May 11, 2022, which provided for LCs outstanding under the Prepetition RCF as of commencement of the Restructuring to remain outstanding with superpriority status.

DIP RCF. The revolving credit facility that provided aggregate revolving commitments of $300 million, including a letter of credit sub-facility of up to $75 million, under the Debtors' Superpriority Secured Debtor-In-Possession Credit Agreement, dated as of May 11, 2022.

DIP Secured ISDAs. Certain bilateral secured International Swaps and Derivatives Association ("ISDA") agreements and Base Contracts for Sale and Purchase of Natural Gas as published by the North American Energy Standards Board ("NAESB") of Talen Energy Marketing, the obligations under which were secured by a superpriority lien and security interest in substantially all of the assets of Talen Energy Supply and the Debtors.

DIP TLB. The term loan B facility in an aggregate principal amount of $1 billion under the Debtors' Superpriority Secured Debtor-In-Possession Credit Agreement, dated as of May 11, 2022.

EGU. Electric Generating Unit.

EIS. Environmental Impact Statement related to mining permits.

Emergence. May 17, 2023, the date that the Plan of Reorganization became effective in accordance with the terms thereof and the Debtors emerged from the Restructuring.

Employee Retirement Income Security Act. A federal law that sets minimum standards for most voluntarily established retirement and health plans in private industry.

EPA. U.S. Environmental Protection Agency.

EPA 2015 Ozone Standard. In 2015, the EPA strengthened the NAAQS for ground-level ozone to 70 parts per billion ("ppb"), based on extensive scientific evidence about ozone's effects on public health and welfare.

EPA CCR Rule. National regulatory standards required by the EPA for the management of CCRs in landfills and surface impoundments.

EPA CSAPR. The Cross-State Air Pollution Rule, which requires 28 states in the eastern half of the U.S. to reduce power plant emissions that cross state lines and contribute to ground-level ozone and fine particle pollution in other states. A cap-and-trade system is used to reduce the target pollutants—sulfur dioxide and nitrogen oxides.

EPA ELG Rule. Effluent limitation guidelines, which are national regulatory standards required by the EPA for wastewater discharged from specific industrial categories, including but not limited to coal-fired electric generation facilities, to surface waters and municipal sewage treatment plants.

EPA MATS Rule. Mercury and Air Toxics Standards, EPA technology-based emissions standards for mercury and other hazardous air pollutants emitted by generation units with a capacity of more than 25 megawatts.

EPA NAAQS. National Ambient Air Quality Standards, which define the maximum amount of a pollutant averaged over a specified period of time that can be present in outdoor air without harming public health.

EPA NESHAP. National Emissions Standards for Hazardous Air Pollutants, an EPA standard that is applicable to the emissions of hazardous air pollutants produced by corporations, institutions and government agencies.

EPA RTR. The EPA's Risk and Technology Review of the EPA NESHAP, which is a combined effort to evaluate both risk and technology as required by the Clean Air Act after the application of maximum achievable control technology standards.

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, which is responsible for, among other things, scheduling electric deliveries and performing financial settlements for the competitive wholesale bulk-power market.

ESG. Environmental, social and corporate governance.

Exit Financings. TES's issuance of the Secured Notes and entry into the Credit Facilities in connection with Emergence.

Federal Quiet Title Act. A federal statute that provides for legal proceedings to determine ownership of real property.

FERC. U.S. Federal Energy Regulatory Commission. FERC regulates interstate transmission and wholesale sales of electricity, interstate transportation of natural gas and oil, hydropower projects and natural gas terminals.

GAAP. Generally Accepted Accounting Principles in the United States.

GW. Gigawatt, one million kilowatts of electric power.

H.A. Wagner. A Talen-owned and operated generation facility in Curtis Bay, Maryland.

IBEW. International Brotherhood of Electrical Workers, a labor union.

Inflation Reduction Act. The Inflation Reduction Act of 2022, which was signed into law in August 2022. Among the Inflation Reduction Act's provisions are: (i) amendments to the Code to create a nuclear production tax credit program; (ii) the creation, extension and modification of tax credit programs for certain clean energy projects, such as solar, wind and battery storage; and (iii) adjustments to corporate tax rates.

ISO. Independent System Operator.

Keystone. A generation facility located in Shelocta, Pennsylvania, in which Talen Generation, through a direct subsidiary, owns a 12.34% undivided interest. Keystone is operated by an unaffiliated party. See Note 10 in Notes to the Annual Financial Statements for additional information on jointly owned facilities.

Laredo. A Talen-owned and operated generation facility in Laredo, Texas.

LC. Letter of credit.

LMBE-MC. LMBE-MC HoldCo II LLC, a direct subsidiary of LMBE-MC Holdco that, through its subsidiaries, owns generation facility operations in Pennsylvania and was the borrower under the LMBE-MC TLB and LMBE-MC RCF.

LMBE-MC Credit Agreement. The Credit and Guaranty Agreement, dated as of December 3, 2018, among LMBE-MC, as borrower, LMBE-MC Holdco, as holdings, the guarantors named therein, MUFG Union Bank, N.A., as initial issuing bank and MUFG Bank, LTD, as administrative agent, which governs the LMBE-MC RCF and the LMBE-MC TLB, as the same may be amended, amended and restated, supplemented or otherwise modified from time-to-time. The LMBE-MC Credit Agreement was terminated in August 2023.

LMBE-MC Holdco. LMBE-MC HoldCo I LLC, a direct subsidiary of Talen Generation and the parent of LMBE-MC that, through its subsidiaries, owns generation facility operations in Pennsylvania.

LMBE-MC RCF. The revolving credit facility, including a letter of credit sub-facility, maturing in December 2023, established under the LMBE-MC Credit Agreement. Obligations under the LMBE-MC RCF were guaranteed by LMBE-MC Holdco and its subsidiaries and secured by a first priority lien and security interest in substantially all of their assets. The LMBE-MC RCF was terminated in August 2023. See Note 13 in Notes to the Annual Financial Statements for additional information.

LMBE-MC TLB. The term loan B facility, due December 2025, established under the LMBE-MC Credit and Guaranty Agreement. Obligations under the LMBE-MC TLB were guaranteed by LMBE-MC Holdco and its subsidiaries and secured by a first priority lien and security interest in substantially all of their assets. The LMBE-MC TLB was repaid in full and terminated in August 2023. See Note 13 in Notes to the Annual Financial Statements for additional information.

Lower Mt. Bethel. A Talen-owned and operated generation facility in Bangor, Pennsylvania.

Martins Creek. A Talen-owned and operated generation facility in Bangor, Pennsylvania.

MBER. Montana Board of Environmental Review, a state-level government agency responsible for administering environmental regulatory, clean up, monitoring, pollution prevention and energy conservation laws.

MDEQ. Montana Department of Environmental Quality, which is responsible for regulating air, water and ground resources to administer Montana's environmental and mine reclamation laws.

MEIC. Montana Environmental Information Center, a non-partisan, non-profit environmental advocacy group.

MMBtu. One million British Thermal Units.

Montour. A Talen-owned and operated generation facility in Washingtonville, Pennsylvania.

MW. Megawatt, one thousand kilowatts (one million watts) of electric power.

MWh. Megawatt hour, or megawatts of electric power per hour.

Nautilus. Nautilus Cryptomine LLC, a joint venture owned, as of December 31, 2023, 75% by Cumulus Coin and 25% by TeraWulf, which owns and operates a cryptomining project on land leased from Cumulus Data at the Cumulus Data Center Campus.

NAV. Net asset value.

NCI. Noncontrolling interest.

NDT. Nuclear facility decommissioning trust for Susquehanna.

NEIL. Nuclear Electric Insurance Limited.

NEPA. National Environmental Policy Act, which requires federal agencies to assess the environmental effects of their proposed actions prior to making decisions. The range of actions covered by NEPA is broad and includes making decisions on permit applications, adopting federal land management actions, and constructing highways and other publicly-owned facilities.

NERC. North American Electric Reliability Corporation, a not-for-profit international regulatory authority whose mission is to assure the effective and efficient reduction of risks to the reliability and security of the grid.

NorthWestern. NorthWestern Corporation d/b/a NorthWestern Energy, a co-owner in Colstrip.

NRC. U.S. Nuclear Regulatory Commission, which was created as an independent agency by Congress in 1974 to ensure the safe use of radioactive materials for beneficial civilian purposes while protecting people and the environment. The NRC regulates commercial nuclear power plants and other uses of nuclear materials, such as in nuclear medicine, through licensing, inspection and enforcement of its requirements.

Nuclear PTC. The nuclear production tax credit under the Inflation Reduction Act.

Nueces Bay. A Talen-owned and operated generation facility in Corpus Christi, Texas.

Operating Reserve Demand Curve. A market mechanism that values operating reserves in the wholesale electric market based on the scarcity of those reserves and reflects that value in energy prices.

Orion. Orion Energy Partners, whose affiliates were third-party lenders under the Cumulus Digital TLF.

OSM. U.S. Office of Surface Mining Reclamation and Enforcement.

Ozone Season. A period of time in which ground-level ozone reaches its highest concentrations in the air.

Ozone Transport Commission. A multi-state organization created under the Clean Air Act responsible for advising the EPA and implementing regional solutions to ground-level ozone issues.

PA DEP. Pennsylvania Department of Environmental Protection, the agency in the state of Pennsylvania responsible for protecting and preserving the land, air, water and public health through enforcement of the state's environmental laws.

Pattern Energy. Pattern Renewables 2 LP, an unaffiliated third party in which Riverstone holds a minority interest.

PEDFA Bonds. The following series of Pennsylvania Economic Development Financing Authority ("PEDFA") Exempt Facilities Revenue Refunding Bonds: Series 2009A due December 2038 ("PEDFA 2009A Bonds"); Series 2009B due December 2038 ("PEDFA 2009B Bonds"); and Series 2009C due December 2037 ("PEDFA 2009C Bonds"). All series of the PEDFA Bonds were guaranteed by certain of the Prepetition Guarantors. Holders of the PEDFA 2009A Bonds received TEC common stock in connection with the Restructuring in satisfaction of their claims. The PEDFA 2009B Bonds and PEDFA 2009C Bonds currently remain outstanding and are guaranteed by certain of the Subsidiary Guarantors.

Petition Date. With respect to a Debtor, the date on which such Debtor commenced its Chapter 11 Case, either May 9, 2022 or May 10, 2022.

PIK. Paid-in-kind.

PJM. PJM Interconnection, L.L.C., the RTO that operates the electricity transmission network and wholesale power 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.

PJM ACR. PJM's "Avoidable Cost Rate" defined under the PJM Open Access Transmission Tariff, if the formula that serves as the PJM MSOC.

PJM Base Residual Auction. A component of the PJM RPM, the PJM Base Residual Auction, is intended to secure power supply resources from market participants in advance of the PJM Capacity Year. It is usually held during the month of May three years prior to the start of the PJM Capacity Year.

PJM Capacity Year. PJM capacity revenues delivery years cover the period from June 1 to May 31.

PJM IMM. Independent Market Monitor for PJM, who is intended to operate independently from PJM staff and members to objectively monitor, investigate, evaluate and report on PJM's markets and is responsible for guarding against the exercise of market power.

PJM MOPR. Minimum Offer Price Rule, which limits the minimum price at which certain units can bid into the auction due to certain external subsidization.

PJM MSOC. PJM Market Seller Offer Cap, which is the price ceiling applied by PJM to certain capacity sell offers and is based on the PJM ACR.

PJM RPM. PJM's capacity market, or the Reliable Pricing Model, formed under PJM's Open Access Transmission Tariff, which is intended to ensure long-term grid reliability by securing the appropriate amount of power supply resources needed to meet predicted energy demand in the future. Under PJM's "pay-for-performance" model, generation resources are required to deliver on demand during system emergencies or owe a payment for non-performance.

Plan of Reorganization. The *Joint Chapter 11 Plan of Reorganization of Talen Energy Supply, LLC and Its Affiliated Debtors* [Docket No. 1206], as subsequently amended, supplemented or otherwise modified, and any exhibits or schedules thereto.

PP&E. Property, plant and equipment.

PPL. PPL Corporation, the former indirect parent holding company of Talen Energy Supply and Talen Energy Corporation until 2015.

Predecessor. Relates to the financial position or results of operations of Talen Energy Supply for periods prior to Emergence, or May 17, 2023.

Prepetition CAF. The Credit Agreement, dated as of December 14, 2021, as subsequently amended, supplemented or otherwise modified, among Talen Energy Supply, as parent, Talen Energy Marketing and Susquehanna, as borrowers, the lenders party thereto, and Alter Domus (US) LLC, as administrative agent, which established a senior secured commodity accordion revolving credit facility. Obligations under the Prepetition CAF were guaranteed by the Prepetition Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Prepetition Guarantors.

Prepetition Deferred Capacity Obligations. Prepetition obligations arising under an auction specific MW transaction confirmation, executed in March 2021, between Talen and an unaffiliated third party, which involved the transfer by a Talen subsidiary to the third party of capacity rights and revenues associated with physical MW of capacity cleared under the PJM capacity auctions for planning years 2020/2021 and 2021/2022. These obligations had been fully performed as of June 2022.

Prepetition Guarantors. Certain wholly owned subsidiaries of Talen Energy Supply that guaranteed obligations under the Prepetition Indebtedness and the Prepetition Secured ISDAs.

Prepetition Indebtedness. Collectively, the Prepetition RCF, Prepetition TLB, Prepetition CAF, Prepetition Secured Notes, Prepetition Unsecured Notes and PEDFA Bonds.

Prepetition LCFs. Collectively, TES's prepetition unsecured, bilateral LC facilities (i) with Credit Suisse International, which expired in June 2023; and (ii) with Goldman Sachs Bank USA, which was terminated in May 2023. Obligations under the Prepetition LCFs were guaranteed by the Prepetition Guarantors.

Prepetition RCF. The Credit Agreement dated as of June 1, 2015, as subsequently amended, supplemented or otherwise modified, among Talen Energy Supply, as borrower, Citibank, N.A., as administrative agent and collateral trustee, and the lenders party thereto, which established a senior secured revolving credit facility, including an LC sub-facility, which was subsequently amended to an LC-only facility. Obligations under the Prepetition RCF were guaranteed by the Prepetition Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Prepetition Guarantors.

Prepetition Secured Indebtedness. Collectively, the Prepetition RCF, Prepetition TLB, Prepetition CAF and Prepetition Secured Notes.

Prepetition Secured ISDAs. Certain prepetition bilateral secured ISDA and NAESB agreements of Talen Energy Marketing. Obligations under the Prepetition Secured ISDAs were secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Prepetition Guarantors.

Prepetition Secured Notes. The following series of prepetition senior secured notes issued by Talen Energy Supply, which were guaranteed by the Prepetition Guarantors and secured by a first priority lien on and security interest in substantially all of the assets of Talen Energy Supply and the Prepetition Guarantors: (i) 7.25% Senior Secured Notes due 2027; (ii) 6.625% Senior Secured Notes due 2028; and (iii) 7.625% Senior Secured Notes due 2028.

Prepetition TLB. The Term Loan Credit Agreement, dated as of July 8, 2019, as subsequently amended, supplemented or otherwise modified, among Talen Energy Supply, as borrower, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, which established a senior secured term loan B facility. Obligations under the Prepetition TLB were guaranteed by the Prepetition Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Prepetition Guarantors.

Prepetition Unsecured Notes. The following series of prepetition senior unsecured notes issued by Talen Energy Supply, which were guaranteed by certain Prepetition Guarantors: (i) 4.6% Senior Notes due December 2021; (ii) 9.5% Senior Notes due July 2022; (iii) 6.5% Senior Notes due September 2024; (iv) 6.5% Senior Notes due June 2025; (v) 10.5% Senior Notes due January 2026; (vi) 7.0% Senior Notes due October 2027; and (vii) 6.0% Senior Notes due December 2036.

Price-Anderson Act. A federal law governing liability related issues and ensuring the availability of funds for public liability claims arising from an incident at any United States licensed nuclear facility.

PUCT. Public Utility Commission of Texas, which regulates the Texas electric, telecommunication, water and sewer utilities, implements respective legislation and offers customer assistance in resolving consumer complaints.

PUCT PCM. Performance Credit Mechanism, a market mechanism adopted by the PUCT in 2023.

Puget Sound. Puget Sound Energy Inc., an energy utility company based in the U.S. state of Washington that provides electrical power and natural gas to the Puget Sound region.

RACT. Reasonably Available Control Technology, a pollution control standard.

RCF. The senior secured revolving credit facility that provides aggregate revolving commitments of $700 million, including letter of credit commitments of $475 million, under the Credit Agreement. Obligations under the RCF are guaranteed by the Subsidiary Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Subsidiary Guarantors.

Reg Rights Holders. Certain designated holders of TEC common stock and warrants to purchase TEC common stock that are party to the Registration Rights Agreement, and other holders of our common stock and warrants from time to time party thereto.

Registration Rights Agreement. The Registration Rights Agreement dated as of May 17, 2023 between TEC and the Reg Rights Holders that, among other things, granted customary registration rights to the Reg Rights Holders and certain of their permitted transferees, including customary shelf registration rights and piggyback rights.

Reliability Must Run. Refers to a generating unit that is slated to be retired by its owners but is needed to be available for reasons of reliability. It is typically requested to remain operational beyond its proposed retirement date until transmission upgrades are completed. These arrangements have been used to keep certain power plants operating past their planned retirement dates in order to prevent reliability problems.

Restructuring. The voluntary cases commenced by the Debtors under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court, together with the related financial restructuring of the Debtors' existing debt, existing equity interests and certain other obligations pursuant to the Plan of Reorganization.

Retail PPA Incentive Equity. The right of Riverstone, pursuant to the Plan of Reorganization and TEC Global Settlement, to receive additional TEC common stock at and after Emergence based on the prices to be paid by Cumulus Data to Talen Generation for electricity generated at Susquehanna under retail electricity supply agreements. At Emergence, TEC issued approximately 243,000 shares of TEC common stock to Riverstone in respect of the Retail PPA Incentive Equity. In addition, the Retail PPA Incentive Equity also included a right of Riverstone to receive additional TEC common stock (or, at TEC's option, a cash payment) in the event Cumulus Data exercised an additional option to purchase power from Talen Generation. In September 2023, Riverstone waived its right to these additional amounts in exchange for a cash payment. See Note 16 in Notes to the Interim Financial Statements and Note 16 in Notes to the Annual Financial Statements for additional information.

RGGI. The Regional Greenhouse Gas Initiative, a mandatory market-based program among certain states, including Maryland, New Jersey and Massachusetts, to cap and reduce carbon dioxide emissions from the power sector. RGGI requires certain electric power generators to hold allowances equal to their carbon dioxide emissions over a three-year control period. RGGI allowances, as issued by each participating state, represent an authorization for a power generation facility to emit one short ton of carbon dioxide. Allowances may be acquired by auction or through secondary markets. Pennsylvania has proposed joining this market-based program.

Rights Offering. The equity rights offering conducted in April and May 2023 in accordance with the RSA, resulting in subscriptions to purchase $1.4 billion of TEC common stock pursuant to the Plan of Reorganization.

Riverstone. Riverstone Holdings LLC and certain of its affiliates.

Rosebud Mine. A coal mine in Montana owned by Westmoreland Rosebud Mining, LLC that supplies coal to the Colstrip Units.

RSA. The Restructuring Support Agreement (and all exhibits and schedules thereto), dated as of May 9, 2022, by and between the Debtors, certain holders of claims under the Prepetition Unsecured Notes, Prepetition CAF, Prepetition TLB and Prepetition Secured Notes, Riverstone and TEC, as subsequently amended, supplemented or otherwise modified, and any exhibits or schedules thereto.

RTO. Regional Transmission Organization.

Secured ISDAs. Certain bilateral secured ISDA and NAESB agreements of Talen Energy Marketing. Obligations under the Secured ISDAs are secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Subsidiary Guarantors.

Secured Notes. The 8.625% Senior Secured Notes due 2030 issued by Talen Energy Supply. Obligations under the Secured Notes are guaranteed by the Subsidiary Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Subsidiary Guarantors.

SOFR. Secured Overnight Financing Rate.

Stockholders Agreement. The Stockholders Agreement, dated as of May 17, 2023, between TEC and the holders of TEC common stock at Emergence.

Subsidiary Guarantors. The subsidiaries of TES that guarantee: (i) the obligations of TES under the Credit Facilities and the Secured Notes; and (ii) the obligations of Talen Energy Marketing under the Secured ISDAs.

Successor. Relates to the financial position or results of operations of Talen Energy Corporation for periods after Emergence, or May 18, 2023.

Susquehanna. A nuclear-powered generation facility located near Berwick, Pennsylvania.

Susquehanna Nuclear. Susquehanna Nuclear, LLC, a direct subsidiary of Talen Energy Supply. Susquehanna Nuclear operates and owns a 90% undivided interest in Susquehanna.

Talen (or the "Company," "we," "us," or "our"). (i) for periods after May 17, 2023, Talen Energy Corporation and its consolidated subsidiaries, unless the context clearly indicates otherwise; and (ii) for periods on or before May 17, 2023, Talen Energy Supply and its consolidated subsidiaries, unless the context clearly indicates otherwise.

Talen Energy Corporation (or "TEC"). Talen Energy Corporation, the parent company of Talen Energy Supply, and its consolidated subsidiaries.

Talen Energy Marketing. Talen Energy Marketing, LLC, a direct subsidiary of Talen Energy Supply that provides energy management services to Talen-owned and operated generation facilities and engages in wholesale commodity marketing activities.

Talen Energy Supply (or "TES"). Talen Energy Supply, LLC, a direct subsidiary of Talen Energy Corporation that, thorough subsidiaries, indirectly holds all of Talen's assets and operations.

Talen Generation. Talen Generation, LLC, a direct subsidiary of Talen Energy Supply that, through its subsidiaries, owns and operates generation facilities, and holds interests in other jointly owned, third-party operated generation facilities, in Pennsylvania, New Jersey and Maryland.

Talen Montana. Talen Montana, LLC, a Talen subsidiary that operates the Colstrip Units and owns an undivided interest in Colstrip Unit 3 and is party to a contractual economic sharing agreement for Colstrip Units 3 and 4.

TEC Global Settlement. The settlement of all claims, interests and controversies among the Debtors, Riverstone, TEC and certain other creditors in the Restructuring, the terms of which are set out in the fifth amendment to the RSA and the attachments thereto.

TeraWulf. TeraWulf (Thales) LLC, a wholly owned subsidiary of TeraWulf Inc. and an unaffiliated third party.

Term Loans. Collectively, the TLB and the TLC.

TERP. The Talen Energy Retirement Plan, Talen's principal defined-benefit pension plan.

TLB. The senior secured term loan B facility in an aggregate principal amount of $580 million (and subsequently increased to $870 million in August 2023) under the Credit Agreement. Obligations under the TLB are guaranteed by the Subsidiary Guarantors and secured by a first priority lien and security interest in substantially all of the assets of TES and the Subsidiary Guarantors.

TLC. The senior secured term loan C facility in an aggregate principal amount of $470 million under the Credit Agreement, the proceeds of which are available to support the issuance of standby and trade LCs under the TLC LCF via 100% cash collateralization. Obligations under the TLC are guaranteed by the Subsidiary Guarantors and secured by a first priority lien and security interest in substantially all of the assets of TES and the Subsidiary Guarantors.

TLC LCF. The $470 term letter of credit facility established under the Credit Agreement. The TLC LCF is cash collateralized with the proceeds of the TLC, and commitments thereunder are reduced to the extent that borrowings under the TLC are prepaid.

TRF. Talen Receivables Funding, LLC, a direct subsidiary of Talen Energy Marketing that, prior to the Restructuring, purchased certain receivables from Talen Energy Marketing and sold them to an unaffiliated financial institution. That agreement was terminated during the second quarter 2022 as a result of the Restructuring. In November 2023, TRF was merged with and into Talen Energy Marketing.

VIE. Variable interest entity.

WECC. The Western Electricity Coordinating Council, a not-for-profit entity that ensures the reliability of the electricity transmission network and energy market in all or parts of Arizona, California, Idaho, Montana, Nevada, New Mexico, Oregon, South Dakota, Texas, Utah, Washington, the Canadian provinces of Alberta and British Columbia and the northern portion of the Mexican state of Baja California.

Winter Storm Elliott. An extra-tropical cyclone that occurred in December 2022 that created a storm of snow, rain and wind across the country. The winter cyclone had widespread impacts across the United States and caused PJM to declare a Maximum Generation Emergency Action.

Winter Storm Uri. A major winter and ice storm that occurred in February 2021 that had widespread impacts across the United States, including systemic energy market disruptions and price volatility throughout ERCOT.

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