

SEC Form 10-Q

September 30, 2017

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Form 10-Q

PPL CORP - PPL

Filed: November 01, 2017 (period: September 30, 2017)

Quarterly report with a continuing view of a company's financial position

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

FORM 10-Q

- [X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2017
- OR
- [] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

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

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

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

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

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

If emerging growth companies, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

PPL Corporation	[]
PPL Electric Utilities Corporation	[]
LG&E and KU Energy LLC	[]
Louisville Gas and Electric Company	[]
Kentucky Utilities Company	[]

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

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

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

PPL Corporation	Common stock, \$0.01 par value, 688,464,316 shares outstanding at October 25, 2017.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 25, 2017.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at October 25, 2017.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 25, 2017.

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

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

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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This combined Form 10-Q is separately filed by the following Registrants in their individual capacity: PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant, except that information under "Forward-Looking Information" relating to subsidiaries of PPL Corporation is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

U - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

LKE - LG&E and KU Energy LLC, a subsidiary of PPL and the parent of LG&E, KU and other subsidiaries.

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides administrative, management, and support services primarily to LKE and its subsidiaries.

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

PPL Capital Funding - PPL Capital Funding, Inc., a financing subsidiary of PPL that provides financing for the operations of PPL and certain subsidiaries. Debt issued by PPL Capital Funding is guaranteed as to payment by PPL.

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

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Global and other subsidiaries.

PPL EU Services - PPL EU Services Corporation, a subsidiary of PPL that provides administrative, management and support services primarily to PPL Electric.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that, primarily through its subsidiaries, owns and operates WPD, PPL's regulated electricity distribution businesses in the U.K.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides administrative, management and support services to PPL and its subsidiaries.

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global, which carries a liability for a closed defined benefit pension plan and a receivable from WPD plc. Following a reorganization in October 2015, PPL WPD Limited is now parent to WPD plc having previously been a sister company.

WPD - refers to PPL WPD Limited and its subsidiaries.

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

WPD plc - Western Power Distribution plc, a direct U.K. subsidiary of PPL WPD Limited. Its principal indirectly owned subsidiaries are WPD (East Midlands), WPD (South Wales), WPD (South West) and WPD (West Midlands).

WPD Midlands - refers to WPD (East Midlands) and WPD (West Midlands), collectively.

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

2016 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2016.

Act 11 - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorizes the PUC to approve two specific ratemaking mechanisms: the use of a fully projected future test year in base rate proceedings and, subject to certain conditions, a DSIC.

Act 129 - Act 129 of 2008 that became effective in October 2008. The law amended the Pennsylvania Public Utility Code and created an energy efficiency and conservation program and smart metering technology requirements, adopted new PLR electricity supply procurement rules, provided remedies for market misconduct and changed the Alternative Energy Portfolio Standard.

Act 129 Smart Meter program - PPL Electric's system wide meter replacement program that installs wireless digital meters that provide secure communication between PPL Electric and the meter as well as all related infrastructure.

Advanced Metering System - meters and meter reading systems that provide two-way communication capabilities, which communicate usage and other relevant data to LG&E and KU at regular intervals, and are also able to receive information from LG&E and KU, such as software upgrades and requests to provide meter readings in real time.

AOI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

ATM Program - PPL's at-the-market common stock offering program.

BEST - Best System of Emission Reduction. The degree of emission reduction the EPA determines has been adequately demonstrated when taking into account the cost of achieving such reduction and any non-air quality health and environmental impact and energy requirements.

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

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

Clean Water Act - federal legislation enacted to address certain environmental issues relating to water quality including effluent discharges, cooling water intake, and dredge and fill activities.

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of certain plant, equipment, property or facility for furnishing of utility service to the public.

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

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

Distribution Automation - advanced grid intelligence enabling LG&E and KU to perform remote monitoring and control, circuit segmentation and "self-healing" of select distribution system circuits, improving grid reliability and efficiency.

DNO - Distribution Network Operator in the U.K.

DRIP - PPL Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan.

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DSIC - the Distribution System Improvement Charge authorized under Act 11, which is an alternative ratemaking mechanism providing more-timely cost recovery of qualifying distribution system capital expenditures.

DSM- Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM programs proposed by any utility under its jurisdiction. DSM programs consist of energy efficiency programs intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information regarding their energy usage and support energy efficiency.

Earnings from Ongoing Operations - A non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

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

ELG(s)- Effluent Limitation Guidelines, regulations promulgated by the EPA.

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

EPS - Earnings per share.

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

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

GBP -British pound sterling.

GHG(s) -greenhouse gas(es).

GLT - Gas Line Tracker. The KPSC approved mechanism for LG&E's recovery of costs associated with gas transmission lines, gas service lines, gas risers, leak mitigation, and gas main replacements.

IBEW - International Brotherhood of Electrical Workers.

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

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

LCIDA - Lehigh County Industrial Development Authority.

LIBOR - London Interbank Offered Rate.

Margins - A non-GAAP financial measure of performance used in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

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

MW - megawatt, one thousand kilowatts.

NAAQS - National Ambient Air Quality Standards periodically adopted pursuant to the Clean Air Act.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle generating plant.

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

OCI - other comprehensive income or loss.

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

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined summer rating capacities of 2,120 MW.

Performance Unit - A stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of total shareholder return over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index.

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

PP&E - property, plant and equipment.

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

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions are based on a percentage of annual total expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

RCRA - Resource Conservation and Recovery Act of 1976.

Registrant(s) - refers to the Registrants named on the cover of this Report (each a "Registrant" and collectively, the "Registrants").

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

RFC - ReliabilityFirst Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

RIIO - Ofgem's framework for setting U.K. regulated gas and electric utility price controls which stands for "Revenues = Incentive + Innovation + Outputs." RIIO-1 refers to the first generation of price controls under the RIIO framework. RIIO-ED1 refers to the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, the duration of which is April 2015 through March 2023. RIIO-2 refers to the second generation of price controls under the RIIO framework. RIIO-ED2 refers to the second regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

RPI - Retail Price Index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

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

S&P - S&P Global Ratings, a credit rating agency.

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

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

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency primarily responsible to protect investors and maintain the integrity of the securities markets.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

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

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

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

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

U.K. Finance Acts - refers to U.K. Finance Act of 2015 and 2016, enacted in November 2015 and September 2016 respectively, which collectively reduced the U.K. statutory corporate income tax rate from 20% to 19%, effective April 1, 2017 and from 19% to 17%, effective April 1, 2020.

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

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Forward-looking Information

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2016 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue filings;
- changes in U.S. or U.K. tax laws or regulations;
- effects of cyber-based intrusions or natural disasters, threatened or actual terrorism, war or other hostilities;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- the March 29, 2017 notification by the U.K. to the European Council of the European Union of the U.K.'s intent to withdraw from the European Union and any actions in response thereto;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;

- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of unrecorded commitments and liabilities, if any, of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of GHGs or the physical effects of climate change;
- continuing ability to access fuel supply for LG&E and KU, as well as the ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU and natural gas supply costs at LG&E;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

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

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

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues	\$ 1,845	\$ 1,889	\$ 5,521	\$ 5,685
Operating Expenses				
Operation				
Fuel	202	227	576	607
Energy purchases	143	151	494	531
Other operation and maintenance	397	417	1,217	1,292
Depreciation	257	232	745	692
Taxes, other than income	69	76	214	229
Total Operating Expenses	1,068	1,103	3,246	3,351
Operating Income	777	786	2,275	2,334
Other Income (Expense) - net	(76)	49	(235)	284
Interest Expense	230	223	669	671

Income Before Income Taxes	471	612	1,371	1,947
Income Taxes	116	139	321	510
Net Income	\$ 355	\$ 473	\$ 1,050	\$ 1,437
Earnings Per Share of Common Stock:				
Net Income Available to PPL Common Shareowners:				
Basic	\$ 0.52	\$ 0.70	\$ 1.53	\$ 2.12
Diluted	\$ 0.51	\$ 0.69	\$ 1.53	\$ 2.11
Dividends Declared Per Share of Common Stock	\$ 0.3950	\$ 0.38	\$ 1.185	\$ 1.14
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	686,563	678,114	683,783	676,905
Diluted	688,746	680,348	686,081	679,969

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

. 'PL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 355	\$ 473	\$ 1,050	\$ 1,437
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax expense) benefit:				
Foreign currency translation adjustments, net of tax of \$0, (\$2), (\$1), (\$4)	(12)	(641)	195	(837)
Qualifying derivatives, net of tax of \$0, (\$16), \$7, (\$9)	1	62	(29)	57
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$2, \$4, \$9, \$3	(3)	(6)	(14)	(4)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of \$1, \$17, (\$6), \$15	—	(69)	24	(62)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	—	1	(1)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$1), (\$1)	—	—	1	1
Net actuarial (gain) loss, net of tax of (\$10), (\$10), (\$28), (\$27)	34	31	97	94
Total other comprehensive income (loss)	20	(623)	275	(752)
Comprehensive income (loss)	\$ 375	\$ (150)	\$ 1,325	\$ 685

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 1,050	\$ 1,437
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	745	692
Amortization	72	54
Defined benefit plans - expense (income)	(69)	(29)
Deferred income taxes and investment tax credits	284	436
Unrealized (gains) losses on derivatives, and other hedging activities	194	107
Stock-based compensation expense	30	23
Other	(8)	(12)
Change in current assets and current liabilities		
Accounts receivable	25	(29)
Accounts payable	(93)	(40)
Unbilled revenues	81	32
Fuel, materials and supplies	35	8
Prepayments	(37)	(34)
Taxes payable	6	40
Regulatory assets and liabilities, net	(3)	(32)
Accrued interest	49	32
Other current liabilities	(53)	(48)
Other	5	(5)
Other operating activities		
Defined benefit plans - funding	(558)	(345)
Other assets	4	18
Other liabilities	(5)	(75)

Net cash provided by operating activities	1,754	2,230
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(2,152)	(2,073)
Expenditures for intangible assets	(25)	(23)
Other investing activities	13	30
Net cash used in investing activities	(2,164)	(2,066)
Cash Flows from Financing Activities		
Issuance of long-term debt	1,088	1,241
Retirement of long-term debt	(60)	(905)
Settlement of cross-currency swaps	—	46
Issuance of common stock	275	133
Payment of common stock dividends	(800)	(772)
Net increase (decrease) in short-term debt	269	(268)
Other financing activities	(34)	(33)
Net cash provided by (used in) financing activities	738	(558)
Effect of Exchange Rates on Cash and Cash Equivalents	7	(26)
Net Increase (Decrease) in Cash and Cash Equivalents	335	(420)
Cash and Cash Equivalents at Beginning of Period	341	836
Cash and Cash Equivalents at End of Period	\$ 676	\$ 416

Supplemental Disclosures of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$ 373	\$ 293
Accrued expenditures for intangible assets at September 30,	\$ 60	\$ 104

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

CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 676	\$ 341
Accounts receivable (less reserve: 2017, \$52; 2016, \$54)		
Customer	617	666
Other	96	46
Unbilled revenues	405	480
Fuel, materials and supplies	323	356
Prepayments	101	63
Price risk management assets	57	63
Other current assets	56	52
Total Current Assets	2,331	2,067
Property, Plant and Equipment		
Regulated utility plant	36,678	34,674
Less: accumulated depreciation - regulated utility plant	6,624	6,013
Regulated utility plant, net	30,054	28,661
Non-regulated property, plant and equipment	422	413
Less: accumulated depreciation - non-regulated property, plant and equipment	154	134

Non-regulated property, plant and equipment, net	268	279
Construction work in progress	1,494	1,134
Property, Plant and Equipment, net	31,816	30,074
Other Noncurrent Assets		
Regulatory assets	1,869	1,918
Goodwill	3,134	3,060
Other intangibles	666	700
Pension benefit asset	532	9
Price risk management assets	267	336
Other noncurrent assets	143	151
Total Other Noncurrent Assets	6,611	6,174
Total Assets	\$ 40,758	\$ 38,315

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

CONDENSED CONSOLIDATED BALANCE SHEETS**. PL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,211	\$ 923
Long-term debt due within one year	448	518
Accounts payable	838	820
Taxes	110	101
Interest	322	270
Dividends	272	259
Customer deposits	291	276
Regulatory liabilities	87	101
Other current liabilities	570	569
Total Current Liabilities	<u>4,149</u>	<u>3,837</u>
Long-term Debt	<u>19,110</u>	<u>17,808</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	4,224	3,889
Investment tax credits	130	132
Accrued pension obligations	796	1,001
Asset retirement obligations	312	428

Regulatory liabilities	873	899
Other deferred credits and noncurrent liabilities	472	422
Total Deferred Credits and Other Noncurrent Liabilities	6,807	6,771

Commitments and Contingent Liabilities (Notes 6 and 9)

Equity

Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	10,122	9,841
Earnings reinvested	4,066	3,829
Accumulated other comprehensive loss	(3,503)	(3,778)
Total Equity	10,692	9,899
Total Liabilities and Equity	\$ 40,758	\$ 38,315

) 1,560,000 shares authorized; 688,133 and 679,731 shares issued and outstanding at September 30, 2017 and December 31, 2016.

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	8,402		303			303
Stock-based compensation			(22)			(22)
Net income				1,050		1,050
Dividends and dividend equivalents				(813)		(813)
Other comprehensive income (loss)					275	275
September 30, 2017	<u>688,133</u>	<u>\$ 7</u>	<u>\$ 10,122</u>	<u>\$ 4,066</u>	<u>\$ (3,503)</u>	<u>\$ 10,692</u>
December 31, 2015	673,857	\$ 7	\$ 9,687	\$ 2,953	\$ (2,728)	\$ 9,919
Common stock issued	5,411		168			168
Stock-based compensation			(31)			(31)
Net income				1,437		1,437
Dividends and dividend equivalents				(773)		(773)
Other comprehensive income (loss)					(752)	(752)
Adoption of stock-based compensation guidance cumulative effect adjustment				7		7
September 30, 2016	<u>679,268</u>	<u>\$ 7</u>	<u>\$ 9,824</u>	<u>\$ 3,624</u>	<u>\$ (3,480)</u>	<u>\$ 9,975</u>

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Electric Utilities Corporation and Subsidiaries

(Inaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues	\$ 547	\$ 539	\$ 1,620	\$ 1,619
Operating Expenses				
Operation				
Energy purchases	121	129	374	414
Other operation and maintenance	133	144	435	431
Depreciation	77	64	228	185
Taxes, other than income	27	26	79	79
Total Operating Expenses	358	363	1,116	1,109
Operating Income	189	176	504	510
Other Income (Expense) - net	4	4	8	12
Interest Income from Affiliate	2	—	3	—
Interest Expense	36	32	105	97
Income Before Income Taxes	159	148	410	425
Income Taxes	64	58	159	162
Net Income (a)	\$ 95	\$ 90	\$ 251	\$ 263

(-) Net income equals comprehensive income.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Electric Utilities Corporation and Subsidiaries

(Inaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 251	\$ 263
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	228	185
Amortization	25	19
Defined benefit plans - expense	10	9
Deferred income taxes and investment tax credits	129	151
Other	(8)	(14)
Change in current assets and current liabilities		
Accounts receivable	7	(6)
Accounts payable	(38)	(1)
Unbilled revenues	30	10
Prepayments	(31)	29
Regulatory assets and liabilities, net	—	(41)
Taxes payable	10	(6)
Other	(9)	(13)
Other operating activities		
Defined benefit plans - funding	(24)	—
Other assets	(2)	15
Other liabilities	(3)	(5)
Net cash provided by operating activities	<u>575</u>	<u>595</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(851)	(739)
Expenditures for intangible assets	(7)	(3)
Net increase in notes receivable from affiliate	(2)	—
Other investing activities	2	2

Net cash used in investing activities	<u>(858)</u>	<u>(740)</u>
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Cash Flows from Financing Activities

Issuance of long-term debt	470	224
Retirement of long-term debt	—	(224)
Contributions from parent	575	200
Payment of common stock dividends to parent	(231)	(193)
Net increase (decrease) in short-term debt	(295)	130
Other financing activities	<u>(6)</u>	<u>(3)</u>
Net cash provided by financing activities	<u>513</u>	<u>134</u>

Net Increase (Decrease) in Cash and Cash Equivalents	230	(11)
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Cash and Cash Equivalents at Beginning of Period	<u>13</u>	<u>47</u>
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Cash and Cash Equivalents at End of Period	<u>\$ 243</u>	<u>\$ 36</u>
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Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$ 190	\$ 166
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Inaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 243	\$ 13
Accounts receivable (less reserve: 2017, \$25; 2016, \$28)		
Customer	275	272
Other	10	21
Accounts receivable from affiliates	1	—
Notes receivable from affiliate	2	—
Unbilled revenues	84	114
Materials and supplies	31	32
Prepayments	40	9
Regulatory assets	14	19
Other current assets	11	8
Total Current Assets	<u>711</u>	<u>488</u>
Property, Plant and Equipment		
Regulated utility plant	10,449	9,654
Less: accumulated depreciation - regulated utility plant	2,880	2,714
Regulated utility plant, net	<u>7,569</u>	<u>6,940</u>
Construction work in progress	699	641
Property, Plant and Equipment, net	<u>8,268</u>	<u>7,581</u>
Other Noncurrent Assets		
Regulatory assets	1,073	1,094
Intangibles	256	251

Other noncurrent assets	15	12
Total Other Noncurrent Assets	1,344	1,357
Total Assets	\$ 10,323	\$ 9,426

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

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ —	\$ 295
Long-term debt due within one year	—	224
Accounts payable	397	367
Accounts payable to affiliates	38	42
Taxes	22	12
Interest	38	34
Regulatory liabilities	72	83
Other current liabilities	90	101
Total Current Liabilities	<u>657</u>	<u>1,158</u>
Long-term Debt	<u>3,298</u>	<u>2,607</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,036	1,899
Accrued pension obligations	257	281
Other deferred credits and noncurrent liabilities	89	90
Total Deferred Credits and Other Noncurrent Liabilities	<u>2,382</u>	<u>2,270</u>
Commitments and Contingent Liabilities (Notes 6 and 9)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,729	2,154

Earnings reinvested	<u>893</u>	<u>873</u>
Total Equity	<u>3,986</u>	<u>3,391</u>
Total Liabilities and Equity	<u>\$ 10,323</u>	<u>\$ 9,426</u>

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2017 and December 31, 2016.

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391
Net income				251	251
Capital contributions from PPL			575		575
Dividends declared on common stock				(231)	(231)
September 30, 2017	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 2,729</u>	<u>\$ 893</u>	<u>\$ 3,986</u>
December 31, 2015	66,368	\$ 364	\$ 1,934	\$ 821	\$ 3,119
Net income				263	263
Capital contributions from PPL			200		200
Dividends declared on common stock				(193)	(193)
September 30, 2016	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 2,134</u>	<u>\$ 891</u>	<u>\$ 3,389</u>

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

LG&E and KU Energy LLC and Subsidiaries

⁽¹⁾Unaudited)

Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues	\$ 818	\$ 835	\$ 2,350	\$ 2,382
Operating Expenses				
Operation				
Fuel	202	227	576	607
Energy purchases	22	24	120	118
Other operation and maintenance	199	197	598	603
Depreciation	114	102	324	301
Taxes, other than income	17	16	49	46
Total Operating Expenses	554	566	1,667	1,675
Operating Income	264	269	683	707
Other Income (Expense) - net	1	(3)	(5)	(9)
Interest Expense	49	50	148	147
Interest Expense with Affiliate	5	4	13	12
Income Before Income Taxes	211	212	517	539
Income Taxes	79	79	195	202
Net Income	\$ 132	\$ 133	\$ 322	\$ 337

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)

(in millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 132	\$ 133	\$ 322	\$ 337
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$0, \$0, \$7, (\$1)	(1)	—	(12)	1
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	—	1	(1)
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$1), (\$1)	—	—	1	1
Net actuarial loss, net of tax of \$0, \$0, (\$2), (\$1)	1	1	3	3
Total other comprehensive income (loss)	—	1	(7)	4
Comprehensive income	\$ 132	\$ 134	\$ 315	\$ 341

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

LG&E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 322	\$ 337
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	324	301
Amortization	19	21
Defined benefit plans - expense	19	20
Deferred income taxes and investment tax credits	173	212
Other	1	—
Change in current assets and current liabilities		
Accounts receivable	18	(43)
Accounts payable	(30)	7
Accounts payable to affiliates	3	4
Unbilled revenues	19	6
Fuel, materials and supplies	34	7
Taxes payable	13	—
Accrued interest	41	42
Other	(1)	(4)
Other operating activities		
Defined benefit plans - funding	(32)	(82)
Expenditures for asset retirement obligations	(22)	(15)
Other assets	5	1
Other liabilities	14	2
Net cash provided by operating activities	<u>920</u>	<u>816</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(579)	(600)
Other investing activities	4	1
Net cash used in investing activities	<u>(575)</u>	<u>(599)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	(4)	84
Issuance of long-term debt	60	221

Retirement of long-term debt	(60)	(221)
Net increase (decrease) in short-term debt	5	(130)
Debt issuance and credit facility costs	(3)	(3)
Distributions to member	(316)	(224)
Contributions from member	—	37
Net cash used in financing activities	(318)	(236)
Net Increase (Decrease) in Cash and Cash Equivalents	27	(19)
Cash and Cash Equivalents at Beginning of Period	13	30
Cash and Cash Equivalents at End of Period	<u>\$ 40</u>	<u>\$ 11</u>

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$ 142	\$ 86
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries

⁽¹⁾ (unaudited)

(billions of Dollars)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 40	\$ 13
Accounts receivable (less reserve: 2017, \$25; 2016, \$24)		
Customer	215	235
Other	43	17
Accounts receivable from affiliates	1	—
Unbilled revenues	151	170
Fuel, materials and supplies	264	297
Prepayments	27	24
Regulatory assets	20	20
Other current assets	8	4
Total Current Assets	769	780
Property, Plant and Equipment		
Regulated utility plant	12,906	12,746
Less: accumulated depreciation - regulated utility plant	1,685	1,465
Regulated utility plant, net	11,221	11,281
Construction work in progress	574	317
Property, Plant and Equipment, net	11,795	11,598
Other Noncurrent Assets		
Regulatory assets	796	824
Goodwill	996	996
Other intangibles	88	95
Other noncurrent assets	71	78

Total Other Noncurrent Assets	1,951	1,993
Total Assets	\$ 14,515	\$ 14,371

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

CONDENSED CONSOLIDATED BALANCE SHEETS

LG&E and KU Energy LLC and Subsidiaries

(Inaudited)

(Millions of Dollars)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 190	\$ 185
Long-term debt due within one year	98	194
Notes payable with affiliate	159	163
Accounts payable	283	251
Accounts payable to affiliates	8	6
Customer deposits	57	56
Taxes	52	39
Price risk management liabilities	5	4
Regulatory liabilities	15	18
Interest	73	32
Asset retirement obligations	94	60
Other current liabilities	125	119
Total Current Liabilities	1,159	1,127
Long-term Debt		
Long-term debt	4,570	4,471
Long-term debt to affiliate	400	400
Total Long-term Debt	4,970	4,871
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,909	1,735
Investment tax credits	130	132
Accrued pension obligations	345	350
Asset retirement obligations	261	373

Regulatory liabilities	873	899
Price risk management liabilities	24	27
Other deferred credits and noncurrent liabilities	178	190
Total Deferred Credits and Other Noncurrent Liabilities	3,720	3,706

Commitments and Contingent Liabilities (Notes 6 and 9)

Member's Equity	4,666	4,667
Total Liabilities and Equity	\$ 14,515	\$ 14,371

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

_G&E and KU Energy LLC and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Member's Equity
December 31, 2016	\$ 4,667
Net income	322
Distributions to member	(316)
Other comprehensive income	(7)
September 30, 2017	\$ 4,666
December 31, 2015	\$ 4,517
Net income	337
Contributions from member	37
Distributions to member	(224)
Other comprehensive income	4
September 30, 2016	\$ 4,671

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

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CONDENSED STATEMENTS OF INCOME**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues				
Retail and wholesale	\$ 361	\$ 366	\$ 1,055	\$ 1,058
Electric revenue from affiliate	2	2	23	19
Total Operating Revenues	363	368	1,078	1,077
Operating Expenses				
Operation				
Fuel	76	86	225	233
Energy purchases	18	19	107	104
Energy purchases from affiliate	3	5	8	10
Other operation and maintenance	89	85	262	264
Depreciation	47	43	136	126
Taxes, other than income	8	9	25	24
Total Operating Expenses	241	247	763	761
Operating Income	122	121	315	316
Other Income (Expense) - net	(1)	(1)	(2)	(6)
Interest Expense	17	18	53	53
Income Before Income Taxes	104	102	260	257

Income Taxes	<u>39</u>	<u>39</u>	<u>99</u>	<u>98</u>
Net Income (a)	<u><u>\$ 65</u></u>	<u><u>\$ 63</u></u>	<u><u>\$ 161</u></u>	<u><u>\$ 159</u></u>

(a) Net income equals comprehensive income.

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

CONDENSED STATEMENTS OF CASH FLOWS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 161	\$ 159
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	136	126
Amortization	11	10
Defined benefit plans - expense	5	6
Deferred income taxes and investment tax credits	96	117
Change in current assets and current liabilities		
Accounts receivable	12	(17)
Accounts receivable from affiliates	6	(11)
Accounts payable	(12)	24
Accounts payable to affiliates	(10)	(6)
Unbilled revenues	11	10
Fuel, materials and supplies	6	11
Taxes payable	(15)	—
Accrued interest	12	13
Other	6	1
Other operating activities		
Defined benefit plans - funding	(3)	(45)
Expenditures for asset retirement obligations	(13)	(11)
Other assets	5	(3)
Other liabilities	4	(1)
Net cash provided by operating activities	<u>418</u>	<u>383</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(293)	(343)
Net cash used in investing activities	<u>(293)</u>	<u>(343)</u>
Cash Flows from Financing Activities		
Net increase in notes payable with affiliates	10	—

Issuance of long-term debt	60	125
Retirement of long-term debt	(60)	(125)
Net increase (decrease) in short-term debt	21	(14)
Debt issuance and credit facility costs	(2)	(1)
Payment of common stock dividends to parent	(150)	(87)
Contributions from parent	—	47
Net cash used in financing activities	(121)	(55)
Net Increase (Decrease) in Cash and Cash Equivalents	4	(15)
Cash and Cash Equivalents at Beginning of Period	5	19
Cash and Cash Equivalents at End of Period	<u>\$ 9</u>	<u>\$ 4</u>

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$ 83	\$ 46
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS**Louisville Gas and Electric Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 9	\$ 5
Accounts receivable (less reserve: 2017, \$1; 2016, \$2)		
Customer	96	109
Other	14	11
Accounts receivable from affiliates	22	28
Unbilled revenues	64	75
Fuel, materials and supplies	137	143
Prepayments	15	12
Regulatory assets	11	9
Other current assets	2	1
Total Current Assets	370	393
Property, Plant and Equipment		
Regulated utility plant	5,447	5,357
Less: accumulated depreciation - regulated utility plant	575	498
Regulated utility plant, net	4,872	4,859
Construction work in progress	279	133
Property, Plant and Equipment, net	5,151	4,992
Other Noncurrent Assets		
Regulatory assets	413	450
Goodwill	389	389
Other intangibles	54	59

Other noncurrent assets	13	17
Total Other Noncurrent Assets	869	915
Total Assets	\$ 6,390	\$ 6,300

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

CONDENSED BALANCE SHEETS**Louisville Gas and Electric Company**

(unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 190	\$ 169
Long-term debt due within one year	98	194
Notes payable with affiliate	10	—
Accounts payable	166	148
Accounts payable to affiliates	17	26
Customer deposits	27	27
Taxes	25	40
Price risk management liabilities	5	4
Regulatory liabilities	5	5
Interest	23	11
Asset retirement obligations	33	41
Other current liabilities	46	36
Total Current Liabilities	<u>645</u>	<u>701</u>
Long-term Debt	<u>1,521</u>	<u>1,423</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,073	974
Investment tax credits	36	36
Accrued pension obligations	47	53
Asset retirement obligations	85	104
Regulatory liabilities	388	419
Price risk management liabilities	24	27

Other deferred credits and noncurrent liabilities	84	87
Total Deferred Credits and Other Noncurrent Liabilities	1,737	1,700

Commitments and Contingent Liabilities (Notes 6 and 9)

Stockholder's Equity

Common stock - no par value (a)	424	424
Additional paid-in capital	1,682	1,682
Earnings reinvested	381	370
Total Equity	2,487	2,476

Total Liabilities and Equity

\$ 6,390	\$ 6,300
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(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2017 and December 31, 2016.

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

CONDENSED STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				161	161
Cash dividends declared on common stock				(150)	(150)
September 30, 2017	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,682</u>	<u>\$ 381</u>	<u>\$ 2,487</u>
December 31, 2015	21,294	\$ 424	\$ 1,611	\$ 295	\$ 2,330
Net income				159	159
Capital contributions from LKE			47		47
Cash dividends declared on common stock				(87)	(87)
September 30, 2016	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,658</u>	<u>\$ 367</u>	<u>\$ 2,449</u>

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

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

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CONDENSED STATEMENTS OF INCOME**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues				
Retail and wholesale	\$ 457	\$ 469	\$ 1,295	\$ 1,324
Electric revenue from affiliate	3	5	8	10
Total Operating Revenues	460	474	1,303	1,334
Operating Expenses				
Operation				
Fuel	126	141	351	374
Energy purchases	4	5	13	14
Energy purchases from affiliate	2	2	23	19
Other operation and maintenance	104	107	313	320
Depreciation	67	59	188	175
Taxes, other than income	9	7	24	22
Total Operating Expenses	312	321	912	924
Operating Income	148	153	391	410
Other Income (Expense) - net	—	(3)	(3)	(4)
Interest Expense	24	24	72	71
Income Before Income Taxes	124	126	316	335
Income Taxes	47	48	120	128
Net Income (a)	\$ 77	\$ 78	\$ 196	\$ 207

(a) Net income approximates comprehensive income.

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

CONDENSED STATEMENTS OF CASH FLOWS**Kentucky Utilities Company**

(Inaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net income	\$ 196	\$ 207
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	188	175
Amortization	7	10
Defined benefit plans - expense	3	4
Deferred income taxes and investment tax credits	116	122
Other	—	(1)
Change in current assets and current liabilities		
Accounts receivable	6	(24)
Accounts receivable from affiliates	(1)	—
Accounts payable	(6)	(11)
Accounts payable to affiliates	(16)	2
Unbilled revenues	8	(4)
Fuel, materials and supplies	28	(4)
Taxes payable	(21)	—
Accrued interest	22	22
Other	(6)	2
Other operating activities		
Defined benefit plans - funding	(22)	(19)
Expenditures for asset retirement obligations	(9)	(4)
Other assets	—	(4)
Other liabilities	8	(4)
Net cash provided by operating activities	501	469
Cash Flows from Investing Activities		

Expenditures for property, plant and equipment	(283)	(255)
Net increase in notes receivable with affiliates	(10)	—
Other investing activities	4	1
Net cash used in investing activities	<u>(289)</u>	<u>(254)</u>

Cash Flows from Financing Activities

Issuance of long-term debt	—	96
Retirement of long-term debt	—	(96)
Net decrease in short-term debt	(16)	(41)
Debt issuance and credit facility costs	(1)	(1)
Payment of common stock dividends to parent	(171)	(197)
Contributions from parent	—	20
Net cash used in financing activities	<u>(188)</u>	<u>(219)</u>

Net Increase (Decrease) in Cash and Cash Equivalents

Cash and Cash Equivalents at Beginning of Period	7	11
Cash and Cash Equivalents at End of Period	<u>\$ 31</u>	<u>\$ 7</u>

Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$ 58	\$ 40
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The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS

Kentucky Utilities Company

(Inaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 31	\$ 7
Accounts receivable (less reserve: 2017, \$1; 2016, \$2)		
Customer	119	126
Other	28	5
Accounts receivable from affiliates	1	—
Notes receivable from affiliate	10	—
Unbilled revenues	87	95
Fuel, materials and supplies	127	154
Prepayments	14	12
Regulatory assets	9	11
Other current assets	6	3
Total Current Assets	432	413
Property, Plant and Equipment		
Regulated utility plant	7,452	7,382
Less: accumulated depreciation - regulated utility plant	1,110	965
Regulated utility plant, net	6,342	6,417
Construction work in progress	293	181
Property, Plant and Equipment, net	6,635	6,598
Other Noncurrent Assets		
Regulatory assets	383	374
Goodwill	607	607

Other intangibles	34	36
Other noncurrent assets	55	57
	<u>1,079</u>	<u>1,074</u>
Total Other Noncurrent Assets		
Total Assets	\$ 8,146	\$ 8,085

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

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Inaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2017	December 31, 2016
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ —	\$ 16
Accounts payable	105	78
Accounts payable to affiliates	42	56
Customer deposits	30	29
Taxes	24	45
Regulatory liabilities	10	13
Interest	38	16
Asset retirement obligations	61	19
Other current liabilities	35	36
Total Current Liabilities	345	308
Long-term Debt	2,328	2,327
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,289	1,170
Investment tax credits	94	96
Accrued pension obligations	37	62
Asset retirement obligations	176	269
Regulatory liabilities	485	480
Other deferred credits and noncurrent liabilities	43	50
Total Deferred Credits and Other Noncurrent Liabilities	2,124	2,127

Commitments and Contingent Liabilities (Notes 6 and 9)

Stockholder's Equity

Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,616
Accumulated other comprehensive loss	—	(1)
Earnings reinvested	425	400
Total Equity	3,349	3,323
Total Liabilities and Equity	\$ 8,146	\$ 8,085

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2017 and December 31, 2016.

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

CONDENSED STATEMENTS OF EQUITY

Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				196		196
Cash dividends declared on common stock				(171)		(171)
Other comprehensive income					1	1
September 30, 2017	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,616</u>	<u>\$ 425</u>	<u>\$ —</u>	<u>\$ 3,349</u>
December 31, 2015	37,818	\$ 308	\$ 2,596	\$ 383	\$ —	\$ 3,287
Capital contributions from LKE			20			20
Net income				207		207
Cash dividends declared on common stock				(197)		(197)
Other comprehensive income (loss)					(1)	(1)
September 30, 2016	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,616</u>	<u>\$ 393</u>	<u>\$ (1)</u>	<u>\$ 3,316</u>

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

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

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(All Registrants)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrants' related activities and disclosures. Within combined disclosures, amounts are disclosed for any Registrant when significant.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements.

All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2016 is derived from that Registrant's 2016 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2016 Form 10-K. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year ending December 31, 2017 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

2. Summary of Significant Accounting Policies

(PPL and PPL Electric)

The following accounting policy disclosures represent updates to Note 1 in each indicated Registrant's 2016 Form 10-K and should be read in conjunction with those disclosures.

Accounts Receivable

In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric purchases certain accounts receivable from alternative electricity suppliers at a discount, which reflects a provision for uncollectible accounts. The alternative electricity

suppliers have no continuing involvement or interest in the purchased accounts receivable. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. During the three and nine months ended September 30, 2017, PPL Electric purchased \$324 million and \$968 million of accounts receivable from alternative energy suppliers. During the three and nine months ended September 30, 2016, PPL Electric purchased \$365 million and \$1.0 billion of accounts receivable from alternative electricity suppliers.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2016 Form 10-K for a discussion of reportable segments and related information.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the periods ended September 30 are as follows:

	Three Months		Nine Months	
	2017	2016	2017	2016
Income Statement Data				
Revenues from external customers				
U.K. Regulated	\$ 477	\$ 515	\$ 1,547	\$ 1,673
Kentucky Regulated	818	835	2,350	2,382
Pennsylvania Regulated	547	539	1,620	1,619
Corporate and Other	3	—	4	11
Total	\$ 1,845	\$ 1,889	\$ 5,521	\$ 5,685
Net Income				
U.K. Regulated (a)	\$ 126	\$ 281	\$ 560	\$ 915
Kentucky Regulated	125	126	299	314
Pennsylvania Regulated	95	91	251	263
Corporate and Other	9	(25)	(60)	(55)
Total	\$ 355	\$ 473	\$ 1,050	\$ 1,437

(a) Includes unrealized gains and losses from hedging foreign-currency related economic activity. See Note 13 for additional information.

The following provides Balance Sheet data for the segments and reconciliation to PPL's consolidated results as of:

	September 30, 2017	December 31, 2016
Balance Sheet Data		
Assets		
U.K. Regulated (a)	\$ 16,052	\$ 14,537

Kentucky Regulated	14,181	14,037
Pennsylvania Regulated	10,323	9,426
Corporate and Other (b)	202	315
Total	\$ 40,758	\$ 38,315

(a) Includes \$11.7 billion and \$10.8 billion of net PP&E as of September 30, 2017 and December 31, 2016. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(b) Primarily consists of unallocated items, including cash, PP&E and the elimination of inter-segment transactions.

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

PPL Electric has two operating segments that are aggregated into a single reportable segment. LKE, LG&E and KU are individually single operating and reportable segments.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the Treasury Stock Method. Incremental non-participating securities that have a dilutive impact are detailed in the table below.

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

	Three Months		Nine Months	
	2017	2016	2017	2016
Income (Numerator)				
Net income	\$ 355	\$ 473	\$ 1,050	\$ 1,437
Less amounts allocated to participating securities	1	1	2	4
Net income available to PPL common shareowners - Basic and Diluted	<u>\$ 354</u>	<u>\$ 472</u>	<u>\$ 1,048</u>	<u>\$ 1,433</u>

Shares of Common Stock (Denominator)

Weighted-average shares - Basic EPS	686,563	678,114	683,783	676,905
Add incremental non-participating securities:				
Share-based payment awards	2,183	2,234	2,298	3,064
Weighted-average shares - Diluted EPS	<u>688,746</u>	<u>680,348</u>	<u>686,081</u>	<u>679,969</u>

Basic EPS

Net Income available to PPL common shareowners	\$ 0.52	\$ 0.70	\$ 1.53	\$ 2.12
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Diluted EPS

Net Income available to PPL common shareowners	\$ 0.51	\$ 0.69	\$ 1.53	\$ 2.11
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For the periods ended September 30, PPL issued common stock related to stock-based compensation plans and the DRIP as follows (in thousands):

	Three Months		Nine Months	
	2017	2016	2017	2016
Stock-based compensation plans (a)	256	248	1,707	3,168
DRIP	355	761	1,169	1,533

(a) Includes stock options exercised, vesting of performance units, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

See Note 7 for additional information on common stock issued under the ATM Program.

For the periods ended September 30, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Nine Months	
	2017	2016	2017	2016
Stock options	696	696	696	696

5. Income Taxes

Reconciliations of income taxes for the periods ended September 30 are as follows.

(PPL)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 165	\$ 214	\$ 480	\$ 681
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	14	13	37	37
Valuation allowance adjustments	4	4	9	13
Impact of lower U.K. income tax rates	(45)	(37)	(133)	(136)
U.S. income tax on foreign earnings - net of foreign tax credit (a)	(8)	(1)	(24)	(3)
Impact of the U.K. Finance Acts (b)	(3)	(42)	(12)	(42)
Depreciation not normalized	(2)	—	(7)	(6)
Interest benefit on U.K. financing entities	(4)	(4)	(12)	(13)
Stock-based compensation	—	(1)	(7)	(12)
Other	(5)	(7)	(10)	(9)
Total increase (decrease)	(49)	(75)	(159)	(171)
Total income taxes	\$ 116	\$ 139	\$ 321	\$ 510

- (a) Lower income taxes primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit is recognized over the annual period as a result of utilizing an estimated annual effective tax rate.
- (b) The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during the three and nine months ended September 30, 2016.

(PPL Electric)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 56	\$ 52	\$ 144	\$ 149
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	9	9	26	27
Depreciation not normalized	(1)	(2)	(5)	(5)
Stock-based compensation	—	—	(5)	(7)
Other	—	(1)	(1)	(2)
Total increase (decrease)	8	6	15	13
Total income taxes	\$ 64	\$ 58	\$ 159	\$ 162

(LKE)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 74	\$ 74	\$ 181	\$ 189
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	8	8	19	20
Amortization of investment tax credit	(1)	(1)	(2)	(2)
Stock-based compensation	—	(1)	(1)	(2)
Other	(2)	(1)	(2)	(3)
Total increase (decrease)	5	5	14	13
Total income taxes	\$ 79	\$ 79	\$ 195	\$ 202

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(LG&E)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 36	\$ 36	\$ 91	\$ 90
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	4	4	10	10
Other	(1)	(1)	(2)	(2)
Total increase (decrease)	3	3	8	8
Total income taxes	\$ 39	\$ 39	\$ 99	\$ 98

(KU)

	Three Months		Nine Months	
	2017	2016	2017	2016
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	\$ 43	\$ 44	\$ 111	\$ 117
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	5	11	12
Other	(1)	(1)	(2)	(1)
Total increase (decrease)	4	4	9	11
Total income taxes	\$ 47	\$ 48	\$ 120	\$ 128

6. Utility Rate Regulation

(All Registrants)

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

	PPL		PPL Electric	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Assets:				
Environmental cost recovery	\$ 4	\$ 6	\$ —	\$ —
Generation formula rate	8	11	—	—
Transmission service charge	—	7	—	7
Gas supply clause	6	3	—	—
Smart meter rider	12	6	12	6
Storm costs	1	5	1	5
Other	3	1	1	1
Total current regulatory assets (a)	\$ 34	\$ 39	\$ 14	\$ 19

Noncurrent Regulatory Assets:

Defined benefit plans	\$ 908	\$ 947	\$ 530	\$ 549
Taxes recoverable through future rates	347	340	347	340
Storm costs	37	57	—	9
Unamortized loss on debt	55	61	30	36
Interest rate swaps	29	31	—	—
Terminated interest rate swaps	93	98	—	—
Accumulated cost of removal of utility plant	166	159	166	159
AROs	224	211	—	—
Other	10	14	—	1
Total noncurrent regulatory assets	<u>\$ 1,869</u>	<u>\$ 1,918</u>	<u>\$ 1,073</u>	<u>\$ 1,094</u>

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	PPL		PPL Electric	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Liabilities:				
Generation supply charge	\$ 29	\$ 23	\$ 29	\$ 23
Transmission service charge	6	—	6	—
Universal service rider	19	14	19	14
Transmission formula rate	4	15	4	15
Fuel adjustment clause	11	11	—	—
Act 129 compliance rider	7	17	7	17
Storm damage expense	7	13	7	13
Other	4	8	—	1
Total current regulatory liabilities	\$ 87	\$ 101	\$ 72	\$ 83

Noncurrent Regulatory Liabilities:

Accumulated cost of removal of utility plant	\$ 678	\$ 700	\$ —	\$ —
Power purchase agreement - OVEC (b)	69	75	—	—
Net deferred tax assets	21	23	—	—
Defined benefit plans	27	23	—	—
Terminated interest rate swaps	74	78	—	—
Other	4	—	—	—
Total noncurrent regulatory liabilities	\$ 873	\$ 899	\$ —	\$ —

	LKE		LG&E		KU	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Assets:						
Environmental cost recovery	\$ 4	\$ 6	\$ 4	\$ 6	\$ —	\$ —
Generation formula rate	8	11	—	—	8	11
Gas supply clause	6	3	6	3	—	—
Other	2	—	1	—	1	—
Total current regulatory assets	\$ 20	\$ 20	\$ 11	\$ 9	\$ 9	\$ 11

Noncurrent Regulatory Assets:

Defined benefit plans	\$ 378	\$ 398	\$ 235	\$ 246	\$ 143	\$ 152
Storm costs	37	48	20	26	17	22
Unamortized loss on debt	25	25	16	16	9	9

Interest rate swaps	29	31	29	31	—	—
Terminated interest rate swaps	93	98	54	57	39	41
AROs	224	211	57	70	167	141
Plant retirement costs	2	4	—	—	2	4
Other	8	9	2	4	6	5
Total noncurrent regulatory assets	<u>\$ 796</u>	<u>\$ 824</u>	<u>\$ 413</u>	<u>\$ 450</u>	<u>\$ 383</u>	<u>\$ 374</u>

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	LKE		LG&E		KU	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Current Regulatory Liabilities:						
Demand side management	\$ —	\$ 3	\$ —	\$ 2	\$ —	\$ 1
Fuel adjustment clause	11	11	3	2	8	9
Other	4	4	2	1	2	3
Total current regulatory liabilities	<u>\$ 15</u>	<u>\$ 18</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 10</u>	<u>\$ 13</u>
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 678	\$ 700	\$ 281	\$ 305	\$ 397	\$ 395
Power purchase agreement - OVEC (b)	69	75	48	52	21	23
Net deferred tax assets	21	23	21	23	—	—
Defined benefit plans	27	23	—	—	27	23
Terminated interest rate swaps	74	78	37	39	37	39
Other	4	—	1	—	3	—
Total noncurrent regulatory liabilities	<u>\$ 873</u>	<u>\$ 899</u>	<u>\$ 388</u>	<u>\$ 419</u>	<u>\$ 485</u>	<u>\$ 480</u>

(a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.

(b) This liability was recorded as an offset to an intangible asset that was recorded at fair value upon the acquisition of LKE by PPL.

Regulatory Matters

Kentucky Activities

(PPL, LKE, LG&E and KU)

Rate Case Proceedings

In November 2016, LG&E and KU filed requests with the KPSC for increases in annual base electricity and gas rates. LG&E's and KU's applications included requests for CPCNs for implementing an Advanced Metering System program and a Distribution Automation program.

On April 19, 2017 and May 1, 2017, LG&E and KU, along with all intervening parties to the proceeding, filed with the KPSC, stipulation and recommendation agreements (stipulations) resolving all issues with the parties. Among other things, the proposed stipulations provided for increases in annual revenue requirements associated with KU base electricity rates of \$55 million, LG&E base electricity rates of \$59 million and LG&E base gas rates of \$8 million, reflecting a return on equity of 9.75%, the withdrawal of LG&E's and KU's request for a CPCN for the Advanced Metering System and other changes to the revenue requirements, which dealt primarily with the timing of cost recovery, including depreciation rates.

On June 22, 2017, the KPSC issued orders approving, with certain modifications, the proposed stipulations filed in April and May 2017. On June 29, 2017, the KPSC issued further orders correcting certain revenue requirement and rate calculations and making other technical corrections to the June 22, 2017 orders. The combined KPSC orders modified the stipulations to provide for increases in annual revenue requirements associated with KU base electricity rates of \$52 million, LG&E base electricity rates of \$57 million and

LG&E base gas rates of \$7 million, and incorporate an authorized return on equity of 9.7%. Consistent with the stipulations, the orders approved LG&E's and KU's request for implementing a Distribution Automation program and withdrawal of a request for a CPCN for the Advanced Metering System program. The orders also approved new depreciation rates for LG&E and KU that will result in higher depreciation of approximately \$15 million (\$4 million for LG&E and \$11 million for KU) in 2017, exclusive of net additions to PP&E. The orders result in a base electricity rate increase of 3.2% at KU and base electricity and gas rate increases of 5.2% and 2.1% LG&E. The new base rates and all elements of the orders became effective July 1, 2017. On June 23, 2017, the KPSC also issued orders establishing an authorized return on equity of 9.7% for all of LG&E's and KU's existing approved ECR plans and projects, replacing the prior authorized return on equity levels of 9.8% for CCR projects and 10% for all other ECR approved projects, effective with bills issued in August 2017. The impact of the new authorized return for ECR projects is not expected to be significant in 2017.

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Gas Franchise(LKE and LG&E)

LG&E's gas franchise agreement for the Louisville/Jefferson County service area expired in March 2016. In August 2016, LG&E and Louisville/Jefferson County entered into a revised franchise agreement with a 5-year term (with renewal options). The franchise fee may be modified at Louisville/Jefferson County's election upon 60 days' notice. However, any franchise fee is capped at 3% of gross receipts for natural gas service within the franchise area. The agreement further provides that if the KPSC determines that the franchise fee should be recovered from LG&E's customers, the franchise fee will revert to zero. In August 2016, LG&E filed an application in a KPSC proceeding to review and rule upon the recoverability of the franchise fee.

In August 2016, Louisville/Jefferson County submitted a motion to dismiss the proceeding filed by LG&E and, in November 2016, filed an amended complaint against LG&E relating to these issues. LG&E submitted KPSC filings to respond to, request dismissal of and consolidate certain claims or aspects of the proceedings. In January 2017, the KPSC issued an order denying Louisville/Jefferson County's motion to dismiss, consolidating the matter with LG&E's filed application and establishing a procedural schedule for the case. On September 28, 2017, oral arguments were heard by the KPSC and a final order is expected in 2017. Until the KPSC issues a final order in this proceeding, LG&E cannot predict the ultimate outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operation. LG&E continues to provide gas service to customers in this franchise area at existing rates, but without collecting or remitting a franchise fee.

7. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets. The following credit facilities were in place at:

	September 30, 2017					December 31, 2016			
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued		
PPL									
U.K.									
WPD plc									
Syndicated Credit Facility (a)	Jan. 2022	£ 210	£ 155	£ —	£ 54	£ 160	£ —		
Term Loan Facility (b)	Dec. 2017	230	230	—	—	—	—		
WPD (South West)									
Syndicated Credit Facility (c)	July 2021	245	—	—	245	110	—		
WPD (East Midlands)									
Syndicated Credit Facility (d)	July 2021	300	116	—	184	9	—		
WPD (West Midlands)									
Syndicated Credit Facility	July 2021	300	—	—	300	—	—		
Uncommitted Credit Facilities (e)		100	70	4	26	60	4		

Total U.K. Credit
Facilities (f)

£	1,385	£	571	£	4	£	809	£	339	£	4
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	September 30, 2017					December 31, 2016		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
U.S.								
PPL Capital Funding								
Syndicated Credit Facility	Jan. 2022	\$ 950	\$ —	\$ 285	\$ 665	\$ —	\$ 20	
Syndicated Credit Facility	Nov. 2018	300	—	—	300	—	—	
Bilateral Credit Facility	Mar. 2018	150	—	18	132	—	17	
Total PPL Capital Funding Credit Facilities		<u>\$ 1,400</u>	<u>\$ —</u>	<u>\$ 303</u>	<u>\$ 1,097</u>	<u>\$ —</u>	<u>\$ 37</u>	
PPL Electric								
Syndicated Credit Facility	Jan. 2022	<u>\$ 650</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 649</u>	<u>\$ —</u>	<u>\$ 296</u>	
LKE								
Syndicated Credit Facility	Oct. 2018	<u>\$ 75</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 75</u>	<u>\$ —</u>	<u>\$ —</u>	
G&E								
Syndicated Credit Facility	Jan. 2022	<u>\$ 500</u>	<u>\$ —</u>	<u>\$ 190</u>	<u>\$ 310</u>	<u>\$ —</u>	<u>\$ 169</u>	
KU								
Syndicated Credit Facility	Jan. 2022	\$ 400	\$ —	\$ —	\$ 400	\$ —	\$ 16	
Letter of Credit Facility	Oct. 2020	198	—	198	—	—	198	
Total KU Credit Facilities		<u>\$ 598</u>	<u>\$ —</u>	<u>\$ 198</u>	<u>\$ 400</u>	<u>\$ —</u>	<u>\$ 214</u>	

- (a) The amounts borrowed at September 30, 2017 and December 31, 2016 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 2.06% and 1.43%. The unused capacity reflects the amount borrowed in GBP of £156 million as of the date borrowed.
- (b) The amount borrowed at September 30, 2017 was a GBP-denominated borrowing which equated to \$296 million and bore interest at 1.50%.
- (c) The amount borrowed at December 31, 2016 was a GBP-denominated borrowing which equated to \$137 million and bore interest at 0.66%.
- (d) The amounts borrowed at September 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to \$150 million and \$11 million and bore interest at 0.65% and 0.66%.
- (e) The amounts borrowed at September 30, 2017 and December 31, 2016 were GBP-denominated borrowings which equated to \$90 million and \$75 million and bore interest at 1.29% and 1.26%.
-) At September 30, 2017, the unused capacity under the U.K. credit facilities was \$1.0 billion.

(PPL, LKE and LG&E)

In October 2017, LG&E entered into a \$200 million term loan credit facility expiring in 2019. On October 26, 2017, LG&E borrowed \$100 million under this facility bearing interest of 1.74%. The proceeds will be used to repay short-term debt and for general corporate purposes.

(All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at:

	September 30, 2017				December 31, 2016	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	1.41%	\$ 1,000	\$ 285	\$ 715	1.10%	\$ 20
PPL Electric		650	—	650	1.05%	295
LG&E	1.38%	350	190	160	0.94%	169
KU		350	—	350	0.87%	16
Total		\$ 2,350	\$ 475	\$ 1,875		\$ 500

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

See Note 10 for discussion of intercompany borrowings.

Long-term Debt

(PPL)

In March 2017, WPD (South Wales) issued £50 million of 0.01% Index-linked Senior Notes due 2029. WPD (South Wales) received proceeds of £53 million, which equated to \$64 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

In September 2017, PPL Capital Funding issued \$500 million of 4.00% Senior Notes due 2047. PPL Capital Funding received proceeds of \$490 million, net of a discount and underwriting fees, which were used to repay short-term debt obligations and for general corporate purposes.

(PPL and PPL Electric)

In May 2017, PPL Electric issued \$475 million of 3.95% First Mortgage Bonds due 2047. PPL Electric received proceeds of \$466 million, net of a discount and underwriting fees, which were used to repay short-term debt incurred primarily for capital expenditures.

In August 2017, the LCIDA remarketed \$108 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016B due 2027 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of August 15, 2022.

In September 2017, the LCIDA remarketed \$116 million of Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project), Series 2016A due 2029 previously issued on behalf of PPL Electric. The bonds were remarketed at a long-term rate and will bear interest at 1.80% through their mandatory purchase date of September 1, 2022.

In April 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$128 million of Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were marketed at a long-term rate and will bear interest at 1.50% through their mandatory purchase date of April 1, 2019.

In June 2017, the County of Trimble, Kentucky issued \$60 million of Environmental Facilities Revenue Refunding Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033 on behalf of LG&E. The bonds were issued bearing interest at a rate of 3.75% through their maturity and are subject to an optional redemption on or after June 1, 2027. The proceeds of the bonds were used to redeem \$60 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued by the County of Trimble, Kentucky on behalf of LG&E.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$31 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued

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on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

In June 2017, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$35 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.25% through their mandatory purchase date of June 3, 2019.

(PPL)

ATM Program

In February 2015, PPL entered into two separate equity distribution agreements, pursuant to which PPL may sell, from time to time, up to an aggregate of \$500 million of its common stock. For the periods ended September 30, PPL issued the following:

	Three Months		Nine Months	
	2017	2016	2017	2016
Number of shares (in thousands)	2,049	710	5,526	710
Average share price	\$ 39.04	\$ 35.23	\$ 38.49	\$ 35.23
Net Proceeds	\$ 79	\$ 25	\$ 211	\$ 25

Distributions

In August 2017, PPL declared a quarterly common stock dividend, payable October 2, 2017, of 39.5 cents per share (equivalent to \$1.58 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

8. Defined Benefits

(PPL, LKE and LG&E)

Certain net periodic defined benefit costs are applied to accounts that are further distributed among capital, expense and regulatory assets, including certain costs allocated to applicable subsidiaries for plans sponsored by PPL Services and LKE. Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL and its subsidiaries, LKE and LG&E for the periods ended September 30:

Pension Benefits							
Three Months				Nine Months			
U.S.		U.K.		U.S.		U.K.	
2017	2016	2017	2016	2017	2016	2017	2016

PPL

Service cost	\$ 17	\$ 16	\$ 20	\$ 17	\$ 49	\$ 49	\$ 57	\$ 53
Interest cost	42	44	45	58	126	131	132	182
Expected return on plan assets	(58)	(57)	(130)	(124)	(173)	(171)	(382)	(389)
Amortization of:								
Prior service cost	2	2	—	—	7	6	—	—
Actuarial loss	18	12	36	34	52	37	107	107
Net periodic defined benefit costs (credits) before settlements and special termination benefits	21	17	(29)	(15)	61	52	(86)	(47)
Settlements (a)	7	3	—	—	7	3	—	—
Special termination benefits (b)	—	—	—	—	1	—	—	—
Net periodic defined benefit costs (credits)	<u>\$ 28</u>	<u>\$ 20</u>	<u>\$ (29)</u>	<u>\$ (15)</u>	<u>\$ 69</u>	<u>\$ 55</u>	<u>\$ (86)</u>	<u>\$ (47)</u>

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- (a) 2017 includes settlement charges of \$5 million from the LG&E qualified pension plan and \$2 million from the PPL non-qualified pension plan and 2016 includes a settlement charge of \$3 million from the PPL non-qualified pension plan. These settlements resulted from lump sum payments that exceeded service cost and interest cost components of net periodic pension cost for the year.
-) Enhanced pension benefits offered to certain PPL Electric bargaining unit employees under a one-time voluntary retirement window offered as part of the new five year IBEW contract ratified in March 2017.

	Pension Benefits			
	Three Months		Nine Months	
	2017	2016	2017	2016
LKE				
Service cost	\$ 6	\$ 6	\$ 18	\$ 18
Interest cost	17	18	51	53
Expected return on plan assets	(23)	(23)	(69)	(68)
Amortization of:				
Prior service cost	2	2	6	6
Actuarial loss (a)	8	5	23	15
Net periodic defined benefit costs before settlements	10	8	29	24
Settlements (b)	5	—	5	—
Net periodic defined benefit costs	<u>\$ 15</u>	<u>\$ 8</u>	<u>\$ 34</u>	<u>\$ 24</u>

G&E				
Service cost	\$ —	\$ —	\$ 1	\$ 1
Interest cost	3	4	9	11
Expected return on plan assets	(5)	(5)	(16)	(15)
Amortization of:				
Prior service cost	1	1	3	3
Actuarial loss (a)	3	2	7	5
Net periodic defined benefit costs before settlements	2	2	4	5
Settlements (b)	5	—	5	—
Net periodic defined benefit costs	<u>\$ 7</u>	<u>\$ 2</u>	<u>\$ 9</u>	<u>\$ 5</u>

- (a) As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with LKE's accounting policy and actuarial loss calculated using a 15-year amortization period was \$3 million and \$8 million for the three and nine months ended September 30, 2017 and \$4 million for the nine months ended September 30, 2016. The difference between actuarial loss calculated in accordance with LG&E's accounting policy and actuarial loss calculated using a 15-year amortization period was \$1 million and \$3 million for the three and nine months ended September 30, 2017 and \$1 million for the three months ended September 30, 2016. These differences are recorded as regulatory assets.
- (b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$5 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

Other Postretirement Benefits	
Three Months	Nine Months

	2017	2016	2017	2016
PPL				
Service cost	\$ 2	\$ 2	\$ 6	\$ 6
Interest cost	5	6	17	19
Expected return on plan assets	(6)	(6)	(17)	(17)
Amortization of prior service cost	—	—	(1)	—
Amortization of actuarial loss	1	1	1	1
Net periodic defined benefit costs	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 6</u>	<u>\$ 9</u>

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2017	2016	2017	2016
LKE				
Service cost	\$ 1	\$ 1	\$ 3	\$ 3
Interest cost	2	2	6	7
Expected return on plan assets	(2)	(2)	(5)	(5)
Amortization of prior service cost	1	1	1	2
Net periodic defined benefit costs	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 7</u>

(PPL Electric, LG&E and KU)

In addition to the specific plan it sponsors, LG&E is allocated costs of defined benefit plans sponsored by LKE. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE. LG&E and KU are also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 10 for more information on costs allocated to LG&E and KU from LKS. These allocations are based on participation in those plans, which management believes are reasonable. For the periods ended September 30, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

	Three Months		Nine Months	
	2017	2016	2017	2016
PPL Electric	\$ 6	\$ 6	\$ 19	\$ 17
LG&E	3	2	8	7
KU	2	2	7	8

Expected Cash Flows - U.K. Pension Plans

(PPL)

For the nine months ended September 30, 2017, WPD contributed \$485 million to its U.K. pension plans. These contributions fund all of 2017 contributions and a portion of 2018 contributions. WPD does not expect to make additional contributions in 2017.

9. Commitments and Contingencies

Legal Matters

(All Registrants)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

WKE Indemnification(PPL and LKE)

See footnote (e) to the table in "Guarantees and Other Assurances" below for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

Cane Run Environmental Claims(PPL, LKE and LG&E)

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act and RCRA. In addition, these plaintiffs assert common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values

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for a class consisting of residents within four miles of the Cane Run plant. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In response to a motion to dismiss filed by PPL and LG&E, in July 2014, the court dismissed the plaintiffs' RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E under the Clean Air Act, and directed the parties to submit briefs regarding whether the court should continue to exercise supplemental jurisdiction regarding the remaining state law-only claims. On April 13, 2017, the District Court issued an order declining to exercise supplemental jurisdiction and dismissing the case in its entirety, subject to certain federal appeals or state court re-filing rights of the parties. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, against LG&E regarding the state law nuisance, negligence and trespass tort claims. The plaintiffs seek compensatory and punitive damages for alleged property damage due to purported plant emissions on behalf of a class of residents within one to three miles of the plant. PPL, LKE and LG&E cannot predict the outcome of this matter. LG&E retired one coal-fired unit at the Cane Run plant in March 2015 and the remaining two coal-fired units at the plant in June 2015.

E.W. Brown Environmental Claims(*PPL, LKE and KU*)

On July 12, 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs seek injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act violations, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also seek assessment of civil penalties and an award of litigation costs and attorney fees. PPL, LKE and KU cannot predict the outcome of this matter or the potential impact on the operations of the E.W. Brown plant, including increased capital or operating costs, if any.

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

Trimble County Water Discharge Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet (KEEC) challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the KEEC issued a final order upholding the permit, which was subsequently appealed by the environmental groups. In September 2013, the Franklin Circuit Court reversed the KEEC order upholding the permit and remanded the permit to the agency for further proceedings. LG&E and the KEEC appealed the order to the Kentucky Court of Appeals. In July 2015, the Court of Appeals upheld the lower court ruling. LG&E and the KEEC moved for discretionary review by the Kentucky Supreme Court. In February 2016, the Kentucky Supreme Court issued an order granting discretionary review and oral arguments were held in September 2016. On April 27, 2017, the Kentucky Supreme Court issued an order reversing the decision of the appellate court and upholding the permit issued to LG&E by the KEEC.

Trimble County Landfill

Various state and federal permits and regulatory approvals are required in order to construct a landfill at the Trimble County plant to be used for disposal of CCRs. In October 2016, the Kentucky Division of Water issued a water quality certification and in February 2017, the Kentucky Division of Waste Management issued a "special waste" landfill permit. In March 2017, the Sierra Club and a

resident adjacent to the plant filed administrative challenges to the landfill permit which were subsequently dismissed by agreed order entered in August 2017. In June 2017, the U.S. Army Corps of Engineers issued a dredge and fill permit, the final approval required for construction of the landfill. PPL, LKE, LG&E and KU believe that all permits and regulatory approvals issued for the project comply with applicable state and federal laws.

Regulatory Issues*(All Registrants)*

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

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Electricity - Reliability Standards

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

The Reliability Standards have the force and effect of law and apply to certain users of the bulk electric system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties for certain violations.

PPL Electric, LG&E and KU monitor their compliance with the Reliability Standards and self-report or self-log potential violations of applicable reliability requirements whenever identified, and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Penalties incurred to date have not been significant. Any Regional Reliability Entity (including RFC or SERC) determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

Environmental Matters

(All Registrants)

Due to the environmental issues discussed below or other environmental matters, it may be necessary for the Registrants to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost of these permits and rules. Finally, the regulatory reviews specified in the President's March 2017 Executive Order (the March 2017 Executive Order) promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty.

WPD's distribution businesses are subject to certain statutory and regulatory environmental requirements. It may be necessary for WPD to incur significant compliance costs, which costs may be recoverable through rates subject to the approval of Ofgem. PPL believes that WPD has taken and continues to take measures to comply with all applicable environmental laws and regulations.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements applicable to coal combustion wastes and by-products from facilities that generate electricity from coal in accordance with approved compliance plans. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before the companies' respective state regulatory authorities, or the FERC, if applicable. Because neither WPD nor PPL Electric owns any generating plants, their exposure to related environmental compliance costs is reduced. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

Air

(PPL, LKE, LG&E and KU)

NAAQS

The Clean Air Act, which regulates air pollutants from mobile and stationary sources in the United States, has a significant impact on the operation of fossil fuel plants. Among other things, the Clean Air Act requires the EPA periodically to review and establish concentration levels in the ambient air for six pollutants to protect public health and welfare. The six pollutants are carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter and sulfur dioxide. The established concentration levels for these six pollutants are known as NAAQS. Under the Clean Air Act, the EPA is required to reassess the NAAQS on a five-year schedule.

Federal environmental regulations of these six pollutants require states to adopt implementation plans, known as state implementation plans, which detail how the state will attain the standards that are mandated by the relevant law or regulation.

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Each state identifies the areas within its boundaries that meet the NAAQS (attainment areas) and those that do not (non-attainment areas), and must develop a state implementation plan both to bring non-attainment areas into compliance with the NAAQS and to maintain good air quality in attainment areas. In addition, for attainment of ozone and fine particulates standards, states in the eastern portion of the country, including Kentucky, are subject to a regional program developed by the EPA known as the Cross-State Air Pollution Rule. The NAAQS, future revisions to the NAAQS and state implementation plans, or future revisions to regional programs, may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to cost recovery.

Although PPL, LKE, LG&E and KU do not anticipate significant costs to comply with these programs, changes in market or operating conditions could result in different costs than anticipated.

Ozone

The EPA issued the current ozone standard in October 2015. Under the Clean Air Act, the states and the EPA are required to determine (based on ambient air monitoring data) those areas that meet the standard and those that are in non-attainment. The EPA was scheduled to designate areas as being in attainment or nonattainment of the current ozone standard by no later than October 2017 which was to be followed by further regulatory proceedings identifying compliance measures and deadlines. However, the current implementation and compliance schedule is uncertain because the EPA failed to make nonattainment demonstrations by the applicable deadline. In addition, some industry groups have requested the EPA to defer implementation of the 2015 ozone standard, but the EPA has not yet acted on this request. While implementation of the 2015 ozone standard could potentially require the addition of SCRs at some LG&E and KU generating units, PPL, LKE, LG&E and KU are currently unable to determine what the compliance measures and deadlines may ultimately be with respect to the new standard.

States are also obligated to address interstate transport issues associated with ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. As a result of a partial consent decree addressing claims regarding federal implementation, the EPA and several states, including Kentucky, are evaluating the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. While PPL, LKE, LG&E and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

Sulfur Dioxide

In 2010, the EPA issued the current NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in "non-attainment". In July 2013, the EPA finalized non-attainment designations for parts of the country, including part of Jefferson County in Kentucky. Attainment must be achieved by 2018. As a result of scrubber replacements completed by LG&E at the Mill Creek plant in 2016, all Jefferson County monitors now indicate compliance with the sulfur dioxide standards. Additionally, LG&E accepted a new sulfur dioxide emission limit to ensure continuing compliance with the NAAQS. PPL, LKE, LG&E and KU do not anticipate any further measures to achieve compliance with the new sulfur dioxide standards.

Climate Change

There is continuing world-wide attention focused on issues related to climate change. In June 2016, President Obama announced that the United States, Canada and Mexico established the North American Climate, Clean Energy, and Environment Partnership Plan, which specifies actions to promote clean energy, address climate change and protect the environment. The plan includes a goal to provide 50% of the energy used in North America from clean energy sources by 2025. The plan does not impose any nation-specific requirements.

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's Clean Power Plan described below, the U.S. committed to an initial reduction target of 26% to 28% below 2005 levels by 2025. However, on June 1, 2017, President Trump announced a plan to withdraw from the Paris Agreement and undertake negotiations to reenter the current agreement or enter a new agreement on terms more favorable to the U.S. Under the terms of the Paris Agreement, any U.S. withdrawal would not be complete until November 2020.

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Additionally, in March 2017, the President issued an Executive Order (the March 2017 Executive Order) directing the EPA to review proposed and final rules relating to GHG reductions for consistency with certain policy directives and suspend, revise, or rescind those rules as appropriate. The March 2017 Executive Order also directs rescission of specified guidance, directives, and prior Presidential actions regarding climate change. PPL, LKE, LG&E and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

The U.K. has enacted binding carbon reduction requirements that are applicable to WPD. Under the U.K. law, WPD must purchase carbon allowances to offset emissions associated with WPD's operations. The cost of these allowances is not significant and is included in WPD's current operating expenses.

The EPA's Rules under Section 111 of the Clean Air Act, including the EPA's Clean Power Plan

As further described below, in 2015 the EPA finalized rules imposing GHG emission standards for both new and existing power plants. The EPA has also issued a proposed federal implementation plan that would apply to any states that fail to submit an acceptable state implementation plan under these rules.

The future of these rules is uncertain. The EPA's authority to promulgate these regulations under Section 111 of the Clean Air Act has been challenged in the D.C. Circuit Court by several states, industry groups and individual companies, including LKE. The D.C. Circuit has temporarily held the litigation in abeyance in light of the EPA's ongoing review of the Clean Power Plan. In February 2016, the U.S. Supreme Court stayed the rule for existing plants (the Clean Power Plan) pending the D.C. Circuit Court's review and subsequent review by the U.S. Supreme Court if a writ of certiorari is filed and granted. In addition, the President's March 2017 Executive Order requires the EPA to review the rules for new plants and existing power plants and suspend, revise or rescind them as appropriate. In October 2017, the EPA proposed to rescind the rule and may seek comment on a possible replacement rule.

The EPA's rule for new power plants imposes separate emission standards for coal and natural gas units based on the application of different technologies. The coal standard is based on the application of partial carbon capture and sequestration technology, but because this technology is not presently commercially viable, the rule effectively precludes the construction of new coal-fired plants. The standard for NGCC power plants is the same as what the EPA proposed in 2012 and is not continuously achievable under all operating modes, such as frequent start-ups and shutdowns. The preclusion of new coal-fired plants could have a significant industry-wide impact.

The EPA's rule for existing power plants, referred to as the Clean Power Plan, was published in the Federal Register in October 2015. The Clean Power Plan contains state-specific rate-based and mass-based reduction goals and guidelines for the development, submission and implementation of state implementation plans to achieve the state goals. State-specific goals were calculated from 2012 data by applying the EPA's broad interpretation and definition of the BSER, resulting in the most stringent targets to be met in 2030, with interim targets to be met beginning in 2022. The EPA believes it has offered some flexibility to the states as to how their compliance plans can be crafted, including the option to use a rate-based approach (limit emissions per megawatt hour) or a mass-based approach (limit total tons of emissions per year), and the option to demonstrate compliance through emissions trading and multi-state collaborations. Under the rate-based approach, Kentucky would need to make a 41% reduction from its 2012 emissions rate and under a mass-based approach it would need to make a 36% reduction. These reductions are significantly greater than initially proposed and present significant challenges to the state. If the Clean Power Plan ultimately remains in place in its current form, and Kentucky fails to develop an approvable implementation plan by the applicable deadline, the EPA may impose a federal implementation plan that could be more stringent than what the state plan might provide. Depending on the provisions of the Kentucky implementation plan, LG&E and KU may need to modify their current portfolio of generating assets during the next decade and/or participate in an allowance trading program.

LG&E and KU are monitoring developments at the state and federal level. PPL, LKE, LG&E and KU cannot predict the outcome of the pending litigation, any changes in regulations, interpretations, or litigation positions that may be implemented by the U.S. Residential administration or the potential impact, if any, on plant operations, or future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to cost recovery.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the EPA's regulations governing GHG emissions from existing sources, if enacted. The legislation provides that such state GHG performance standards will be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions may make it more difficult for Kentucky to achieve the GHG reduction levels that the EPA has established for Kentucky, if enacted.

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Sulfuric Acid Mist Emissions (PPL, LKE and LG&E)

In June 2016, the EPA issued a notice of violation under the Clean Air Act alleging that LG&E violated applicable rules relating to sulfuric acid mist emissions at its Mill Creek plant. The notice alleges failure to install proper controls, failure to operate the facility consistent with good air pollution control practice, and causing emissions exceeding applicable requirements or constituting a nuisance or endangerment. LG&E believes it has complied with applicable regulations during the relevant time period. Discussions between the EPA and LG&E are ongoing. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

Water/Waste

(PPL, LKE, LG&E and KU)

CCRs

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals.

Recently enacted federal legislation has authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR Rule. In January 2017, Kentucky issued a state rule, effective May 2017, aimed at reflecting the requirements of the federal rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in state court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. PPL, LKE, LG&E and KU cannot predict the outcome of the litigation, but anticipate continued operation under the former program in the event that the new rule is struck down.

LG&E and KU have received KPSC approval for a compliance plan providing for construction of additional landfill capacity at the E.W. Brown station, closure of impoundments at the Mill Creek, Trimble County, E.W. Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with federal CCR rule requirements, KU also received KPSC approval for its plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law requirements. See Note 6 in the Registrants' 2016 Form 10-K for additional information.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs during 2015, 2016 and 2017. See Note 15 below and Note 19 in the Registrants' 2016 Form 10-K for additional information. Further changes to AROs, current capital plans

or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are subject to rate recovery.

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ELGs

In September 2015, the EPA released its final ELGs for wastewater discharge permits for new and existing steam electric generating facilities. The rule provides strict technology-based discharge limitations for control of pollutants in scrubber wastewater, fly ash and bottom ash transport water, mercury control wastewater, gasification wastewater and combustion residual leachate. The new guidelines require deployment of additional control technologies providing physical, chemical and biological treatment of wastewaters. The guidelines also mandate operational changes including "no discharge" requirements for fly ash and bottom ash transport waters and mercury control wastewaters. The implementation date for individual generating stations will be determined by the states on a case-by-case basis according to criteria provided by the EPA. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which have been consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In September 2017, the EPA published in the Federal Register a proposed rule that would postpone the compliance date for requirements relating to bottom ash transport waters and scrubber wastewaters discharge limits. The EPA expects to complete its reconsideration of best available technology standards by the fall of 2020. Upon completion of the ongoing regulatory proceedings, the rule will be implemented by the states in the course of their normal permitting activities. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to predict the outcome of the EPA's pending reconsideration of the rule or fully estimate compliance costs or timing. Additionally, certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. A range of reasonably possible costs cannot currently be estimated. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant.

(All Registrants)

Other Issues

In June 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's ANPRM rulemaking is to occur in two phases. Only the second part of the rule, currently scheduled for November 2017, is applicable to PPL operations. This part of the rule relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant.

Superfund and Other Remediation

PPL Electric is potentially responsible for a share of the costs at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site and the Brodhead site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been, and are not expected to be, significant to PPL Electric.

PPL Electric, LG&E and KU are investigating, responding to agency inquiries, remediating, or have completed the remediation of, several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack sufficient information on such additional sites and are therefore unable to estimate any potential liability they may have or a range of reasonably possible losses, if any, related to these matters.

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At September 30, 2017 and December 31, 2016, PPL Electric had a recorded liability of \$10 million representing its best estimate of the probable loss incurred to remediate the sites noted above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

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

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiate with property owners and other third parties alleging impacts from PPL's operations and undertake similar actions necessary to resolve environmental matters that arise in the course of normal operations. Based on analyses to date, resolution of these environmental matters is not expected to have a significant adverse impact on the operations of PPL Electric, LG&E and KU.

Future cleanup or remediation work at sites under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, LG&E and KU may be applicable to certain of the costs or other obligations related to these matters but the amount of insurance coverage or reimbursement cannot be estimated or assured.

Other

Labor Union Agreements

(PPL and PPL Electric)

In March 2017, members of the IBEW ratified a new five-year labor agreement with PPL. The contract covers nearly 1,400 employees and was effective May 22, 2017. The terms of the new labor agreement are not expected to have a significant impact on the financial results of PPL or PPL Electric.

(LKE and KU)

In August 2017, KU and the United Steelworkers of America ratified a three-year labor agreement through August 2020. The agreement covers approximately 53 employees. The terms of the new labor agreement are not expected to have a significant impact on the financial results of LKE or KU.

Guarantees and Other Assurances

(All Registrants)

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

(PPL)

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

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(All Registrants)

The table below details guarantees provided as of September 30, 2017. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures." The total recorded liability at September 30, 2017 was \$21 million for PPL and \$16 million for LKE. The total recorded liability at December 31, 2016 was \$22 million for PPL and \$17 million for LKE. See footnote (e) below for information regarding a settlement in principle for certain LKE indemnifications. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	Exposure at September 30, 2017		Expiration Date
PPL			
Indemnifications related to the WPD Midlands acquisition		(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 10	(b)	2019
WPD guarantee of pension and other obligations of unconsolidated entities	95	(c)	
PPL Electric			
Guarantee of inventory value	17	(d)	2018
KE			
Indemnification of lease termination and other divestitures	301	(e)	2021 - 2023
LG&E and KU			
LG&E and KU guarantee of shortfall related to OVEC		(f)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.
- In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.
- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At September 30, 2017, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
- 1) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.

- (e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Another WKE-related LKE guarantee covers other indemnifications related to the purchase price of excess power, has a term expiring in 2023, and a maximum exposure of \$100 million. In May 2012, LKE's indemnitee received an unfavorable arbitration panel's decision interpreting this matter. In October 2014, LKE's indemnitee filed a motion for discretionary review with the Kentucky Supreme Court seeking to overturn the arbitration decision, and such motion was denied by the court in September 2015. In September 2015, the counterparty issued a demand letter to LKE's indemnitee. In February 2016, the counterparty filed a complaint in Henderson, Kentucky Circuit Court, seeking an award of damages in the matter. The proceeding is currently in the discovery phase. LKE does not believe appropriate contractual, legal or commercial grounds exist for the claim made. LKE believes its indemnifications in the WKE matter remain subject to various uncertainties, including additional legal and contractual developments, as well as future prices, availability and demand for the subject excess power. Although the parties have conducted certain settlement discussions and reached a settlement in principle to resolve all claims for an aggregate amount within LKE's recorded liability, the ultimate outcomes of the WKE termination-related indemnifications cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.

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- (f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$118 million at September 30, 2017, consisting of LG&E's share of \$82 million and KU's share of \$36 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" in Note 13 in PPL's, LKE's, LG&E's and KU's 2016 Form 10-K for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs. The ultimate outcome of these matters, including any potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage provides maximum aggregate coverage of \$225 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

10. Related Party Transactions

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

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric, LKE, their respective subsidiaries, including LG&E and KU, and each other, as applicable, with administrative, management and support services. For all service companies, the costs of these services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services and PPL EU Services use a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. LKS bases its indirect allocations on the subsidiaries' number of employees, total assets, revenues, number of customers and/or other statistical information. PPL Services, PPL EU Services and LKS charged the following amounts for the periods ended September 30, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	Three Months		Nine Months	
	2017	2016	2017	2016
PPL Electric from PPL Services	\$ 43	\$ 33	\$ 138	\$ 98
LKE from PPL Services	4	4	15	13
PPL Electric from PPL EU Services	15	17	48	50
LG&E from LKS	38	40	120	128
KU from LKS	43	46	134	151

In addition to the charges for services noted above, LKS makes payments on behalf of LG&E and KU for fuel purchases and other costs for products or services provided by third parties. LG&E and KU also provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overhead costs associated with union and hourly employees performing work for the other company, charges related to jointly owned generating units and other miscellaneous charges. Tax settlements between LKE and

LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Electric)

PPL Energy Funding maintains a \$400 million revolving line of credit with a PPL Electric subsidiary. At September 30, 2017, \$2 million was outstanding and reflected in "Notes receivable from affiliate" on the Balance Sheet. No balance was outstanding at December 31, 2016. The interest rates on borrowings are equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowing at September 30, 2017 was 2.98%.

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(LKE)

LKE maintains a \$225 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At September 30, 2017 and December 31, 2016, \$159 million and \$163 million were outstanding and reflected in "Notes payable with affiliate" on the Balance Sheets. The interest rates on the outstanding borrowing at September 30, 2017 and December 31, 2016 were 2.73% and 2.12%.

LKE maintains a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At September 30, 2017 and December 31, 2016, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At September 30, 2017, \$10 million was outstanding and was reflected in "Notes payable with affiliate" on the Balance Sheet. No balances were outstanding at December 31, 2016. The interest rate on the outstanding borrowings at September 30, 2017 was 1.46%. Interest expense incurred on the money pool agreement with KU was not significant for the three and nine months ended September 30, 2017.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At September 30, 2017, KU had no payable balance outstanding, but had a \$10 million receivable balance outstanding, which was reflected in "Notes receivable from affiliate" on the Balance Sheet. No balances were outstanding at December 31, 2016. The interest rate on the outstanding receivable at September 30, 2017 was 1.46%. Interest income incurred on the money pool agreement with LG&E was not significant for the three and nine months ended September 30, 2017.

Other(PPL Electric, LG&E and KU)

See Note 8 for discussions regarding intercompany allocations associated with defined benefits.

11. Other Income (Expense) - net

(PPL)

Other Income (Expense) - net" for the three and nine months ended September 30, 2017 and 2016 consisted primarily of gains (losses) on foreign currency contracts to economically hedge PPL's translation risk related to its GBP denominated earnings in the U.K. See Note 13 for additional information on these derivatives.

12. Fair Value Measurements

All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and nine months ended September 30, 2017 and 2016, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2016 Form 10-K for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

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	September 30, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
rPL								
Assets								
Cash and cash equivalents	\$ 676	\$ 676	\$ —	\$ —	\$ 341	\$ 341	\$ —	\$ —
Restricted cash and cash equivalents (a)	24	24	—	—	26	26	—	—
Price risk management assets (b):								
Foreign currency contracts	164	—	164	—	211	—	211	—
Cross-currency swaps	160	—	160	—	188	—	188	—
Total price risk management assets	324	—	324	—	399	—	399	—
Total assets	\$ 1,024	\$ 700	\$ 324	\$ —	\$ 766	\$ 367	\$ 399	\$ —

Liabilities

Price risk management liabilities (b):								
Interest rate swaps	\$ 31	\$ —	\$ 31	\$ —	\$ 31	\$ —	\$ 31	\$ —
Foreign currency contracts	167	—	167	—	27	—	27	—
Total price risk management liabilities	\$ 198	\$ —	\$ 198	\$ —	\$ 58	\$ —	\$ 58	\$ —

PPL Electric

Assets								
Cash and cash equivalents	\$ 243	\$ 243	\$ —	\$ —	\$ 13	\$ 13	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 245	\$ 245	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —

LKE

Assets								
Cash and cash equivalents	\$ 40	\$ 40	\$ —	\$ —	\$ 13	\$ 13	\$ —	\$ —
Cash collateral posted to counterparties (c)	1	1	—	—	3	3	—	—
Total assets	\$ 41	\$ 41	\$ —	\$ —	\$ 16	\$ 16	\$ —	\$ —

Liabilities

Price risk management liabilities:								
Interest rate swaps	\$ 29	\$ —	\$ 29	\$ —	\$ 31	\$ —	\$ 31	\$ —
Total price risk management liabilities	\$ 29	\$ —	\$ 29	\$ —	\$ 31	\$ —	\$ 31	\$ —

LG&E

Assets																
Cash and cash equivalents	\$	9	\$	9	\$	—	\$	—	\$	5	\$	5	\$	—	\$	—
Cash collateral posted to counterparties (c)		<u>1</u>		<u>1</u>		<u>—</u>		<u>—</u>		<u>3</u>		<u>3</u>		<u>—</u>		<u>—</u>
Total assets	\$	<u>10</u>	\$	<u>10</u>	\$	<u>—</u>	\$	<u>—</u>	\$	<u>8</u>	\$	<u>8</u>	\$	<u>—</u>	\$	<u>—</u>

Liabilities																
Price risk management liabilities:																
Interest rate swaps	\$	<u>29</u>	\$	<u>—</u>	\$	<u>29</u>	\$	<u>—</u>	\$	<u>31</u>	\$	<u>—</u>	\$	<u>31</u>	\$	<u>—</u>
Total price risk management liabilities	\$	<u>29</u>	\$	<u>—</u>	\$	<u>29</u>	\$	<u>—</u>	\$	<u>31</u>	\$	<u>—</u>	\$	<u>31</u>	\$	<u>—</u>

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	September 30, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
U								
Assets								
Cash and cash equivalents	\$ 31	\$ 31	\$ —	\$ —	\$ 7	\$ 7	\$ —	\$ —
Total assets	\$ 31	\$ 31	\$ —	\$ —	\$ 7	\$ 7	\$ —	\$ —

- (a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
- (b) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.
- (c) Included in "Other noncurrent assets" on the Balance Sheets. Represents cash collateral posted to offset the exposure with counterparties related to certain interest rate swaps under master netting arrangements that are not offset.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps

(PPL, LKE, LG&E and KU)

To manage interest rate risk, PPL, LKE, LG&E and KU use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Financial Instruments Not Recorded at Fair Value*(All Registrants)*

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates, which incorporate the credit risk of the Registrants. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	September 30, 2017		December 31, 2016	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PL	\$ 19,558	\$ 23,357	\$ 18,326	\$ 21,355
PPL Electric	3,298	3,724	2,831	3,148
LKE	5,068	5,592	5,065	5,439

LG&E	1,619	1,768	1,617	1,710
KU	2,328	2,602	2,327	2,514

(a) Amounts are net of debt issuance costs.

The carrying amounts of other current financial instruments (except for long-term debt due within one year) approximate their fair values because of their short-term nature.

13. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and

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chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, interest rates and foreign currency exchange rates. Many of these contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The following summarizes the market risks that affect PPL and its subsidiaries.

Interest Rate Risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. PPL, LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.
- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.

Foreign Currency Risk (PPL)

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in and earnings of U.K. affiliates.

All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2016 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

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Equity Securities Price Risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with the fair value of the defined benefit plans' assets. This risk is significantly mitigated at the regulated domestic utilities and for certain plans at WPD due to the recovery methods in place.
- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

PPL is exposed to credit risk from "in-the-money" interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of PPL Electric, LG&E or KU defaults on its obligation, those Registrants would be required to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thereby mitigating the financial risk for these entities.

PPL and its subsidiaries have credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit.

Master Netting Arrangements *(PPL, LKE and LG&E)*

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL had a \$17 million obligation to return cash collateral under master netting arrangements at September 30, 2017 and a \$19 million obligation to return cash collateral under master netting arrangements at December 31, 2016.

LKE and LG&E had no obligation to return cash collateral under master netting arrangements at September 30, 2017 and December 31, 2016.

PPL, LKE and LG&E posted \$1 million and \$3 million of cash collateral under master netting arrangements at September 30, 2017 and December 31, 2016.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

Interest Rate Risk

(All Registrants)

PPL and its subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. A variety of financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolio, adjust the duration of the debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under PPL's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

Cash Flow Hedges(PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At September 30, 2017, PPL held an

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aggregate notional value in interest rate swap contracts of £188 million (approximately \$242 million based on spot rates) that mature in 2027 to hedge the interest payments of anticipated WPD debt issuances. These swaps require a mandatory early redemption on or before November 30, 2017.

For the three and nine months ended September 30, 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives. For the three months ended September 30, 2016, PPL had no hedge ineffectiveness associated with interest rate derivatives and for the nine months ended September 30, 2016, PPL had an insignificant amount of hedge ineffectiveness associated with interest rate derivatives.

At September 30, 2017, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$802 million that range in maturity from 2017 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three and nine months ended September 30, 2017 and 2016, PPL had no hedge ineffectiveness associated with cross-currency interest rate swap derivatives.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

For the three and nine months ended September 30, 2017, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges. For the three and nine months ended September 30, 2016, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At September 30, 2017, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

Economic Activity(PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At September 30, 2017, LG&E held contracts with a notional amount of \$147 million that range in maturity through 2033.

Foreign Currency Risk

(PPL)

PPL is exposed to foreign currency risk, primarily through investments in and earnings of U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected GBP earnings.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at September 30, 2017 had a notional amount of £92 million (approximately \$125 million based on contracted rates). These contracts mature in December 2017.

At September 30, 2017 and December 31, 2016, PPL had \$22 million and \$21 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At September 30, 2017, the total exposure hedged by PPL was approximately £2.7 billion (approximately \$3.7 billion based on contracted rates). These contracts had termination dates ranging from October 2017 through April 2020.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 6 for amounts recorded in regulatory assets and regulatory liabilities at September 30, 2017 and December 31, 2016.

See Note 1 in each Registrant's 2016 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

September 30, 2017				December 31, 2016			
Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities

Current:

Price Risk Management

Assets/Liabilities (a):

Interest rate swaps (b)	\$	—	\$	2	\$	—	\$	5	\$	—	\$	—	\$	—	\$	4
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Cross-currency swaps (b)	28	—	—	—	32	—	—	—
Foreign currency contracts	1	—	28	86	—	—	31	21
Total current	29	2	28	91	32	—	31	25
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	24	—	—	—	27
Cross-currency swaps (b)	132	—	—	—	156	—	—	—
Foreign currency contracts	—	—	135	81	—	—	180	6
Total noncurrent	132	—	135	105	156	—	180	33
Total derivatives	\$ 161	\$ 2	\$ 163	\$ 196	\$ 188	\$ —	\$ 211	\$ 58

(a) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended September 30, 2017.

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Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Cash Flow Hedges:							
Interest rate swaps	\$ —	\$ (2)	Interest expense	\$ (2)	\$ —	\$ (6)	\$ (1)
Cross-currency swaps	1	(34)	Interest expense	1	—	1	—
			Other income (expense) - net	2	—	(24)	—
Total	\$ 1	\$ (36)		\$ 1	\$ —	\$ (29)	\$ (1)
Net Investment Hedges:							
Foreign currency contracts	\$ 1	\$ 1					

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
Foreign currency contracts	Other income (expense) - net	\$ (81)	\$ (237)		
Interest rate swaps	Interest expense	(1)	(4)		
Total		\$ (82)	\$ (241)		

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months		Nine Months	
Interest rate swaps	Regulatory assets - noncurrent	\$ 1	\$ 2		

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended September 30, 2016.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Cash Flow Hedges:							
Interest rate swaps	\$ —	\$ (21)	Interest expense	\$ (2)	\$ —	\$ (5)	\$ —
Cross-currency swaps	78	87	Interest expense	2	—	2	—

			Other income (expense) - net				
				86	—	80	—
Total	\$ 78	\$ 66	\$ 86	\$ —	\$ 77	\$ —	
Net Investment edges:							
Foreign currency contracts	\$ —	\$ 4					

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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Nine Months
Foreign currency contracts	Other income (expense) - net	\$ 49	\$ 280
Interest rate swaps	Interest expense	(2)	(6)
	Total	\$ 47	\$ 274

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 2	\$ (7)

(LKE and LG&E)

The following table presents the fair value and the location on the Balance Sheets of derivatives not designated as hedging instruments.

	September 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	\$ —	\$ 5	\$ —	\$ 4
Total current	—	5	—	4
Noncurrent:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	—	24	—	27
Total noncurrent	—	24	—	27
Total derivatives	\$ —	\$ 29	\$ —	\$ 31

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended September 30, 2017.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Interest rate swaps	Interest expense	\$ (1)	\$ (4)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 1	\$ 2

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended September 30, 2016.

Location of Gain (Loss) Recognized in		Three Months	Nine Months
Derivative Instruments	Income on Derivatives		
Interest rate swaps	Interest expense	\$ (2)	\$ (6)

Location of Gain (Loss) Recognized in		Three Months	Nine Months
Derivative Instruments	Regulatory Assets		
Interest rate swaps	Regulatory assets - noncurrent	\$ 2	\$ (7)

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(PPL, LKE, LG&E and KU)

Offsetting Derivative Instruments

PPL, LKE, LG&E and KU or certain of their subsidiaries have master netting arrangements in place and also enter into agreements pursuant to which they purchase or sell certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

PPL, LKE, LG&E and KU have elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities					
	Gross	Eligible for Offset		Net	Gross	Eligible for Offset		Net		
		Derivative Instruments	Cash Collateral Received			Derivative Instruments	Cash Collateral Pledged			
September 30, 2017										
Treasury Derivatives										
PPL	\$ 324	\$ 138	\$ 17	\$ 169	\$ 198	\$ 138	\$ 1	\$ 59		
LKE	—	—	—	—	29	—	1	28		
LG&E	—	—	—	—	29	—	1	28		
December 31, 2016										
Treasury Derivatives										
PPL	\$ 399	\$ 27	\$ 19	\$ 353	\$ 58	\$ 27	\$ 3	\$ 28		
LKE	—	—	—	—	31	—	3	28		
LG&E	—	—	—	—	31	—	3	28		

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, LKE, LG&E and KU or certain of their subsidiaries. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of PPL's, LKE's, LG&E's and KU's obligations under the contracts. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

(PPL, LKE and LG&E)

At September 30, 2017, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

Source: PPL CORP, 10-Q, November 01, 2017

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	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 43	\$ 11	\$ 11
Aggregate fair value of collateral posted on these derivative instruments	1	1	1
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	42	10	10

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

14. Goodwill and Other Intangible Assets

(PPL)

The change in the carrying amount of goodwill for the nine months ended September 30, 2017 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

The change in the carrying amount of other intangible assets for the nine months ended September 30, 2017 was primarily due to a change in WPD's approach in acquiring rights-of-way relating to WPD equipment impacting landowners' property. A shorter term agreement at a lower cost is now being offered which has also reduced the estimated liability for claims not yet settled.

15. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were as follows.

	PPL	LKE	LG&E	KU
Balance at December 31, 2016	\$ 488	\$ 433	\$ 145	\$ 288
Accretion	16	15	5	10
Effect of foreign exchange rates	2	—	—	—
Changes in estimated timing or cost	(70)	(63)	(12)	(51)
Obligations settled	(30)	(30)	(20)	(10)
Balance at September 30, 2017	\$ 406	\$ 355	\$ 118	\$ 237

PPL's, LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 9 for information on the final CCR rule. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO

regulatory assets associated with approved ECR projects for CCRs are amortized to expense over a period of 10 to 25 years based on retirement expenditures made related to the obligation. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

KE recorded decreases of \$66 million (\$56 million at KU and \$10 million at LG&E) to the existing AROs during the nine months ended September 30, 2017 related to the closure of CCR impoundments. These revisions are the result of changes in closure plans related to expected costs and timing of closures. Further changes to AROs, capital plans or operating costs may be required as estimates of future cash flows are refined based on closure developments and regulatory or legal proceedings.

16. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the periods ended September 30 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
PPL						
June 30, 2017	\$ (1,420)	\$ (13)	\$ —	\$ (7)	\$ (2,083)	\$ (3,523)
Amounts arising during the period	(12)	1	—	—	(3)	(14)
Reclassifications from AOCI	—	—	—	—	34	34
Net OCI during the period	(12)	1	—	—	31	20
September 30, 2017	<u>\$ (1,432)</u>	<u>\$ (12)</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (2,052)</u>	<u>\$ (3,503)</u>
December 31, 2016	\$ (1,627)	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
Amounts arising during the period	195	(29)	—	—	(14)	152
Reclassifications from AOCI	—	24	1	1	97	123
Net OCI during the period	195	(5)	1	1	83	275
September 30, 2017	<u>\$ (1,432)</u>	<u>\$ (12)</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (2,052)</u>	<u>\$ (3,503)</u>
June 30, 2016	\$ (716)	\$ (5)	\$ (1)	\$ (5)	\$ (2,130)	\$ (2,857)
Amounts arising during the period	(641)	62	—	—	(6)	(585)
Reclassifications from AOCI	—	(69)	—	—	31	(38)
Net OCI during the period	(641)	(7)	—	—	25	(623)
September 30, 2016	<u>\$ (1,357)</u>	<u>\$ (12)</u>	<u>\$ (1)</u>	<u>\$ (5)</u>	<u>\$ (2,105)</u>	<u>\$ (3,480)</u>
December 31, 2015	\$ (520)	\$ (7)	\$ —	\$ (6)	\$ (2,195)	\$ (2,728)
Amounts arising during the period	(837)	57	—	—	(4)	(784)
Reclassifications from AOCI	—	(62)	(1)	1	94	32
Net OCI during the period	(837)	(5)	(1)	1	90	(752)
September 30, 2016	<u>\$ (1,357)</u>	<u>\$ (12)</u>	<u>\$ (1)</u>	<u>\$ (5)</u>	<u>\$ (2,105)</u>	<u>\$ (3,480)</u>

LKE

June 30, 2017	\$	—	\$	(7)	\$	(70)	\$	(77)
Amounts arising during the period		—		—		(1)		(1)
Reclassifications from AOCI		—		—		1		1
Net OCI during the period		—		—		—		—
September 30, 2017	\$	—	\$	(7)	\$	(70)	\$	(77)
December 31, 2016	\$	(1)	\$	(8)	\$	(61)	\$	(70)
Amounts arising during the period		—		—		(12)		(12)
Reclassifications from AOCI		1		1		3		5
Net OCI during the period		1		1		(9)		(7)
September 30, 2017	\$	—	\$	(7)	\$	(70)	\$	(77)
June 30, 2016	\$	(1)	\$	(9)	\$	(33)	\$	(43)
Reclassifications from AOCI		—		—		1		1
Net OCI during the period		—		—		1		1
September 30, 2016	\$	(1)	\$	(9)	\$	(32)	\$	(42)

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	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
December 31, 2015			\$ —	\$ (10)	\$ (36)	\$ (46)
Amounts arising during the period			—	—	1	1
Reclassifications from AOCI			(1)	1	3	3
Net OCI during the period			(1)	1	4	4
September 30, 2016			\$ (1)	\$ (9)	\$ (32)	\$ (42)

(PPL)

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended September 30. The defined benefit plan components of AOCI are not reflected in their entirety in the Statement of Income during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 8 for additional information.

Details about AOCI	Three Months		Nine Months		Affected Line Item on the Statements of Income
	2017	2016	2017	2016	
Qualifying derivatives					
Interest rate swaps	\$ (2)	\$ (2)	\$ (7)	\$ (5)	Interest Expense
Cross-currency swaps	2	86	(24)	80	Other Income (Expense) - net
	1	2	1	2	Interest Expense
Total Pre-tax	1	86	(30)	77	
Income Taxes	(1)	(17)	6	(15)	
Total After-tax	—	69	(24)	62	
Equity investees' AOCI	—	—	(1)	1	Other Income (Expense) - net
Total Pre-tax	—	—	(1)	1	
Income Taxes	—	—	—	—	
Total After-tax	—	—	(1)	1	
Defined benefit plans					
Prior service costs	(1)	(1)	(2)	(2)	
Net actuarial loss	(44)	(41)	(125)	(121)	
Total Pre-tax	(45)	(42)	(127)	(123)	
Income Taxes	11	11	29	28	

Total After-tax	(34)	(31)	(98)	(95)
	_____	_____	_____	_____
Total reclassifications during the period	\$ (34)	\$ 38	\$ (123)	\$ (32)
	=====	=====	=====	=====

. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Registrants have completed an assessment of substantially all of their revenue under this new guidance and, for those assessments that have been completed, have determined it will not have a material impact on their current revenue recognition policies. The Registrants' operating revenues are derived primarily from tariff-based sales that result from providing electricity and natural gas to customers with no defined contractual term. Tariff-based sales are within the scope of the new guidance, and operating revenues under the new guidance will be equivalent to the electricity and natural gas delivered and billed in that

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period (including estimated billings), which is consistent with current practice. Management is still assessing the impact of the new standard on certain revenues in the U.K. Regulated segment and does not expect there to be a material impact to current practice, however, the assessment is still ongoing.

The disclosure requirements included in the standard will result in increased information being provided to enable the users of the financial statements to understand the nature, amount, timing and uncertainty of revenue arising from contracts with customers. These disclosures will include disaggregation of revenues by geographic location, customer class or type of service, as applicable for each Registrant. Some revenue arrangements, including alternative revenue programs and lease income, are excluded from the scope of the new guidance and will be accounted for and disclosed separately from revenues from contracts with customers. The Registrants will also be required to disclose the opening and closing balances of accounts receivable and any contract assets or contract liabilities resulting from contracts with customers.

For public business entities, this guidance can be applied using either a full retrospective or modified retrospective transition method, beginning in annual reporting periods after December 15, 2017 and interim periods within those years. The Registrants will adopt this guidance effective January 1, 2018 and will determine the transition method they will apply once they have completed their assessments and the implications of using either the full retrospective or modified retrospective transition methods are known.

Accounting for Leases

In February 2016, the FASB issued accounting guidance for leases. This new guidance requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, the FASB retained a dual model for lessees, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright line tests.

Lessor accounting under the new guidance is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Similar to current practice, lessors will classify leases as operating, direct financing, or sales-type.

The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

The Registrants are currently assessing the impact of adopting this guidance. The Registrants will adopt this guidance effective January 1, 2019.

Accounting for Financial Instrument Credit Losses

In June 2016, the FASB issued accounting guidance that requires the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of this guidance, which includes accounts receivable. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under current GAAP.

For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. All entities may early adopt this guidance in annual reporting periods beginning after December 15, 2018, including interim periods within those years.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued accounting guidance that changes the income statement presentation of net periodic benefit cost. This new guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during

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the period. The other components of net periodic benefits will be presented separately from the line items that include the service cost and outside of any subtotal of operating income. Only the service cost component is eligible for capitalization.

For public business entities, the guidance on the presentation of the components of net periodic benefit costs will be applied retrospectively. The guidance that limits the capitalization to the service cost component of net periodic benefit costs will be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. The Registrants will adopt this guidance effective January 1, 2018.

For PPL's, LKE's and LG&E's U.S. defined benefit pension and PPL's and LKE's other postretirement benefit plans, the adoption of this new guidance is not expected to have a material impact on either the presentation on the income statements or the amounts capitalized and related impact to expense, as the difference between the service cost and the non-service cost components of net periodic benefit costs has not historically been and is not expected to be material in 2018.

For PPL's U.K. defined benefit pension plans, the non-service cost components of net periodic benefit cost has been in a net-credit position for the current reporting periods and is expected to continue to be in a net-credit position for 2018. Therefore, the estimated impact of adopting this new guidance related to the non-service cost component credits to be reclassified from "Other operation and maintenance" to "Other Income (Expense)-net" on the Statements of Income is approximately \$130 million and \$90 million for the nine months ended 2017 and 2016.

The Registrants are continuing to assess the expected 2018 impacts of adopting the guidance as the amounts will be affected by market conditions and assumptions selected at December 31, 2017.

Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued accounting guidance that reduces complexity when applying hedge accounting as well as improves transparency about an entity's risk management activities. This guidance eliminates recognizing hedge ineffectiveness for cash flow and net investment hedges and provides for the ability to perform subsequent effectiveness assessments qualitatively. The guidance also makes certain changes to allowable methodologies such as allowing entities to apply the short-cut method to partial-term fair value hedges of interest rate risk as well as expands the ability to apply the critical terms match method to cash flow hedges of groups of forecasted transactions. The guidance also updates certain recognition and presentation requirements as well as disclosure requirements.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. This standard must be adopted using a modified retrospective approach and provides for certain transition elections that must be made prior to the first effectiveness testing date after adoption.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

(PPL, LKE, LG&E and KU)

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the quantitative test. The second step of the quantitative test requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. Under this new guidance, an entity will now

compare the estimated fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount the carrying amount exceeds the fair value of the reporting unit.

For public business entities, this guidance will be applied prospectively and is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019. All entities may early adopt this guidance for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Registrants are currently assessing the impact of adopting this guidance and the period they will adopt it.

Item 2. Combined Management's Discussion and Analysis of Financial Condition and

Results of Operations

(All Registrants)

This "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2016 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.
- "Results of Operations" for all Registrants includes a "Statement of Income Analysis" which discusses significant changes in principal line items on the Statements of Income, comparing the three and nine months ended September 30, 2017 with the same periods in 2016. For PPL, "Results of Operations" also includes "Segment Earnings" and "Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings and margins is also provided.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

Overview

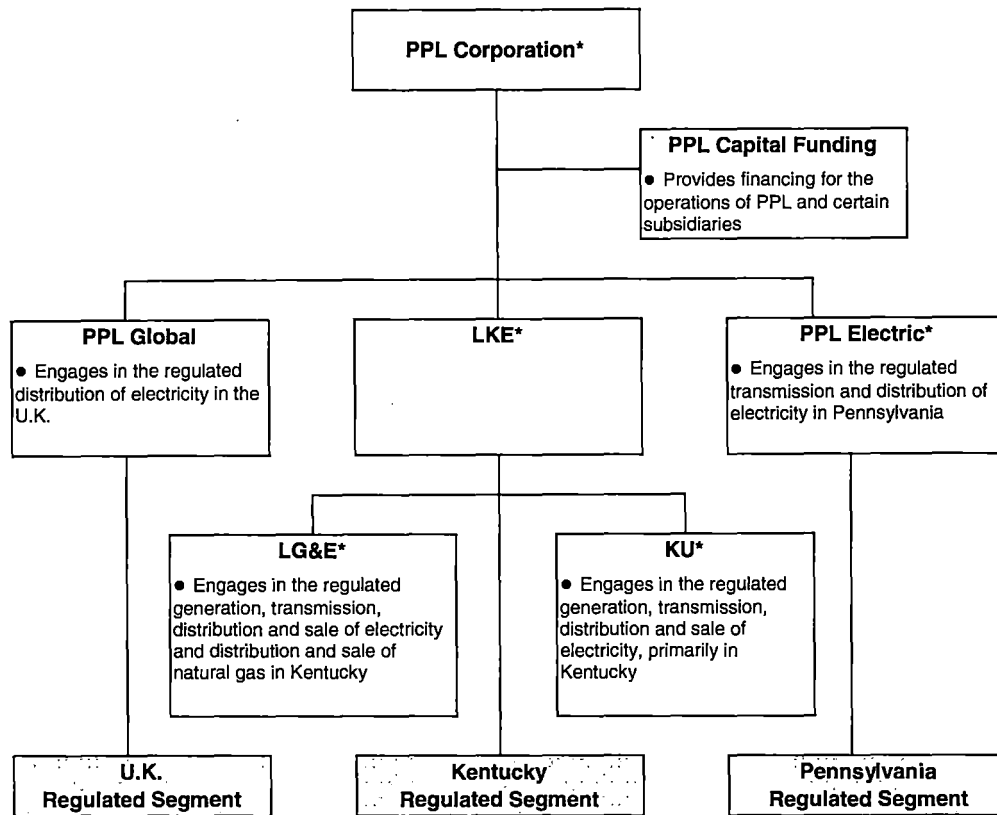
Introduction

(PPL)

PPL, headquartered in Allentown, Pennsylvania, is a utility holding company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky, Virginia and Tennessee; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.

PPL's principal subsidiaries are shown below (* denotes a Registrant).

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PPL's reportable segments' results primarily represent the results of PPL Global, LKE and PPL Electric, except that the reportable segments are also allocated certain corporate level financing and other costs that are not included in the results of PPL Global, LKE and PPL Electric. Although PPL Global is not a Registrant, unaudited annual consolidated financial statements for the U.K. Regulated segment are furnished on a Form 8-K with the SEC.

In addition to PPL, the other Registrants included in this filing are as follows.

(PPL Electric)

PPL Electric, headquartered in Allentown, Pennsylvania, is a direct wholly owned subsidiary of PPL and a regulated public utility that provides an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

(LKE)

LKE, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and in Tennessee under the KU name.

(LG&E)

LG&E, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act.

(KU)

KU, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU is subject to regulation as

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a public utility by the KPSC, the VSCC and the Tennessee Public Utility Commission, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

Business Strategy

(All Registrants)

PPL is a fully regulated business consisting of seven diverse, high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky and each jurisdiction has different regulatory structures and customer classes. The Company believes this diverse portfolio provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

PPL's businesses of WPD, PPL Electric, LG&E and KU plan to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base and RAV, as applicable, driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities. Additionally, significant transmission rate base growth is expected through at least 2020 at PPL Electric.

For the U.S. businesses, our strategy is to recover capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on construction work-in-progress) that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital outlay to materially affect the utility's financial condition. Although such KPSC proceedings do not directly address cost recovery issues, the KPSC, in awarding a CPCN, concludes that the public convenience and necessity require the construction of the facility on the basis that the facility is the lowest reasonable cost alternative to address the need. In Pennsylvania, the FERC transmission formula rate, DSIC mechanism, Smart Meter Rider and other recovery mechanisms are in place to reduce regulatory lag and provide for timely recovery of and a return on, as appropriate, prudently incurred costs.

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. In 2017, earnings from the U.K. Regulated segment are expected to decline mainly due to the unfavorable impact of lower GBP to U.S. dollar exchange rates. RAV growth is expected in the U.K. Regulated segment through the RIIO-ED1 price control period which ends on March 31, 2023 and to result in earnings growth after 2017 through at least 2020 at WPD. See "Item 1. Business - Segment Information - U.K. Regulated Segment" of PPL's 2016 Form 10-K for additional information on RIIO-ED1.

To manage financing costs and access to credit markets, and to fund capital expenditures, a key objective of the Registrants is to maintain their investment grade credit ratings and adequate liquidity positions. In addition, the Registrants have financial and operational risk management programs that, among other things, are designed to monitor and manage exposure to earnings and cash flow volatility, as applicable, related to changes in interest rates, foreign currency exchange rates and counterparty credit quality. To manage these risks, PPL generally uses contracts such as forwards, options and swaps. See "Financial Condition - Risk Management" below for further information.

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP.

The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent of their U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

As discussed above, a key component of this strategy is to maintain constructive relationships with regulators in all jurisdictions in which we operate (U.K., U.S. federal and state). This is supported by our strong culture of integrity and delivering on commitments to customers, regulators and shareowners, and a commitment to continue to improve our customer service, reliability and efficiency of operations.

Financial and Operational Developments

U.S. Tax Reform (All Registrants)

Tax reform has been discussed as a high priority of the U.S. presidential administration. Significant uncertainty exists as to the ultimate changes that may be made, the timing of those changes and the related impact to the Registrants' financial condition or results of operations. The Registrants are working with industry groups and carefully monitoring related developments in an effort both to have input to the legislative process where possible and plan effectively to respond to any forthcoming changes in a manner that will optimize value for ratepayers and shareowners.

U.K. Membership in European Union (PPL)

On March 29, 2017, the U.K. formally notified the European Council of the European Union (EU) of its intent to withdraw from the EU, thereby commencing the two-year negotiation period to establish the terms of that withdrawal under Article 50 of the Lisbon Treaty. Article 50 specifies that if a member state decides to withdraw from the EU, it must notify the European Council of its intention to leave the EU, negotiate the terms of withdrawal and establish the legal grounds for its future relationship with the EU. Article 50 provides two years from the date of the Article 50 notification to conclude negotiations. Failure to complete negotiations within two years, unless negotiations are extended, would result in the treaties governing the EU no longer being applicable to the U.K. with there being no agreement in place governing the U.K.'s relationship with the EU. Under the terms of Article 50, negotiations can only be extended beyond two years if all of the 27 remaining EU states agree to an extension. Any withdrawal agreement will need to be approved by both the European Council and the European Parliament. There remains significant uncertainty as to the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

PPL has executed hedges to mitigate the foreign exchange risk to the Company's U.K. earnings. As of October 18, 2017, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2017 at an average rate of \$1.22 per GBP, 99% hedged for 2018 at an average rate of \$1.32 per GBP, 100% hedged for 2019 at an average rate of \$1.39 per GBP and 15% hedged for 2020 at an average rate of \$1.47 per GBP.

PPL cannot predict either the short-term or long-term impact to foreign exchange rates or long-term impact on PPL's financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the EU, although such impacts could be significant.

(All Registrants)

The Registrants cannot predict the impact that future regulatory requirements may have on their financial condition or results of operations.

(PPL)

In July 2017, Ofgem published an open letter commencing its RIIO-2 framework review, which covers all U.K. gas and electricity, transmission and distribution price controls. The purpose of this framework review is to build on lessons learned from the current price controls and to develop a framework that will be adaptable to meeting the needs of an evolving U.K. energy sector.

The letter sets out the context for the development of the next price controls, RIIO-2, and seeks views from stakeholders on the RIIO-2 framework. Responses to the open letter were published in September 2017 and will be used to guide the full RIIO-2 framework consultation which is expected to be published in the first quarter of 2018. The promulgation of sector specific price controls will begin with the gas and electricity transmission networks, with electricity distribution price control work scheduled to begin in 2020, at which time Ofgem plans to publish its RIIO-ED2 strategy consultation document.

The current electricity distribution price control, RIIO-ED1, continues through March 31, 2023 and will not be impacted by this RIIO-2 consultation process. PPL cannot predict the outcome of this process or the long-term impact it or the final RIIO-ED2 regulations will have on its financial condition or results of operations.

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHGs and ELGs. See Note 9 to the Financial Statements for a discussion of the other significant environmental matters.

Rate Case Proceedings

(LKE and KU)

On September 29, 2017, KU filed a request seeking approval from the VSCC to increase annual Virginia base electricity revenue by \$7 million, representing an increase of 10.4%. KU's request is based on an authorized 10.42% return on equity. Subject to regulatory review and approval, new rates would become effective July 1, 2018.

(PPL, LKE and KU)

In October 2016, KU filed a request with the FERC to modify its formula rates to provide for the recovery of CCR impoundment closure costs from its departing municipal customers. In December 2016, the FERC accepted the revised rate schedules providing recovery of the costs effective December 31, 2016, subject to refund, and established limited hearing and settlement judge procedures relating to determining the applicable amortization period. In March 2017, the parties reached a settlement in principle regarding a suitable amortization period. In June 2017, a FERC judge issued an order implementing the settlement's rates on an interim basis, effective July 1, 2017. In August 2017, the FERC issued a final order approving the settlement.

Results of Operations

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing the three and nine months ended September 30, 2017 with the same periods in 2016. The "Segment Earnings" and "Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2017 Outlook" discussion identifies key factors expected to impact 2017 earnings.

Tables analyzing changes in amounts between periods within "Statement of Income Analysis," "Segment Earnings" and "Margins" are presented on a constant GBP to U.S. dollar exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant GBP to U.S. dollar exchange rate basis are calculated by translating current year results at the prior year weighted-average GBP to U.S. dollar exchange rate.

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

A "Statement of Income Analysis, Earnings and Margins" is presented separately for PPL Electric, LKE, LG&E and KU.

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income comparing the three and nine months ended September 30, 2017 with the same periods in 2016. The "Earnings" discussion provides a summary of earnings. The "Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

(All Registrants)

The results for interim periods can be disproportionately influenced by numerous factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or future periods.

PPL: Statement of Income Analysis, Segment Earnings and Margins

Statement of Income Analysis

Net income for the periods ended September 30 includes the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues	\$ 1,845	\$ 1,889	\$ (44)	\$ 5,521	\$ 5,685	\$ (164)
Operating Expenses						
Operation						
Fuel	202	227	(25)	576	607	(31)
Energy purchases	143	151	(8)	494	531	(37)
Other operation and maintenance	397	417	(20)	1,217	1,292	(75)
Depreciation	257	232	25	745	692	53
Taxes, other than income	69	76	(7)	214	229	(15)
Total Operating Expenses	1,068	1,103	(35)	3,246	3,351	(105)
Other Income (Expense) - net	(76)	49	(125)	(235)	284	(519)
Interest Expense	230	223	7	669	671	(2)
Income Taxes	116	139	(23)	321	510	(189)
Net Income	\$ 355	\$ 473	\$ (118)	\$ 1,050	\$ 1,437	\$ (387)

Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Domestic:		
PPL Electric Distribution price (a)	\$ 16	\$ 46
PPL Electric Distribution volume	(20)	(30)
PPL Electric PLR Revenue (b)	(1)	(32)
PPL Electric Transmission Formula Rate	20	25
LKE Base rates	31	31
LKE Volumes	(41)	(86)
LKE Fuel and other energy prices	(8)	10
Other	(3)	(2)
Total Domestic	<u>(6)</u>	<u>(38)</u>
U.K.:		
Price	(3)	74
Volume	(12)	(24)
Foreign currency exchange rates	(21)	(183)
Other	(2)	7
Total U.K.	<u>(38)</u>	<u>(126)</u>
Total	<u>\$ (44)</u>	<u>\$ (164)</u>

(a) Distribution rider prices resulted in increases of \$16 million and \$40 million for the three and nine months ended September 30, 2017.

(b) Decrease for the nine months ended September 30, 2017 compared with 2016, primarily due to lower energy prices at PPL Electric.

Fuel

Fuel decreased \$25 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$16 million decrease in volumes driven by milder weather in the third quarter of 2017 and a \$9 million decrease in market prices for coal.

Fuel decreased \$31 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$28 million decrease in volumes driven by milder weather in 2017 and a \$4 million decrease in market prices for coal.

Energy Purchases

Energy purchases decreased \$8 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$12 million decrease in PLR volumes, partially offset by a \$6 million increase in PLR prices at PPL Electric.

Energy purchases decreased \$37 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$24 million decrease in PLR prices and an \$11 million decrease in PLR volumes at PPL Electric.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2017 compared with 2016 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
omestic:		
PPL Electric Act 129	\$ 3	\$ 11
PPL Electric payroll-related costs	(5)	(6)
PPL Electric vegetation management	(4)	(7)

PPL Electric bad debts	(4)	(10)
Other	(1)	1
U.K.:		
Pension (a)	(17)	(52)
Foreign currency exchange rates	(2)	(18)
Network maintenance	4	(4)
Third-party engineering	(1)	5
Other	7	5
Total	<u>\$ (20)</u>	<u>\$ (75)</u>

(a) The decreases were primarily due to increases in expected returns on higher asset balances and lower interest costs due to a lower discount rate.

Depreciation

Depreciation increased \$25 million and \$53 million for the three and nine months ended September 30, 2017 compared with 2016, primarily due to additional assets placed into service, net of retirements, and higher depreciation rates effective July 1, 2017 at LG&E and KU, partially offset by the impact of foreign currency exchange rates at WPD.

Other Income (Expense) - net

Other income (expense) - net decreased \$125 million and \$519 million for the three and nine months ended September 30, 2017 compared with 2016, primarily due to changes in realized and unrealized gains (losses) on foreign currency contracts to economically hedge GBP denominated earnings from WPD.

Interest Expense

The increase (decrease) in interest expense for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Long-term debt interest expense	\$ 9	\$ 22
Short-term debt interest expense	2	6
Foreign currency exchange rates	(4)	(31)
Other	—	1
Total	\$ 7	\$ (2)

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Change in pre-tax income at current period tax rates	\$ (56)	\$ (198)
Valuation allowances adjustments	—	(4)
U.S. income tax on foreign earnings - net of foreign tax credit (a)	(7)	(21)
Impact of U.K. Finance Acts (b)	39	30
Stock-based compensation	1	5
Other	—	(1)
Total	\$ (23)	\$ (189)

- (a) Lower income taxes primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit is recognized over the annual period as a result of utilizing an estimated annual effective tax rate.
- (b) The U.K. Finance Act 2016, enacted in September 2016, reduces the U.K. statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during the three and nine months ended September 30, 2016.

Segment Earnings

PPL's net income by reportable segments for the periods ended September 30 were as follows:

Three Months			Nine Months		
2017	2016	\$ Change	2017	2016	\$ Change

U.K. Regulated	\$ 126	\$ 281	\$ (155)	\$ 560	\$ 915	\$ (355)
Kentucky Regulated	125	126	(1)	299	314	(15)
Pennsylvania Regulated	95	91	4	251	263	(12)
Corporate and Other (a)	9	(25)	34	(60)	(55)	(5)
Net Income	<u>\$ 355</u>	<u>\$ 473</u>	<u>\$ (118)</u>	<u>\$ 1,050</u>	<u>\$ 1,437</u>	<u>\$ (387)</u>

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The changes in 2017 compared with 2016 are primarily due to the timing impact of recording annual estimated taxes. This impact is expected to continue to reverse through the remainder of the year.

Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" as a non-GAAP financial measure that should not be considered as an alternative to net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

Earnings from Ongoing Operations is adjusted for the impact of special items. Special items are presented in the financial tables on an after-tax basis with the related income taxes on special items separately disclosed. Income taxes on special items, when applicable, are calculated based on the effective tax rate of the entity where the activity is recorded. Special items include:

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- Unrealized gains or losses on foreign currency economic hedges (as discussed below).
- Gains and losses on sales of assets not in the ordinary course of business.
- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 13 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

PPL's Earnings from Ongoing Operations by reportable segment for the periods ended September 30 were as follows:

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
U.K. Regulated	\$ 163	\$ 235	\$ (72)	\$ 682	\$ 741	\$ (59)
Kentucky Regulated	125	126	(1)	300	314	(14)
Pennsylvania Regulated	95	91	4	251	263	(12)
Corporate and Other	5	(25)	30	(64)	(53)	(11)
Earnings from Ongoing Operations	<u>\$ 388</u>	<u>\$ 427</u>	<u>\$ (39)</u>	<u>\$ 1,169</u>	<u>\$ 1,265</u>	<u>\$ (96)</u>

See "Reconciliation of Earnings from Ongoing Operations" below for a reconciliation of this non-GAAP financial measure to Net Income.

U.K. Regulated Segment

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and certain acquisition-related financing costs. The U.K. Regulated segment represents 53% of PPL's Net Income for the nine months ended September 30, 2017 and 39% of PPL's assets at September 30, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended September 30 include the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating revenues	\$ 477	\$ 515	\$ (38)	\$ 1,547	\$ 1,673	\$ (126)
Other operation and maintenance	69	78	(9)	195	260	(65)
Depreciation	58	58	—	170	178	(8)
Taxes, other than income	33	34	(1)	94	104	(10)
Total operating expenses	160	170	(10)	459	542	(83)
Other Income (Expense) - net	(80)	50	(130)	(236)	283	(519)
Interest Expense	103	100	3	294	310	(16)
Income Taxes	8	14	(6)	(2)	189	(191)
Net Income	126	281	(155)	560	915	(355)
Less: Special Items	(37)	46	(83)	(122)	174	(296)
Earnings from Ongoing Operations	\$ 163	\$ 235	\$ (72)	\$ 682	\$ 741	\$ (59)

The following after-tax gains (losses), which management considers special items, impacted the U.K. Regulated segment's results and are excluded from Earnings from Ongoing Operations during the periods ended September 30.

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Income Statement Line Item	Three Months		Nine Months		
	2017	2016	2017	2016	
Foreign currency economic hedges, net of tax of \$20, \$103, \$66, \$34 (a)	Other Income (Expense) - net	\$ (37)	\$ (193)	\$ (122)	\$ (65)
Settlement of foreign currency contracts, net of tax of \$0, (\$108), \$0, (\$108) (b)	Other Income (Expense) - net	—	202	—	202
Change in U.K. tax rate (c)	Income Taxes	—	37	—	37
Total Special Items		\$ (37)	\$ 46	\$ (122)	\$ 174

- (a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings. The three and nine months ended September 30, 2016 include the reversal of \$310 million (\$202 million after-tax) of unrealized gains related to the settlement of 2017 and 2018 contracts.
- (b) In the third quarter of 2016, PPL settled 2017 and 2018 foreign currency contracts, resulting in \$310 million of cash received (\$202 million after-tax). The settlement did not have a material impact on net income as the contracts were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statements of Income.
- (c) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K.'s statutory income tax rate effective April 1, 2020 from 18% to 17%. As a result, PPL reduced its net deferred tax liability and recognized an income tax benefit of \$42 million in the third quarter of 2016. Of this amount, \$37 million relates to deferred taxes recorded in prior years and was treated as a special item.

The changes in the components of the U.K. Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as U.K. Gross Margins, the items that management considers special and the effects of movements in foreign currency exchange, including the effects of foreign currency hedge contracts, on separate lines and not in their respective Statement of Income line items.

	Three Months	Nine Months
U.K.		
Gross margins	\$ (17)	\$ 52
Other operation and maintenance	7	50
Depreciation	(3)	(12)
Interest expense	(7)	(15)
Other	(2)	(4)
Income taxes	(2)	2
U.S.		
Interest expense and other	1	3
Income taxes	(3)	28
Foreign currency exchange, after-tax	(46)	(163)
Earnings from Ongoing Operations	(72)	(59)
Special items, after-tax	(83)	(296)
Net Income	\$ (155)	\$ (355)

U.K.

- See "Margins - Changes in Margins" for an explanation of U.K. Gross Margins.

Lower other operation and maintenance expense for the three month period primarily due to \$17 million from lower pension expense due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate, partially offset by \$4 million from higher network maintenance expense.

- Lower other operation and maintenance expense for the nine month period primarily due to \$52 million from lower pension expense due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate.
- Higher interest expense for the three and nine month periods primarily due to higher interest expense on indexed linked bonds.
- Higher income taxes for the three month period primarily due to \$9 million related to tax rate changes to deferred taxes, partially offset by a decrease of \$4 million from lower pre-tax income.

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- Lower income taxes for the nine month period primarily due to decreases of \$10 million related to accelerated tax deductions and \$6 million from 2016 expense related to the finalization of U.K. tax returns, partially offset by increases of \$14 million from higher pre-tax income.

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- Lower income taxes for the nine month period primarily due to the tax benefit on accelerated pension contributions made in the first quarter of 2017.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 28% of PPL's Net Income for the nine months ended September 30, 2017 and 35% of PPL's assets at September 30, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended September 30 include the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating revenues	\$ 818	\$ 835	\$ (17)	\$ 2,350	\$ 2,382	\$ (32)
Fuel	202	227	(25)	576	607	(31)
Energy purchases	22	24	(2)	120	118	2
Other operation and maintenance	199	197	2	598	603	(5)
Depreciation	114	102	12	324	301	23
Taxes, other than income	17	16	1	49	46	3
Total operating expenses	554	566	(12)	1,667	1,675	(8)
Other Income (Expense) - net	1	(3)	4	(5)	(9)	4
Interest Expense	65	65	—	196	194	2
Income Taxes	75	75	—	183	190	(7)
Net Income	125	126	(1)	299	314	(15)
Less: Special Items	—	—	—	(1)	—	(1)
Earnings from Ongoing Operations	\$ 125	\$ 126	\$ (1)	\$ 300	\$ 314	\$ (14)

The following after-tax gain (loss), which management considers a special item, impacted the Kentucky Regulated segment's results and is excluded from Earnings from Ongoing Operations during the periods ended September 30.

Income Statement Line Item	Three Months		Nine Months	
	2017	2016	2017	2016
Adjustment to investment, net of tax of \$0, \$0, \$0, \$0 (a) Other Income (Expense) - net	\$ —	\$ —	\$ (1)	\$ —
otal Special Items	\$ —	\$ —	\$ (1)	\$ —

(a) KU recorded a write-off of an equity method investment.

The changes in the components of the Kentucky Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Kentucky Gross Margins and the item that management considers special on separate lines and not in their respective Statement of Income line items.

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	Three Months	Nine Months
Kentucky Gross Margins	\$ 10	\$ (13)
Other operation and maintenance	(5)	6
Depreciation	(10)	(15)
Taxes, other than income	—	(2)
Other Income (Expense) - net	4	5
Interest Expense	—	(2)
Income Taxes	—	7
Earnings from Ongoing Operations	(1)	(14)
Special items, after-tax	—	(1)
Net Income	<u>\$ (1)</u>	<u>\$ (15)</u>

- See "Margins - Changes in Margins" for an explanation of Kentucky Gross Margins.
- Higher depreciation expense for the three and nine month periods primarily due to higher depreciation rates effective July 1, 2017, and additions to PP&E, net of retirements.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 24% of PPL's Net Income for the nine months ended September 30, 2017 and 25% of PPL's assets at September 30, 2017.

Net Income and Earnings from Ongoing Operations for the periods ended September 30 include the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating revenues	\$ 547	\$ 539	\$ 8	\$ 1,620	\$ 1,619	\$ 1
Energy purchases	121	129	(8)	374	414	(40)
Other operation and maintenance	132	143	(11)	435	431	4
Depreciation	77	64	13	228	185	43
Taxes, other than income	27	26	1	79	79	—
Total operating expenses	<u>357</u>	<u>362</u>	<u>(5)</u>	<u>1,116</u>	<u>1,109</u>	<u>7</u>
Other Income (Expense) - net	5	4	1	11	12	(1)

Interest Expense	36	32	4	105	97	8
Income Taxes	64	58	6	159	162	(3)
Net Income	95	91	4	251	263	(12)
Loss: Special Items (a)	—	—	—	—	—	—
Earnings from Ongoing Operations	\$ 95	\$ 91	\$ 4	\$ 251	\$ 263	\$ (12)

(a) There are no items that management considers special for the periods presented.

The changes in the components of the Pennsylvania Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Pennsylvania Gross Margins on a separate line and not in their respective Statement of Income line items.

	Three Months	Nine Months
Pennsylvania Gross Margins	\$ 6	\$ 14
Other operation and maintenance	16	8
Depreciation	(8)	(29)
Taxes, other than income	(1)	1
Other Income (Expense) - net	1	(1)
Interest Expense	(4)	(8)
Income Taxes	(6)	3
Net Income	\$ 4	\$ (12)

See "Margins - Changes in Margins" for an explanation of Pennsylvania Gross Margins.

- Lower other operation and maintenance expense for the three month period primarily due to \$5 million of lower payroll related expenses, \$4 million of lower bad debt expense and \$4 million of lower vegetation management expenses.
- Lower other operation and maintenance expense for the nine month period primarily due to \$10 million of lower bad debt expenses, \$7 million of lower vegetation management expenses and \$7 million of lower payroll related expenses, partially offset by \$17 million of higher corporate service costs allocated to PPL Electric.
- Higher depreciation expense for the three and nine month periods primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements.
- Higher interest expense for the nine month period primarily due to the issuance of \$475 million of 3.950% First Mortgage Bonds in May 2017.

Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from earnings from Ongoing Operations and a reconciliation to PPL's "Net Income" for the periods ended September 30.

	2017 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 126	\$ 125	\$ 95	\$ 9	\$ 355
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$20	(37)	—	—	—	(37)
Spinoff of the Supply segment, net of tax of (\$2) (a)	—	—	—	4	4
Total Special Items	(37)	—	—	4	(33)
Earnings from Ongoing Operations	<u>\$ 163</u>	<u>\$ 125</u>	<u>\$ 95</u>	<u>\$ 5</u>	<u>\$ 388</u>

	2016 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 281	\$ 126	\$ 91	\$ (25)	\$ 473
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$103	(193)	—	—	—	(193)
Other:					

Settlement of foreign currency contracts, net of tax of (\$108)	202	—	—	—	202
Change in U.K. tax rate	37	—	—	—	37
Total Special Items	46	—	—	—	46
Earnings from Ongoing Operations	\$ 235	\$ 126	\$ 91	\$ (25)	\$ 427

	2017 Nine Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 560	\$ 299	\$ 251	\$ (60)	\$ 1,050
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$66	(122)	—	—	—	(122)
Spinoff of the Supply segment, net of tax of (\$2) (a)	—	—	—	4	4
Adjustment to investment, net of tax of \$0	—	(1)	—	—	(1)
Total Special Items	(122)	(1)	—	4	(119)
Earnings from Ongoing Operations	\$ 682	\$ 300	\$ 251	\$ (64)	\$ 1,169

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	2016 Nine Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 915	\$ 314	\$ 263	\$ (55)	\$ 1,437
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$34	(65)	—	—	—	(65)
Spinoff of the Supply segment, net of tax of \$2	—	—	—	(2)	(2)
Other:					
Settlement of foreign currency contracts, net of tax of (\$108)	202	—	—	—	202
Change in U.K. tax rate	37	—	—	—	37
Total Special Items	174	—	—	(2)	172
Earnings from Ongoing Operations	<u>\$ 741</u>	<u>\$ 314</u>	<u>\$ 263</u>	<u>\$ (53)</u>	<u>\$ 1,265</u>

(a) Represents a tax settlement associated with the former Supply segment. Included in "Taxes, other than income" on the Statements of Income.

Margins

Management also utilizes the following non-GAAP financial measures as indicators of performance for its businesses:

- "U.K. Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.
- "Kentucky Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.

- "Pennsylvania Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129 and Universal Service program costs), "Depreciation" (which is primarily related to the Act 129 Smart Meter program) and "Taxes, other than income," (which is primarily gross receipts tax) on the Statements of Income. This measure represents the net revenues from the Pennsylvania Regulated segment's and PPL Electric's electricity delivery operations.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and report their results of operations. Management believes these measures provide additional useful criteria to make investment decisions. These performance measures are used, in conjunction with other information, by senior management and PPL's Board of Directors to manage operations and analyze actual results compared with budget.

Changes in Margins

The following table shows Margins by PPL's reportable segment and by component, as applicable, for the periods ended September 30 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
U.K. Regulated						
U.K. Gross Margins	\$ 441	\$ 476	\$ (35)	\$ 1,446	\$ 1,566	\$ (120)
Impact of changes in foreign currency exchange rates			(18)			(172)
U.K. Gross Margins excluding impact of foreign currency exchange rates			\$ (17)			\$ 52
Kentucky Regulated						
Kentucky Gross Margins						
LG&E	\$ 245	\$ 237	\$ 8	\$ 678	\$ 676	\$ 2
KU	302	300	2	842	857	(15)
Total Kentucky Gross Margins	\$ 547	\$ 537	\$ 10	\$ 1,520	\$ 1,533	\$ (13)
Pennsylvania Regulated						
Pennsylvania Gross Margins						
Distribution	\$ 233	\$ 246	\$ (13)	\$ 710	\$ 721	\$ (11)
Transmission	134	115	19	357	332	25
Total Pennsylvania Gross Margins	\$ 367	\$ 361	\$ 6	\$ 1,067	\$ 1,053	\$ 14

U.K. Gross Margins

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, decreased for the three months ended September 30, 2017 compared with 2016, primarily due to \$12 million of lower volumes and \$3 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue.

U.K. Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the nine months ended September 30, 2017 compared with 2016, primarily due to \$83 million from the April 1, 2016 price increase partially offset by \$24 million of lower volumes and \$9 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue.

Kentucky Gross Margins

Kentucky Gross Margins increased for the three months ended September 30, 2017 compared with 2016, primarily due to higher base rates of \$31 million (\$18 million at LG&E and \$13 million at KU) as new base rates were approved by the KPSC effective July 1, 2017, partially offset by \$20 million of lower sales volumes due to milder weather in 2017 (\$8 million at LG&E and \$12 million at KU).

Kentucky Gross Margins decreased for the nine months ended September 30, 2017 compared with 2016, primarily due to \$51 million of lower sales volumes due to milder weather in 2017 (\$17 million at LG&E and \$34 million at KU), partially offset by higher base rates of \$31 million (\$18 million at LG&E and \$13 million at KU) as new base rates were approved by the KPSC effective July 1, 2017.

Pennsylvania Gross Margins

Distribution

Distribution margins decreased for the three and nine month periods ended September 30, 2017 compared with 2016, primarily due to \$11 million and \$16 million of lower electricity sales volumes due to milder weather in 2017.

Transmission

Transmission margins increased for the three months ended September 30, 2017 compared with 2016, primarily due to an increase of \$20 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability.

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Transmission margins increased for the nine months ended September 30, 2017 compared with 2016, primarily due to an increase of \$42 million primarily from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by a \$17 million decrease as a result of a lower PPL zonal peak load billing factor which affected transmission revenue in the first five months of 2017.

Reconciliation of Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the periods ended September 30.

	2017 Three Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 467 (c)	\$ 818	\$ 547	\$ 13	\$ 1,845
Operating Expenses					
Fuel	—	202	—	—	202
Energy purchases	—	22	121	—	143
Other operation and maintenance	26	30	29	312	397
Depreciation	—	16	5	236	257
Taxes, other than income	—	1	25	43	69
Total Operating Expenses	26	271	180	591	1,068
Total	\$ 441	\$ 547	\$ 367	\$ (578)	\$ 777

	2016 Three Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 504 (c)	\$ 835	\$ 539	\$ 11	\$ 1,889
Operating Expenses					
Fuel	—	227	—	—	227
Energy purchases	—	24	129	(2)	151
Other operation and maintenance	28	33	24	332	417
Depreciation	—	14	—	218	232
Taxes, other than income	—	—	25	51	76
Total Operating Expenses	28	298	178	599	1,103
Total	\$ 476	\$ 537	\$ 361	\$ (588)	\$ 786

2017 Nine Months

	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,517 (c)	\$ 2,350	\$ 1,620	\$ 34	\$ 5,521
Operating Expenses					
Fuel	—	576	—	—	576
Energy purchases	—	120	374	—	494
Other operation and maintenance	71	82	89	975	1,217
Depreciation	—	48	14	683	745
Taxes, other than income	—	4	76	134	214
Total Operating Expenses	71	830	553	1,792	3,246
Total	\$ 1,446	\$ 1,520	\$ 1,067	\$ (1,758)	\$ 2,275

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	2016 Nine Months				
	U.K. Gross Margins	Kentucky Gross Margins	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,641 (c)	\$ 2,382	\$ 1,619	\$ 43	\$ 5,685
Operating Expenses					
Fuel	—	607	—	—	607
Energy purchases	—	118	414	(1)	531
Other operation and maintenance	75	81	77	1,059	1,292
Depreciation	—	40	—	652	692
Taxes, other than income	—	3	75	151	229
Total Operating Expenses	75	849	566	1,861	3,351
Total	\$ 1,566	\$ 1,533	\$ 1,053	\$ (1,818)	\$ 2,334

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

) Excludes ancillary revenues of \$11 million and \$30 million for the three and nine months ended September 30, 2017 and \$11 million and \$32 million for the three and nine months ended September 30, 2016.

2017 Outlook

(PPL)

The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

(PPL's U.K. Regulated Segment)

Lower net income is projected in 2017 compared with 2016, primarily driven by a lower assumed GBP exchange rate in 2017, lower true-up mechanisms, lower incentive revenues, higher interest expense and higher depreciation expense, partially offset by lower operation and maintenance expense, including pension expense, and higher base revenue from the April 1, 2017 price reset.

^oPPL's Kentucky Regulated Segment and LKE, LG&E and KU)

Lower net income is projected in 2017 compared with 2016, primarily driven by lower electricity sales volumes due to unfavorable weather in 2017 and higher depreciation expense, partially offset by electricity and gas base rate increases.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Relatively flat net income is projected in 2017 compared with 2016, primarily driven by higher transmission earnings and lower operation and maintenance expense, offset by higher depreciation expense and higher interest expense.

(PPL's Corporate and Other Category)

Relatively flat costs are projected in 2017 compared with 2016.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 9 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2016 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

PPL Electric: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended September 30 includes the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues	\$ 547	\$ 539	\$ 8	\$ 1,620	\$ 1,619	\$ 1
Operating Expenses						
Operation						
Energy purchases	121	129	(8)	374	414	(40)
Other operation and maintenance	133	144	(11)	435	431	4
Depreciation	77	64	13	228	185	43
Taxes, other than income	27	26	1	79	79	—
Total Operating Expenses	358	363	(5)	1,116	1,109	7
Other Income (Expense) - net	4	4	—	8	12	(4)
Interest Income from Affiliate	2	—	2	3	—	3
Interest Expense	36	32	4	105	97	8
Income Taxes	64	58	6	159	162	(3)
Net Income	\$ 95	\$ 90	\$ 5	\$ 251	\$ 263	\$ (12)

Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Distribution Price (a)	\$ 16	\$ 46
Distribution volume	(20)	(30)
PLR (b)	(1)	(32)
Transmission Formula Rate	20	25
Other	(7)	(8)
Total	\$ 8	\$ 1

(a) Distribution rider prices resulted in increases of \$16 million and \$40 million for the three and nine months ended September 30, 2017.

(b) The decrease for the nine month period was primarily due to lower energy prices as described below.

Energy Purchases

Energy purchases decreased \$8 million for the three months ended September 30, 2017 compared with 2016, primarily due to lower PLR volumes of \$12 million partially offset by higher PLR prices of \$6 million.

Energy purchases decreased \$40 million for the nine months ended September 30, 2017 compared with 2016, primarily due to lower PLR prices of \$24 million and lower PLR volumes of \$11 million.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Corporate service costs	\$ —	\$ 17
Vegetation management	(4)	(7)
Payroll-related costs	(5)	(6)
Act 129	3	11
Bad debts	(4)	(10)
Other	(1)	(1)
Total	<u>\$ (11)</u>	<u>\$ 4</u>

Depreciation

Depreciation increased \$13 million and \$43 million for the three and nine months ended September 30, 2017 compared with 2016, primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements.

Interest Expense

Interest expense increased \$4 million and \$8 million for the three and nine months ended September 30, 2017 compared with 2016, primarily due to the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds due 2047.

Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Change in pre-tax income at current period tax rates	\$ 3	\$ (7)
Stock-based compensation	—	2
Other	3	2
Total	<u>\$ 6</u>	<u>\$ (3)</u>

Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net Income	\$ 95	\$ 90	\$ 251	\$ 263
Special items, gains (losses), after-tax (a)	—	—	—	—

(a) There are no items that management considers special for the periods presented.

Earnings increased for the three month period in 2017 compared with 2016 as higher transmission margins from additional capital investments and lower other operation and maintenance expense were offset by lower sales volumes due to unfavorable weather and higher depreciation expense.

Earnings decreased for the nine month period in 2017 compared with 2016, primarily due to higher depreciation expense, primarily due to transmission and distribution additions placed into service related to the ongoing efforts to improve reliability and replace aging infrastructure, net of retirements, higher interest expense, and lower distribution margins primarily due to lower sales volumes due to unfavorable weather in 2017. Higher transmission margins from additional capital investments were partially offset by a lower PPL zonal peak load billing factor.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Pennsylvania Gross Margins on a separate line and not in their respective Statement of Income line items.

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	Three Months	Nine Months
Pennsylvania Gross Margins	\$ 6	\$ 14
Other operation and maintenance	16	8
Depreciation	(8)	(29)
Taxes, other than income	(1)	1
Other Income (Expense) - net	2	(1)
Interest Expense	(4)	(8)
Income Taxes	(6)	3
Net Income	<u>\$ 5</u>	<u>\$ (12)</u>

Margins

"Pennsylvania Gross Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for information on why management believes this measure is useful and for explanations of the underlying drivers of the changes between periods.

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2017 Three Months			2016 Three Months		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 547	\$ —	\$ 547	\$ 539	\$ —	\$ 539
Operating Expenses						
Energy purchases	121	—	121	129	—	129
Other operation and maintenance	29	104	133	24	120	144
Depreciation	5	72	77	—	64	64
Taxes, other than income	25	2	27	25	1	26
Total Operating Expenses	<u>180</u>	<u>178</u>	<u>358</u>	<u>178</u>	<u>185</u>	<u>363</u>
Total	<u>\$ 367</u>	<u>\$ (178)</u>	<u>\$ 189</u>	<u>\$ 361</u>	<u>\$ (185)</u>	<u>\$ 176</u>

	2017 Nine Months			2016 Nine Months		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,620	\$ —	\$ 1,620	\$ 1,619	\$ —	\$ 1,619
Operating Expenses						
Energy purchases	374	—	374	414	—	414
Other operation and maintenance	89	346	435	77	354	431
Depreciation	14	214	228	—	185	185
Taxes, other than income	76	3	79	75	4	79
Total Operating Expenses	<u>553</u>	<u>563</u>	<u>1,116</u>	<u>566</u>	<u>543</u>	<u>1,109</u>

Total	\$	1,067	\$	(563)	\$	504	\$	1,053	\$	(543)	\$	510
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(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

LKE: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended September 30 includes the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues	\$ 818	\$ 835	\$ (17)	\$ 2,350	\$ 2,382	\$ (32)
Operating Expenses						
Operation						
Fuel	202	227	(25)	576	607	(31)
Energy purchases	22	24	(2)	120	118	2
Other operation and maintenance	199	197	2	598	603	(5)
Depreciation	114	102	12	324	301	23
Taxes, other than income	17	16	1	49	46	3
Total Operating Expenses	554	566	(12)	1,667	1,675	(8)
Other Income (Expense) - net	1	(3)	4	(5)	(9)	4
Interest Expense	49	50	(1)	148	147	1
Interest Expense with Affiliate	5	4	1	13	12	1
Income Taxes	79	79	—	195	202	(7)
Net Income	\$ 132	\$ 133	\$ (1)	\$ 322	\$ 337	\$ (15)

Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Base rates	\$ 31	\$ 31
Volumes	(41)	(86)
Fuel and other energy prices	(8)	10
Other	1	13
Total	\$ (17)	\$ (32)

Fuel

Fuel decreased \$25 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$16 million decrease in volumes driven by milder weather in the third quarter of 2017 and a \$9 million decrease in market prices for coal.

Fuel decreased \$31 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$28 million decrease in volumes driven by milder weather in 2017 and a \$4 million decrease in market prices for coal.

Depreciation

Depreciation increased \$12 million for the three months ended September 30, 2017 compared with 2016 due to a \$7 million increase related to higher depreciation rates effective July 1, 2017 and a \$5 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$23 million for the nine months ended September 30, 2017 compared with 2016 due to a \$16 million increase related to additions to PP&E, net of retirements, and a \$7 million increase related to higher depreciation rates effective July 1, 2017.

Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net Income	\$ 132	\$ 133	\$ 322	\$ 337
Special items, gains (losses), after-tax	—	—	(1)	—

Earnings decreased for the three and nine month periods in 2017 compared with 2016, primarily due to lower sales volumes driven by milder weather and higher depreciation expense, partially offset by higher base rates effective July 1, 2017.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins and an item that management considers special on separate lines and not in their respective Statement of Income line items.

	Three Months	Nine Months
Margins	\$ 10	\$ (13)
Other operation and maintenance	(5)	6
Depreciation	(10)	(15)
Taxes, other than income	—	(2)
Other Income (Expense) - net	4	5
Interest Expense	—	(2)
Income Taxes	—	7
Special items, gains (losses), after-tax (a)	—	(1)
Net Income	\$ (1)	\$ (15)

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LKE's Margins are referred to as "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 818	\$ —	\$ 818	\$ 835	\$ —	\$ 835
Operating Expenses						
Fuel	202	—	202	227	—	227
Energy purchases	22	—	22	24	—	24
Other operation and maintenance	30	169	199	33	164	197

Depreciation	16	98	114	14	88	102
Taxes, other than income	1	16	17	—	16	16
Total Operating Expenses	271	283	554	298	268	566
Total	\$ 547	\$ (283)	\$ 264	\$ 537	\$ (268)	\$ 269

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	2017 Nine Months			2016 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,350	\$ —	\$ 2,350	\$ 2,382	\$ —	\$ 2,382
Operating Expenses						
Fuel	576	—	576	607	—	607
Energy purchases	120	—	120	118	—	118
Other operation and maintenance	82	516	598	81	522	603
Depreciation	48	276	324	40	261	301
Taxes, other than income	4	45	49	3	43	46
Total Operating Expenses	830	837	1,667	849	826	1,675
Total	\$ 1,520	\$ (837)	\$ 683	\$ 1,533	\$ (826)	\$ 707

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

LG&E: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended September 30 includes the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues						
Retail and wholesale	\$ 361	\$ 366	\$ (5)	\$ 1,055	\$ 1,058	\$ (3)
Electric revenue from affiliate	2	2	—	23	19	4
Total Operating Revenues	363	368	(5)	1,078	1,077	1
Operating Expenses						
Operation						
Fuel	76	86	(10)	225	233	(8)
Energy purchases	18	19	(1)	107	104	3
Energy purchases from affiliate	3	5	(2)	8	10	(2)
Other operation and maintenance	89	85	4	262	264	(2)
Depreciation	47	43	4	136	126	10
Taxes, other than income	8	9	(1)	25	24	1
Total Operating Expenses	241	247	(6)	763	761	2

Other Income (Expense) - net	(1)	(1)	—	(2)	(6)	4
Interest Expense	17	18	(1)	53	53	—
Income Taxes	39	39	—	99	98	1
Net Income	\$ 65	\$ 63	\$ 2	\$ 161	\$ 159	\$ 2

Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2017 compared with 2016 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Base rates	\$ 18	\$ 18
Volumes	(16)	(26)
Fuel and other energy prices	(4)	4
Other	(3)	5
Total	<u>\$ (5)</u>	<u>\$ 1</u>

Fuel

Fuel decreased \$10 million for the three months ended September 30, 2017 compared with 2016, primarily due to a \$6 million decrease in market prices for coal and a \$5 million decrease in volumes driven by milder weather in the third quarter of 2017.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2017 compared with 2016 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Plant operations and maintenance	\$ 1	\$ (1)
ension expense	1	1
Timing and scope of generation maintenance outages	—	(1)
Storm costs	—	(1)
Other	2	—
Total	<u>\$ 4</u>	<u>\$ (2)</u>

Depreciation

Depreciation increased \$4 million for the three months ended September 30, 2017 compared with 2016 due to a \$2 million increase related to higher depreciation rates effective July 1, 2017 and a \$2 million increase related to additions to PP&E, net of retirements.

Earnings

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net Income	\$ 65	\$ 63	\$ 161	\$ 159
Special items, gains (losses), after-tax (a)	—	—	—	—

(a) There are no items management considers special for the periods presented.

Earnings increased for the three month period in 2017 compared with 2016, primarily due to higher base rates effective July 1, 2017,

partially offset by lower sales volumes driven by milder weather.

Earnings increased for the nine month period in 2017 compared with 2016, primarily due to higher base rates effective July 1, 2017 and lower other operation and maintenance expense, partially offset by lower sales volumes driven by milder weather.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as margins on a separate line and not in their respective Statement of Income line items.

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	Three Months	Nine Months
Margins	\$ 8	\$ 2
Other operation and maintenance	(4)	3
Depreciation	(5)	(6)
Taxes, other than income	2	—
Other Income (Expense) - net	—	4
Interest Expense	1	—
Income Taxes	—	(1)
Net Income	<u>\$ 2</u>	<u>\$ 2</u>

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, LG&E's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 363	\$ —	\$ 363	\$ 368	\$ —	\$ 368
Operating Expenses						
Fuel	76	—	76	86	—	86
Energy purchases, including affiliate	21	—	21	24	—	24
Other operation and maintenance	13	76	89	13	72	85
Depreciation	7	40	47	8	35	43
Taxes, other than income	1	7	8	—	9	9
Total Operating Expenses	118	123	241	131	116	247
Total	<u>\$ 245</u>	<u>\$ (123)</u>	<u>\$ 122</u>	<u>\$ 237</u>	<u>\$ (116)</u>	<u>\$ 121</u>

	2017 Nine Months			2016 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,078	\$ —	\$ 1,078	\$ 1,077	\$ —	\$ 1,077
Operating Expenses						
Fuel	225	—	225	233	—	233
Energy purchases, including affiliate	115	—	115	114	—	114
Other operation and maintenance	33	229	262	32	232	264

Depreciation	24	112	136	20	106	126
Taxes, other than income	3	22	25	2	22	24
Total Operating Expenses	400	363	763	401	360	761
Total	\$ 678	\$ (363)	\$ 315	\$ 676	\$ (360)	\$ 316

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

KU: Statement of Income Analysis, Earnings and Margins

Statement of Income Analysis

Net income for the periods ended September 30 includes the following results.

	Three Months			Nine Months		
	2017	2016	\$ Change	2017	2016	\$ Change
Operating Revenues						
Retail and wholesale	\$ 457	\$ 469	\$ (12)	\$ 1,295	\$ 1,324	\$ (29)
Electric revenue from affiliate	3	5	(2)	8	10	(2)
Total Operating Revenues	460	474	(14)	1,303	1,334	(31)
Operating Expenses						
Operation						
Fuel	126	141	(15)	351	374	(23)
Energy purchases	4	5	(1)	13	14	(1)
Energy purchases from affiliate	2	2	—	23	19	4
Other operation and maintenance	104	107	(3)	313	320	(7)
Depreciation	67	59	8	188	175	13
Taxes, other than income	9	7	2	24	22	2
Total Operating Expenses	312	321	(9)	912	924	(12)
Other Income (Expense) - net	—	(3)	3	(3)	(4)	1
Interest Expense	24	24	—	72	71	1
Income Taxes	47	48	(1)	120	128	(8)
Net Income	\$ 77	\$ 78	\$ (1)	\$ 196	\$ 207	\$ (11)

Operating Revenue

The increase (decrease) in operating revenue for the periods ended September 30, 2017 compared with 2016 was due to:

	Three Months	Nine Months
Base rates	\$ 13	\$ 13
Volumes	(27)	(57)
Fuel and other energy prices	(3)	5
Other	3	8
Total	\$ (14)	\$ (31)

Fuel

Fuel decreased \$15 million for the three months ended September 30, 2017 compared with 2016, primarily due to an \$11 million decrease in volumes driven by milder weather in the third quarter of 2017 and a \$3 million decrease in market prices for coal.

Fuel decreased \$23 million for the nine months ended September 30, 2017 compared with 2016, primarily due to a \$29 million decrease in volumes driven by milder weather in 2017.

Depreciation

Depreciation increased \$8 million for the three months ended September 30, 2017 compared with 2016 due to a \$5 million increase related to higher depreciation rates effective July 1, 2017 and a \$3 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$13 million for the nine months ended September 30, 2017 compared with 2016 due to an \$8 million increase related to additions to PP&E, net of retirements, and a \$5 million increase related to higher depreciation rates effective July 1, 2017.

Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net Income	\$ 77	\$ 78	\$ 196	\$ 207
Special items, gains (losses), after-tax	—	—	(1)	—

Earnings decreased for the three month period in 2017 compared with 2016, primarily due to lower electricity sales volumes driven by milder weather and higher depreciation expense, partially offset by higher base rates effective July 1, 2017.

Earnings decreased for the nine month period in 2017 compared with 2016, primarily due to lower electricity sales volumes driven by milder weather and higher depreciation expense, partially offset by higher base rates effective July 1, 2017 and lower other operation and maintenance expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as Margins on a separate line and not in their respective Statement of Income line items.

	Three Months	Nine Months
Margins	\$ 2	\$ (15)
Other operation and maintenance	—	7
Depreciation	(5)	(9)
Taxes, other than income	(2)	(2)
Other Income (Expense) - net	3	2
Interest Expense	—	(1)
Income Taxes	1	8
Special items, gains (losses), after-tax (a)	—	(1)
Net Income	\$ (1)	\$ (11)

(a) See PPL's "Results of Operations - Segment Earnings - Kentucky Regulated Segment" for details of the special item.

Margins

"Margins" is a non-GAAP financial performance measure that management utilizes as an indicator of the performance of its business. See PPL's "Results of Operations - Margins" for an explanation of why management believes this measure is useful and the factors underlying changes between periods. Within PPL's discussion, KU's Margins are included in "Kentucky Gross Margins."

The following tables contain the components from the Statements of Income that are included in this non-GAAP financial measure and a reconciliation to "Operating Income" for the periods ended September 30.

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	2017 Three Months			2016 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 460	\$ —	\$ 460	\$ 474	\$ —	\$ 474
Operating Expenses						
Fuel	126	—	126	141	—	141
Energy purchases, including affiliate	6	—	6	7	—	7
Other operation and maintenance	17	87	104	20	87	107
Depreciation	9	58	67	6	53	59
Taxes, other than income	—	9	9	—	7	7
Total Operating Expenses	158	154	312	174	147	321
Total	\$ 302	\$ (154)	\$ 148	\$ 300	\$ (147)	\$ 153

	2017 Nine Months			2016 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,303	\$ —	\$ 1,303	\$ 1,334	\$ —	\$ 1,334
Operating Expenses						
Fuel	351	—	351	374	—	374
Energy purchases, including affiliate	36	—	36	33	—	33
Other operation and maintenance	49	264	313	49	271	320
Depreciation	24	164	188	20	155	175
Taxes, other than income	1	23	24	1	21	22
Total Operating Expenses	461	451	912	477	447	924
Total	\$ 842	\$ (451)	\$ 391	\$ 857	\$ (447)	\$ 410

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Financial Condition

The remainder of this Item 2 in this Form 10-Q is presented on a combined basis, providing information, as applicable, for all Registrants.

Liquidity and Capital Resources

(All Registrants)

The Registrants had the following at:

	<u>PPL (a)</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
September 30, 2017					
Cash and cash equivalents	\$ 676	\$ 243	\$ 40	\$ 9	\$ 31
Notes receivable from affiliate		2	—	—	10
Short-term debt	1,211	—	190	190	—
Notes payable with affiliate		—	159	10	—
December 31, 2016					
Cash and cash equivalents	\$ 341	\$ 13	\$ 13	\$ 5	\$ 7
Short-term debt	923	295	185	169	16
Notes payable with affiliate		—	163	—	—

- (a) At September 30, 2017, \$86 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate a material incremental U.S. tax cost. Historically, dividends paid by foreign subsidiaries have been limited to distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2016 Form 10-K for additional information on undistributed earnings of WPD.

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Net cash provided by (used in) operating, investing and financing activities for the nine month periods ended September 30, and the changes between periods, were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
2017					
Operating activities	\$ 1,754	\$ 575	\$ 920	\$ 418	\$ 501
Investing activities	(2,164)	(858)	(575)	(293)	(289)
Financing activities	738	513	(318)	(121)	(188)
2016					
Operating activities	\$ 2,230	\$ 595	\$ 816	\$ 383	\$ 469
Investing activities	(2,066)	(740)	(599)	(343)	(254)
Financing activities	(558)	134	(236)	(55)	(219)
Change - Cash Provided (Used)					
Operating activities	\$ (476)	\$ (20)	\$ 104	\$ 35	\$ 32
Investing activities	(98)	(118)	24	50	(35)
Financing activities	1,296	379	(82)	(66)	31

Operating Activities

The components of the change in cash provided by (used in) operating activities for the nine months ended September 30, 2017 compared with 2016 were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Change - Cash Provided (Used)					
Net income	\$ (387)	\$ (12)	\$ (15)	\$ 2	\$ (11)
Non-cash components	(23)	34	(18)	(11)	4
Working capital	91	(3)	78	(9)	31
Defined benefit plan funding	(213)	(24)	50	42	(3)
Other operating activities	56	(15)	9	11	11
Total	<u>\$ (476)</u>	<u>\$ (20)</u>	<u>\$ 104</u>	<u>\$ 35</u>	<u>\$ 32</u>

(PPL)

PPL's cash provided by operating activities in 2017 decreased \$476 million compared with 2016.

- The \$27 million decrease in non-cash components was primarily due to a decrease in deferred income tax expense (primarily due to lower income taxes from tax benefits related to accelerated pension contributions to the U.K. pension plans) and an increase in the U.K. net periodic defined benefit credits (primarily due to a decrease in the U.K. pension plan discount rates used to calculate the interest cost component of the net periodic defined benefit costs), partially offset by an increase in unrealized losses on hedging activities and an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, and higher depreciation rates effective July 1, 2017, partially offset by the impact of foreign currency exchange rates at WPD).

- The \$91 million increase in cash from changes in working capital was primarily due to a decrease in accounts receivable and unbilled revenue (primarily due to a decrease in volumes due to milder weather in 2017 compared to 2016), a decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), a decrease in fuel, material and supplies (primarily due to a decrease in fuel purchases due to milder weather in 2017 compared to 2016), and an increase in accrued interest, partially offset by a decrease in accounts payable (primarily due to an increase in accrued expenditures for property, plant and equipment and timing of payments) and a decrease in taxes payable (primarily due to an increase in current income tax benefit in 2017).
- Defined benefit plan funding was \$213 million higher in 2017. The increase was primarily due to the acceleration of WPD's contributions to its U.K. pension plans. See Note 8 to the Financial Statements for additional information.

(PPL Electric)

PPL Electric's cash provided by operating activities in 2017 decreased \$20 million compared with 2016.

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- The \$34 million increase in non-cash components was primarily due to an increase in depreciation expense (primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements), partially offset by a decrease in deferred income taxes (primarily due to book versus tax plant timing differences).
- The \$3 million decrease in cash from changes in working capital was primarily due to an increase in prepayments (primarily due to an increase in the 2017 gross receipts tax prepayment compared to 2016) and a decrease in accounts payable (primarily due to timing of payments), partially offset by a decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), a decrease in unbilled revenue (primarily due to lower volumes due to milder weather in 2017 compared to 2016), an increase in taxes payable (primarily due to a decrease in the current income tax benefit) and a decrease in accounts receivable (primarily due to a decrease in volumes due to milder weather in 2017 and income tax refunds received).
- Defined benefit plan funding was \$24 million higher in 2017.

(LKE)

LKE's cash provided by operating activities in 2017 increased \$104 million compared with 2016.

- The increase in cash from changes in working capital was primarily driven by decreases in accounts receivable from customers and unbilled revenues due to milder weather in 2017 compared to 2016, a decrease in fuel purchases due to lower generation driven by weather in 2017 compared to 2016, and an increase in taxes payable due to timing of payments, partially offset by a decrease in accounts payable due to the timing of fuel purchases and payments.
- Defined benefit plan funding was \$50 million lower in 2017.

(LG&E)

LG&E's cash provided by operating activities in 2017 increased \$35 million compared with 2016.

- The decrease in cash from changes in working capital was primarily driven by decreases in accounts payable due to fuel purchases from lower generation and timing of payments and taxes payable due to timing of payments, partially offset by decreases in accounts receivable from customers and unbilled revenues due to milder weather in 2017 compared to 2016 and accounts receivable from affiliates due to timing of intercompany settlements associated with inventory and energy sales to KU.
- Defined benefit plan funding was \$42 million lower in 2017.

(KU)

KU's cash provided by operating activities in 2017 increased \$32 million compared with 2016.

- The increase in cash from changes in working capital was primarily driven by a decrease in accounts receivable from customers and unbilled revenues due to milder weather in 2017 compared to 2016, a decrease in fuel purchases due to lower generation driven by weather in 2017 compared to 2016, and an increase in accounts payable due to the timing of fuel purchases and payments, partially offset by a decrease in taxes payable due to timing of payments and accounts payable to affiliates due to timing of intercompany settlements associated with inventory and energy purchases from LG&E.

Investing Activities

(All Registrants)

Expenditures for Property, Plant and Equipment

Investment in PP&E is the primary investing activity of the Registrants. The change in cash used in expenditures for PP&E for the nine months ended September 30, 2017 compared with 2016 was as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Decrease (Increase)	\$ (79)	\$ (112)	\$ 21	\$ 50	\$ (28)

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For PPL, the increase in expenditures was due to higher project expenditures at PPL Electric and KU partially offset by lower project expenditures at WPD and LG&E. The increase in expenditures for PPL Electric was primarily due to an increase in capital spending related to the ongoing efforts to improve reliability and replace aging infrastructure, as well as the roll-out of the Act 129 Smart Meter program. The decrease in expenditures for WPD was primarily due to a decrease in foreign currency exchange rates partially offset by an increase in expenditures to enhance system reliability. The decrease in expenditures for LG&E was primarily due to reduced spending for environmental air projects at LG&E's Mill Creek plant, partially offset by increased spending for environmental water projects at LG&E's Mill Creek plant. The increase in expenditures for KU was primarily due to increased spending for environmental water projects at KU's Ghent plant.

Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities for the nine months ended September 30, 2017 compared with 2016 were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$ 692	\$ 470	\$ —	\$ —	\$ —
Settlement of cross-currency swaps	(46)	—	—	—	—
Stock issuances/redemptions, net	142	—	—	—	—
Dividends	(28)	(38)	—	(63)	26
Capital contributions/distributions, net	—	375	(129)	(47)	(20)
Change in short-term debt, net	537	(425)	135	35	25
Notes payable with affiliate	—	—	(88)	10	—
Other financing activities	(1)	(3)	—	(1)	—
Total	<u>\$ 1,296</u>	<u>\$ 379</u>	<u>\$ (82)</u>	<u>\$ (66)</u>	<u>\$ 31</u>

See Note 7 to the Financial Statements in this Form 10-Q for information on 2017 short-term and long-term debt activity, equity transactions and PPL dividends. See the Registrants' 2016 Form 10-K for information on 2016 activity.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At September 30, 2017, the total committed borrowing capacity and the use of that capacity under these credit facilities was as follows:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,400	\$ —	\$ 303	\$ 1,097
PPL Electric Credit Facility	650	—	1	649
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	500	—	190	310
KU Credit Facilities	598	—	198	400
Total LKE	1,173	—	388	785
Total U.S. Credit Facilities (a)	\$ 3,223	\$ —	\$ 692	\$ 2,531
Total U.K. Credit Facilities (b)	£ 1,285	£ 501	£ —	£ 783

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- (a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric - 7%, LKE - 21%, LG&E - 7% and KU - 37%.
-) The amounts borrowed at September 30, 2017 were a USD-denominated borrowing of \$200 million and GBP-denominated borrowings which equated to \$446 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £156 million as of the date borrowed. At September 30, 2017, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1.0 billion.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 20% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of the Registrants' credit facilities.

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Other Used Capacity	Unused Capacity
LKE Credit Facility	\$ 225	\$ 159	\$ —	\$ 66
LG&E Money Pool (a)	500	10	190	300
KU Money Pool (a)	500	—	—	500

-) LG&E and KU participate in an intercompany money pool agreement whereby LKE, LG&E and/or KU make available funds up to \$500 million at an interest rate based on a market index of commercial paper issues. However, the FERC has issued a maximum aggregate short-term debt limit for each utility at \$500 million from all covered sources.

See Note 10 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper(All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at September 30, 2017:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 285	\$ 715
PPL Electric	650	—	650
LG&E	350	190	160
KU	350	—	350

Total LKE	700	190	510
Total PPL	\$ 2,350	\$ 475	\$ 1,875

ong-term Debt (*All Registrants*)

See Note 7 to the Financial Statements for information regarding the Registrants' long-term debt activities.

(PPL)

ATM Program

For the periods ended September 30, 2017, PPL issued the following:

	<u>Three Months</u>	<u>Nine Months</u>
Number of shares (in thousands)	2,049	5,526
Average share price	\$ 39.04	\$ 38.49
Net Proceeds	\$ 79	\$ 211

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See Note 7 to the Financial Statements for further discussion of the ATM program.

Common Stock Dividends

In August 2017, PPL declared a quarterly common stock dividend, payable October 2, 2017, of 39.5 cents per share (equivalent to \$1.58 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

(All Registrants)

Moody's and S&P have periodically reviewed the credit ratings of the debt of the Registrants and their subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2017:

(PPL)

In March 2017, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South Wales)'s £50 million 0.01% Index-linked Senior Notes due 2029.

In September 2017, Moody's and S&P assigned ratings of Baa2 and BBB+ to PPL Capital Funding's \$500 million 4.00% Senior Notes due 2047.

(PPL and PPL Electric)

In January 2017, Moody's and S&P affirmed their commercial paper ratings for PPL Electric's \$650 million commercial paper program.

In May 2017, Moody's and S&P assigned ratings of A1 and A to PPL Electric's \$475 million 3.95% First Mortgage Bonds due 2047.

In August 2017, Moody's assigned a rating of A1 and S&P confirmed its rating of A for LCIDA's \$116 million 1.80% Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project) Series 2016A due 2029 and LCIDA's \$108 million 1.80% Pollution Control Revenue Refunding Bonds (PPL Electric Utilities Corporation Project) Series 2016B due 2027, each previously issued on behalf of PPL Electric.

(PPL, LKE and LG&E)

In March 2017, Moody's assigned a rating of A1 and S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$128 million 1.5% Pollution Control Revenue Bonds, 2003 Series A (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

In May 2017, Moody's and S&P assigned ratings of A1 and A to the County of Trimble, Kentucky's \$60 million 3.75% Environmental Facilities Revenue Bonds, 2017 Series A (Louisville Gas and Electric Company Project) due 2033, issued on behalf of LG&E.

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In May 2017, Moody's assigned a rating of A1 and in June 2017, S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$31 million 1.25% Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

In May 2017, Moody's assigned a rating of A1 and in June 2017, S&P confirmed its rating of A for the Louisville/Jefferson Metro Government of Kentucky's \$35 million 1.25% Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033, previously issued on behalf of LG&E.

(PPL, LKE and KU)

In July 2017, Moody's affirmed its rating of Aa2 and in August 2017, S&P confirmed its rating of AA for the County of Mercer, Kentucky's \$13 million Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project) due 2023, the County of Carroll, Kentucky's \$50 million Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project) due 2034, the County of Carroll, Kentucky's \$78 million Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project) due 2032 and the County of Carroll, Kentucky's \$54 million Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project) due 2034, each previously issued on behalf of KU.

Ratings Triggers

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 13 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at September 30, 2017.

(All Registrants)

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2016 Form 10-K.

Risk Management

Market Risk

(All Registrants)

See Notes 12 and 13 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

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 are not precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

Interest Rate Risk

The Registrants and their subsidiaries issue debt to finance their operations, which exposes them to interest rate risk. The Registrants and their subsidiaries utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of their debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolios due to changes in the absolute level of interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

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The following interest rate hedges were outstanding at September 30, 2017.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Interest rate swaps (c)	\$ 242	\$ (2)	\$ (3)	2027
Cross-currency swaps (c)	802	162	(90)	2028
Economic hedges				
Interest rate swaps (d)	147	(29)	(1)	2033
LKE				
Economic hedges				
Interest rate swaps (d)	147	(29)	(1)	2033
LG&E				
Economic hedges				
Interest rate swaps (d)	147	(29)	(1)	2033

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability. Sensitivities represent a 10% adverse movement in interest rates, except for cross-currency swaps which also includes a 10% adverse movement in foreign currency exchange rates.

(c) Changes in the fair value of these instruments are recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings.

(d) Realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in the fair value of these derivatives are included in regulatory assets or regulatory liabilities.

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at September 30, 2017 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at September 30, 2017 is shown below.

	10% Adverse Movement in Rates
PPL	\$ 600
PPL Electric	165
LKE	172
LG&E	63
KU	95

Foreign Currency Risk (PPL)

PPL is exposed to foreign currency risk primarily through investments in U.K. affiliates. Under its risk management program, PPL may enter into financial instruments to hedge certain foreign currency exposures, including translation risk of expected earnings, firm commitments, recognized assets or liabilities, anticipated transactions and net investments.

The following foreign currency hedges were outstanding at September 30, 2017.

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through
Net investment hedges (b)	£ 92	\$ 1	\$ (12)	2017
Economic hedges (c)	2,728	(4)	(340)	2020

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.

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(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.

(c) To economically hedge the translation risk of expected earnings denominated in GBP.

(All Registrants)

Commodity Price Risk

PPL is exposed to commodity price risk through its domestic subsidiaries as described below.

- PPL Electric is exposed to commodity price risk from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its exposure to this risk. PPL Electric also mitigates its exposure to commodity price risk by entering into full-requirement supply agreements to serve its PLR customers. These supply agreements transfer the commodity price risk associated with the PLR obligation to the energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel and fuel-related expenses. In addition, LG&E's rates include a mechanism for natural gas supply expenses. These mechanisms generally provide for timely recovery of market price fluctuations associated with these expenses.

Volumetric Risk

PPL is exposed to volumetric risk through its subsidiaries as described below.

- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control period, recovery of such exposure occurs on a two year lag. See Note 1 in PPL's 2016 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Credit Risk*(All Registrants)*

See Notes 12 and 13 to the Financial Statements in this Form 10-Q and "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Risk Management - Credit Risk" in the Registrants' 2016 Form 10-K for additional information.

Foreign Currency Translation*(PPL)*

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation gain of \$194 million for the nine months ended September 30, 2017, which primarily reflected a \$345 million increase to PP&E and a \$75 million increase to goodwill partially offset by a \$203 million increase to long-term debt and a \$23 million increase to other net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$840 million for the nine months ended September 30, 2016, which primarily reflected a \$1.6 billion decrease to PP&E and \$375 million decrease to goodwill partially offset by a \$995 million decrease to long-term debt and a \$160 million decrease to other net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions*(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 10 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures*(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 to the Financial Statements in the Registrants' 2016 Form 10-K for information on the more significant activities.

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Environmental Matters(All Registrants)

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The cost of compliance or alleged non-compliance cannot be predicted with certainty but could be significant. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or other restrictions. In addition, the regulatory reviews specified in the President's March 2017 Executive Order promoting energy independence and economic growth could result in future regulatory changes and additional uncertainty. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost for their products or their demand for the Registrants' services. Increased capital and operating costs are subject to rate recovery. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

See Note 9 to the Financial Statements for a discussion of the more significant environmental matters including:

- Legal Matters,
- Climate Change,
- CCRs,
- ELGs, and
- NAAQS.

Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2016 Form 10-K for additional information on environmental matters.

New Accounting Guidance(All Registrants)

See Note 17 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies(All Registrants)

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2016 Form 10-K for a discussion of each critical accounting policy.

	PPL				
	PPL	Electric	LKE	LG&E	KU
Defined Benefits	X	X	X	X	X
Income Taxes	X	X	X	X	X
Goodwill Impairment	X		X	X	X
AROs	X		X	X	X
Price Risk Management	X				
Regulatory Assets and Liabilities	X	X	X	X	X
Revenue Recognition - Unbilled Revenue			X	X	X

**PPL Corporation
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of September 30, 2017, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' third fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2016 Form 10-K; and
- Notes 6 and 9 to the Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2016 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

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- [4\(a\)](#) - Supplemental Indenture No. 16, dated as of September 8, 2017, among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 6, 2017)
- [*4\(b\)](#) - £3,000,000,000 Euro Medium Term Note Programme entered into by Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc, dated as of September 15, 2017
- [*4\(c\)](#) - Amendment No. 1 to PPL Employee Stock Ownership Plan, dated October 2, 2017
- [*10\(a\)-1](#) - £20,000,000 Uncommitted Facility Letter entered into between Western Power Distribution (South West) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (East Midlands) plc and BNP Paribas, dated as of January 23, 2014
- [*10\(a\)-2](#) - Amendment to said Uncommitted Facility Letter, dated as of July 28, 2017
- [*10\(b\)](#) - \$200,000,000 Term Loan Credit Agreement, dated as of October 26, 2017, among Louisville Gas and Electric Company, as the Borrower, the Lenders from time to time party hereto and U.S. Bank National Association, as Administrative Agent
- [*12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(b\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [*12\(c\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [*12\(d\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [*12\(e\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2017, filed by the following officers for the following companies:

- [*31\(a\)](#) - PPL Corporation's principal executive officer
- [*31\(b\)](#) - PPL Corporation's principal financial officer
- [*31\(c\)](#) - PPL Electric Utilities Corporation's principal executive officer
- [*31\(d\)](#) - PPL Electric Utilities Corporation's principal financial officer
- [*31\(e\)](#) - LG&E and KU Energy LLC's principal executive officer
- [*31\(f\)](#) - LG&E and KU Energy LLC's principal financial officer
- [*31\(g\)](#) - Louisville Gas and Electric Company's principal executive officer
- [*31\(h\)](#) - Louisville Gas and Electric Company's principal financial officer
- [*31\(i\)](#) - Kentucky Utilities Company's principal executive officer
- [*31\(j\)](#) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2017, furnished by the following officers for the following companies:

- [*32\(a\)](#) - PPL Corporation's principal executive officer and principal financial officer
- [*32\(b\)](#) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
- [*32\(c\)](#) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
- [*32\(d\)](#) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
- [*32\(e\)](#) - Kentucky Utilities Company's principal executive officer and principal financial officer

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101.INS	- XBRL Instance Document
101.SCH	- XBRL Taxonomy Extension Schema
101.CAL	- XBRL Taxonomy Extension Calculation Linkbase
101.DEF	- XBRL Taxonomy Extension Definition Linkbase
101.LAB	- XBRL Taxonomy Extension Label Linkbase
101.PRE	- XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation

(Registrant)

Date: November 1, 2017

/s/ Stephen K. Breininger

Stephen K. Breininger
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: November 1, 2017

/s/ Marlene C. Beers

Marlene C. Beers
Controller
(Principal Financial Officer and Principal
Accounting Officer)

LG&E and KU Energy LLC

(Registrant)

Louisville Gas and Electric Company

(Registrant)

Kentucky Utilities Company

(Registrant)

Date: November 1, 2017

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT) (REGULATION S)) LOCATED OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S.

IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this page (the Prospectus) and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC, WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC, WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC OR WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC (TOGETHER, THE ISSUERS) IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Notes include a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“MiFID II”); or (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. By accessing the Prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the Prospectus by electronic transmission, (c) you are not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia, (d) you have not duplicated, distributed, forwarded, transferred or otherwise transmitted the Prospectus or any other presentational or other materials concerning this offering (including electronic copies thereof) to any persons within the United States and agree that such materials shall not be duplicated, distributed, forwarded, transferred or otherwise transmitted by you, (e) you have made your own assessment concerning the relevant tax, legal and other economic considerations relevant to an investment in the securities of the Issuers and (f) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)

(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 or a certified high net worth individual within Article 48 of the Financial Services and Markets Act (Financial Promotion) Order 2005. The materials relating to this offering (including the Prospectus) do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuers, Banco Santander, S.A., Barclays Bank PLC, HSBC Bank plc, Lloyds Bank plc, Merrill Lynch International, Mizuho International plc, MUFG Securities EMEA plc, RBC Europe Limited or The Royal Bank of Scotland plc (trading as NatWest Markets) nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Barclays Bank PLC, Banco Santander, S.A., HSBC Bank plc, Lloyds Bank plc, Merrill Lynch International, Mizuho International plc, MUFG Securities EMEA plc, RBC Europe Limited or The Royal Bank of Scotland plc (trading as NatWest Markets).

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

(incorporated and registered with limited liability in England and Wales under registration number 02366923)

and

WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC

(incorporated and registered with limited liability in England and Wales under registration number 02366985)

and

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

(incorporated and registered with limited liability in England and Wales under registration number 02366894)

and

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

(incorporated and registered with limited liability in England and Wales under registration number 03600574)

£3,000,000,000

Euro Medium Term Note Programme

Under this £3,000,000,000 Euro Medium Term Note Programme (the **Programme**), Western Power Distribution (East Midlands) plc (**WPDE**), Western Power Distribution (South Wales) plc (**WPD South Wales**), Western Power Distribution (South West) plc (**WPD South West**) and Western Power Distribution (West Midlands) plc (**WPDW**) and, together with WPDE, WPD South Wales and WPD South West, the **Issuers**, and each, an **Issuer**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer of such Notes (the **Relevant Issuer**) and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed £3,000,000,000 (or its equivalent in other currencies calculated as described in the amended and restated dealer agreement dated 15 September 2017, as amended or supplemented from time to time, the **Dealer Agreement**), subject to increase as described in this Prospectus.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Description of the Programme" and any additional Dealer appointed under the Programme from time to time by the Relevant Issuers (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Application has been made to the Financial Conduct Authority (the **FCA**) in its capacity as competent authority (the **UK Listing Authority**) for Notes issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to be admitted to trading on the London Stock Exchange's (the **London Stock Exchange**) regulated market.

References in this Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of the Notes, interest (if any) payable in respect of the Notes, and the issue price of the Notes and certain other information which is applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of the Notes will (other than in the case of Exempt Notes, as defined below) be set out in a separate document containing the final terms for that Tranche (**Final Terms**) which, with respect to the Notes to be admitted to the Official List and admitted to trading by the London Stock Exchange on the regulated market, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the Notes of such Tranche. Copies of Final Terms in relation to Notes to be listed on the London Stock Exchange will also be published on the website of the London Stock Exchange through a regulatory information service. In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of the Notes, and the issue price of the Notes and certain other information which is applicable to each Tranche will be set out in a pricing supplement document (the **Pricing Supplement**). In this Prospectus, any reference to Final Terms shall, in the case of Exempt Notes, be construed as a reference to the relevant Pricing Supplement.

The Programme provides that the Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or regulated or unregulated markets as may be agreed between the Relevant Issuer, the Note Trustee (as defined below) and the relevant Dealer(s). The Relevant Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any regulated or unregulated market (**Exempt Notes**). The UK Listing Authority has neither approved nor reviewed information contained in this Prospectus in connection with Exempt Notes.

Each Series (as defined in "Overview of the Programme") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a **temporary Global Note**) or a permanent global note in bearer form (each a **permanent Global Note**). Notes in registered form will be represented by registered certificates (each a **Certificate**), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series (a **Global Certificate**). If the global notes (the **Global Notes**) and each a **Global Note**) are stated in the applicable Final Terms to be issued in new global note (**NGN**) form they are intended to be eligible collateral for Eurosystem monetary policy and, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). Registered Notes issued in global form will be represented by registered global certificates (**Global Certificates**). If a Global Certificate is held under the New Safekeeping Structure (the **NSS**) the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Global Notes which are not issued in NGN form (**Classic Global Notes** or **CGNs**) and Global Certificates which are not held under the NSS will be deposited on the issue date of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the **Common Depositary**).

The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "Form of the Notes".

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See "Form of the Notes" for a description of the manner in which Notes will be issued.

Each of the Issuers has been rated by Moody's Investors Service Limited (**Moody's**) and/or Standard & Poor's Credit Market Services Europe Limited (**S&P**). Each of Moody's and S&P is established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such each of Moody's and S&P is included in the list of credit agencies published by the European Securities and Markets Authority (**ESMA**) on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Notes issued under the Programme may be rated or unrated by any one or more of the rating agencies referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Issuer by the relevant rating agency. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Please also refer to "Credit ratings may not reflect all risks" in the Risk Factors section of this Prospectus.

Prospective investors should consider carefully the risks set forth under Risk Factors on pages 13 to 21 prior to making investment decisions with respect to the Notes.

Arranger
NatWest Markets

Dealers

Barclays
HSBC
Mizuho Securities
RBC Capital Markets

BofA Merrill Lynch
Lloyds Bank
MUFG
Santander Global Corporate Banking
NatWest Markets

The date of this Prospectus is 15 September 2017

IMPORTANT INFORMATION

This Prospectus comprises a base prospectus, in respect of all Notes other than Exempt Notes issued under the Programme, for the purposes of Article 5.4 of the Prospectus Directive. When used in this Prospectus, **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area) and for the purpose of giving information with regard to the Relevant Issuer and the Notes which, according to the particular nature of the Relevant Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Relevant Issuer.

This Prospectus shall be read and construed in conjunction with any amendment or supplement hereto. Furthermore, in relation to any Series of Notes, this Prospectus should be read and construed together with the relevant Final Terms.

The Issuers have each undertaken to the Arranger and the Dealers in the Programme to comply with section 87G of the Financial Services and Markets Act 2000, as amended (the **FSMA**). Following the publication of this Prospectus, a supplement may be prepared by the Issuers and approved by the UK Listing Authority which will comprise a supplementary prospectus in accordance with section 87G of the FSMA. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Prospectus.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

This Prospectus is not a prospectus for the purposes of Section 12(a)(2) or any other provision or order under the Securities Act.

Each Issuer accepts responsibility for the information contained in this Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of each of the Issuers (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus, is in accordance with the facts and does not omit anything likely to affect the import of such information. Any information sourced from third parties contained in this Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as the Issuers are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

Tranches of Notes may be rated or unrated. Where a Tranche of Notes is rated, the rating assigned to such Tranche will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The rating of certain Tranches of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to the relevant Tranches of Notes has been issued by a credit rating agency established in the European Union and registered under the CRA Regulation

will be disclosed in the Final Terms. Please also refer to “*Credit Ratings may not reflect all risks*” in the *Risk Factors* section of this Prospectus.

Copies of each set of Final Terms will be available from the specified office set out below of each of the Paying Agents (as defined below) and (in the case of Notes to be admitted to the Official List) will be available from the registered office of the Relevant Issuer.

Neither the Arranger, the Dealers nor the Note Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealers or the Note Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuers in connection with the Programme.

No person is or has been authorised by the Issuers, any of the Arranger, the Dealers or the Note Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuers, the Arranger, any Dealer or the Note Trustee.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuers, the Arranger, any of the Dealers or the Note Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuers. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuers, the Arranger, any of the Dealers or the Note Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuers is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers and the Note Trustee expressly do not undertake to review the financial condition or affairs of the Issuers during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Notes include a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); or (ii) a customer within the meaning of Directive 2002/92/EC (“**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROSPECTUS AND OFFERS OF NOTES GENERALLY

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Arranger, the Dealers and the Note Trustee do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, nor assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Arranger, the Dealers or the Note Trustee which would permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except in circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the United Kingdom: see "Subscription and Sale". Neither the Issuers, the Arranger nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuers or any Dealer to publish or supplement a prospectus for such offer.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

All references in this document to **Sterling** and **£** refer to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland, references to **euro** and **€** refer to the currency introduced at the start of the third stage of the Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, and references to **U.S. Dollars** and **\$** refer to the lawful currency for the time being of the United States of America.

In making an investment decision, investors must rely on their own examination of the Issuers and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is unlawful.

NOTES ISSUED BY AN ISSUER ARE OBLIGATIONS SOLELY OF THAT ISSUER AND ARE ISSUED WITHOUT ANY RECOURSE WHATEVER TO THE OTHER ISSUERS HEREUNDER.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilisation manager(s) (the **Stabilisation Manager(s)**) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

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OVERVIEW OF THE PROGRAMME

The following description does not purport to be complete and is taken from, and is qualified in its entirety by (i) the remainder of this Prospectus and (ii) in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this Overview.

Issuers	Western Power Distribution (East Midlands) plc Western Power Distribution (South Wales) plc Western Power Distribution (South West) plc Western Power Distribution (West Midlands) plc
Description	Euro Medium Term Note Programme
Arranger	The Royal Bank of Scotland plc (trading as NatWest Markets)
Dealers	Banco Santander, S.A. Barclays Bank PLC HSBC Bank plc Lloyds Bank plc Merrill Lynch International Mizuho International plc MUFG Securities EMEA plc RBC Europe Limited The Royal Bank of Scotland plc (trading as NatWest Markets) and any other Dealers appointed in accordance with the Dealer Agreement.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale”).
Note Trustee	HSBC Corporate Trustee Company (UK) Limited
Issuing and Paying Agent, Registrar, Transfer Agent and Calculation Agent	HSBC Bank plc

Method of Issue:

The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a **Series**) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a **Tranche**) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms.

Programme Size

Up to £3,000,000,000 (or its equivalent in other currencies, calculated as described in the Dealer Agreement) outstanding at any time. The Issuers may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.

Distribution

Notes may be distributed by way of private or public placement and, in each case, on a syndicated or non-syndicated basis.

Currencies

Subject to any applicable legal or regulatory restrictions, any currency agreed between the Relevant Issuer and the relevant Dealer.

Maturities

Such maturities as may be agreed between the Relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Relevant Issuer or the relevant Specified Currency.

Issue Price

Notes will be issued on a fully-paid basis and may be issued and at an issue price which is at par or at a discount to, or premium over, par.

Form of Notes

The Notes will be issued in bearer or registered form as described in "Form of the Notes". Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year, otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "Global Certificates". A beneficial interest in a Global Certificate may be transferable for a Certificate in definitive form only in accordance with the rules and operating procedures of the relevant clearing system for the time being and in accordance with the detailed regulations in the Agency Agreement.

Fixed Rate Notes

Fixed interest will be payable on such date or dates as may be agreed between the Relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Relevant Issuer and the relevant Dealer.

Floating Rate Notes

Floating Rate Notes will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service at the relevant time.

The margin (if any) relating to such floating rate will be agreed between the Relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.

**Index Linked Interest
Notes and Index
Linked Redemption
Notes**

Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to the UK Retail Price Index. Index Linked Redemption Notes and Index Linked Interest Notes may also specify a Minimum Indexation Factor or a Maximum Indexation Factor.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes

Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest, a step-up in the interest rate after a certain date (or any combination of the foregoing).

Zero Coupon Notes

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Interest Periods and Interest Payment Dates:

The Notes (other than the Zero Coupon Notes) will have such interest periods and interest payment dates as the Issuer and the relevant Dealer may agree in relation to a particular Tranche of Notes.

Redemption by the Relevant Issuer

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the Relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Relevant Issuer and the relevant Dealer.

Redemption at Option of the Noteholders on a Restructuring Event

The Notes issued may also be redeemed at the option of the Noteholders in certain circumstances following the occurrence of a Restructuring Event, as more particularly set out in Condition 6(g) (Redemption at the Option of the Noteholders on a Restructuring Event).

Redemption at the Option of Noteholders

If an Investor Put is specified in the Final Terms, the Relevant Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Relevant Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued up to (and including) the date fixed for redemption, as more particularly set out in Condition 6(f) (Redemption at the Option of Noteholders).

Denomination of Notes

Notes will be issued in such denominations as may be agreed between the Relevant Issuer and the relevant Dealer and as specified in the applicable Final Terms save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency as at the date of issue of the Notes).

Taxation

All payments in respect of the Notes will be made without withholding or deduction for or on account of withholding taxes imposed by the United Kingdom, unless such deduction or withholding is required by law. In the event that any such withholding or deduction is required by law, the Relevant Issuer will, save in certain limited circumstances provided in Condition 10 (Taxation), be required to pay additional amounts that result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required.

Negative Pledge and Restriction on Distribution of Dividends

The terms of the Notes will contain a negative pledge provision and a restriction on the distribution of dividends as further described in Condition 4 (Negative Pledge and Restriction on Distribution of Dividends).

Cross Acceleration

The terms of the Notes will contain a cross acceleration provision which applies in respect of each Relevant Issuer (and not in respect of the other Issuers' obligations) as further described in Condition 12 (Events of Default).

Status of the Notes

The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3 (Status)) unsecured obligations of the Relevant Issuer and will rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Relevant Issuer, from time to time outstanding.

Ratings

Tranches of Notes may be rated or unrated. Where a Tranche of Notes is rated, the rating assigned to such Tranche will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Where Ratings Downgrade Rate Adjustment is specified as being applicable in the Final Terms, the Rate of Interest applicable to the Notes may be subject to adjustment upon a downgrading of the rating of the Notes as more fully described in the "Terms and Conditions of the Notes".

Whether or not each credit rating applied for in relation to the relevant Tranches of Notes has been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms.

Listing and admission to trading

Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to admit the Notes to trading on the Regulated Market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Relevant Issuer and the relevant Dealer in relation to the Series.

Notes which are neither listed nor admitted to trading may also be issued. The UK Listing Authority has neither approved nor reviewed information contained in this Prospectus in connection with such Exempt Notes.

Governing Law

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by English law.

Selling Restrictions

There are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the European Economic Area (including the United Kingdom), and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "Subscription and Sale".

RISK FACTORS

When purchasing Notes, investors assume the risk that any of the Issuers may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in any of the Issuers becoming unable to make all payments due. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuers may not be aware of all relevant factors and certain factors which they currently deem not to be material may become material as a result of the occurrence of events outside the Issuers' control. The Issuers have identified in this Prospectus a number of factors which could materially adversely affect their businesses and ability to make payments due. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Noteholders may lose the value of their entire investment in certain circumstances.

Words and expressions defined in "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meaning in this section.

Factors that may affect each Issuer's ability to fulfil its obligations under the Notes under the Programme

Regulatory Risk

Under current regulation by the Great Britain Office of Gas and Electricity Markets (**Ofgem**), each Issuer's allowed revenue is determined by the distribution price controls set out under the terms of its distribution licence, and has typically been set by Ofgem every five years. However from 1 April 2015, the start of the new distribution price control review (**RIIO-ED1**), the period has been extended to eight years. Each Issuer has agreed the price control with Ofgem that covers the eight-year period from 1 April 2015 to 31 March 2023. Therefore, unless Ofgem reopens the price control, which the Issuers consider unlikely, there is a high degree of certainty as to the level of revenue permitted by regulation until 31 March 2023.

However, there can be no assurance that future price controls will permit the generation of sufficient revenues to enable the Relevant Issuer to meet its respective payment obligations under the Notes. There can also be no assurance that net operating revenues generated by the Relevant Issuer will be sufficient to meet such payment obligations.

Macroeconomic and geopolitical risk

The "leave" vote in the United Kingdom's recent referendum on its membership of the European Union is likely to have a significant impact on general macro-economic conditions in the United Kingdom. As at the date of this Prospectus, each of the three major credit rating agencies has taken rating actions against the United Kingdom's sovereign credit ratings, with Standard & Poor's downgrading the United Kingdom by two notches from AAA to AA, Fitch imposing a one notch downgrade on the sovereign from AA+ to AA and Moody's changing the outlook in respect of the United Kingdom's existing Aa1 rating from stable to negative. In the immediate aftermath of the result, there were material devaluations in currency, with sterling depreciating to a 31-year low against the U.S. dollar. The performance of global financial markets has also been materially affected, with international equity markets being particularly impacted in the days following the referendum result. While the longer-term impact of the "Brexit" vote on global debt and equity markets, exchange rates and on the political and macro-economic climate generally is uncertain, it is likely that there will continue to be a period of volatility across international financial markets until the precise terms of the United Kingdom's exit

from the European Union become clear. As such, no assurance can be given that such matters would not adversely affect the fiscal, monetary and regulatory landscape to which the Group is subject, the ability of the Issuers to satisfy their respective obligations under the Notes and/or the market value and/or the liquidity of the Notes in the secondary market.

Distribution licence

Failure by an Issuer to comply with the terms of its distribution licence may lead to Ofgem making an enforcement order or levying a fine on it. In respect of each Issuer, Ofgem has the power to levy fines of up to 10 per cent. of turnover of that Issuer for any breach of its distribution licence. While the distribution licence of an Issuer may be terminated immediately in exceptional circumstances, such as in the event of insolvency proceedings affecting such Issuer, it otherwise continues indefinitely until revoked following no less than 25 years' written notice.

Retail price index movements and cost-base variations

The annual revenues of each Issuer are adjusted by the published retail price index (**RPI**) in the United Kingdom. There is therefore a risk that each Issuer's cost base may increase at a faster rate than the RPI due to inflation as measured by the RPI being less than the rate of inflation on components of the licensee's cost base, even though Ofgem's price control does allow for some cost increases in excess of RPI. If that were to happen, each Issuer's profitability would be reduced and, if the differential between RPI-linked inflation and experienced operating cost inflation was sufficiently large, it could adversely affect each Issuer's business, financial position and results of operations. The effects of deflation would also be similar. The annual revenue of each Issuer may reduce at a greater degree to any deflationary impact on the component costs of the business. Again if this were to happen each Issuer's profitability would be reduced and, if the differential between RPI-linked deflation and experienced operating cost deflation was sufficiently large, it could adversely affect each Issuer's business, financial position and results of operations

Change to measure of inflation

On 8 January 2015, the UK Statistics Authority published a review recommending that the Office for National Statistics adopt the so-called "CPIH" measure of inflation (which, among other things, would include housing costs in its measure of inflation) as its main measure of inflation.

As at 31 March 2016, Ofgem has taken the decision to retain RPI as the inflation index; however if Ofgem decides to use the CPIH measure of inflation in the future, after the expiry of the RIIO-ED1 period, this could have an impact on the Issuers' revenue growth and, ultimately, on their respective businesses, financial positions and results of operations.

Supply Installation Regulations

Failure to comply with current supply installation regulations could lead to prosecution by the Department of Energy and Climate Change. While each Issuer has robust inspection and maintenance programmes in place to mitigate this risk, no assurance can be given that an Issuer will not be subject to such action in the future.

Health and Safety

Failure to comply with legislation, or a health and safety incident, could lead to prosecution by the Health and Safety Executive (the **HSE**). Each Issuer places the highest priority on health and safety, and invests in robust training and auditing of all its employees. However, assurance can be given that an Issuer will not be subject to HSE action in the future.

Ofgem Requirements

Each Issuer's activities are regulated by Ofgem. Failure to operate the network properly could lead to compensation payments or penalties or loss of incentive revenues under incentive arrangements. Failure to invest capital expenditure in line with agreed programmes could also lead to deterioration of the network and clawback of investment deferred if specified outputs are not met. While each Issuer's investment programme is targeted to maintain asset condition and meet the prescribed outputs over an eight-year period and reduce customer interruptions and customer minutes lost over the period, no guarantee can be given that these regulatory requirements will be met.

IT Systems

Each Issuer relies on a number of key IT systems for network operation. Failure to plan and execute suitable contingencies in the event of critical IT system breakdowns could result in poor customer service and/or an inability to operate the network effectively. Each Issuer has robust contingency plans in place to cover such eventualities and regularly tests these plans, but no assurance can be given as to their effectiveness going forward.

Environment

Failure to comply with legislation in the event of an environmental incident could lead to prosecution by the Environment Agency. While each Issuer has robust operating, inspection and maintenance procedures in place to mitigate this risk, ongoing compliance cannot be guaranteed.

Storm Related Supply Interruptions

Failure to manage storm related supply interruptions adequately could lead to negative customer perception, adverse publicity and a potential financial impact on the business. Each Issuer has developed robust operating procedures to manage storm related supply interruptions and has, through independent review, achieved benchmark performance in previous incidents. However, no assurance can be given that satisfactory performance can be delivered in the future.

Pensions

Employees and former employees of the Issuers have pension entitlements from the Central Networks and Western Power Distribution Groups of the Electricity Supply Pension Scheme (the **WPD ESPS Schemes**, further details of which are set out in "*Description of the Issuers: Pensions – WPDE and WPDW* and "*Pensions – WPD South West and WPD South Wales*") which are defined benefit pension schemes. Low interest rates, recent declines in financial markets and changes in demographic factors have produced actuarial deficits that have led to increased pension deficits and which required cash contributions in recent years. Any further adverse movements in interest rates, financial markets and demographic factors amongst others may lead to even higher pensions costs, cash contributions and scheme deficits in the future. As part of the electricity regulatory framework in the UK, Ofgem currently allows nearly all the costs of new benefit accrual in relation to distribution-related activities for both the WPD ESPS Schemes (which are closed to new members) and the Issuers' defined contribution scheme (the **Western Power Pension Scheme** or **WPPS**) to be charged to customers. Since 1 April 2015 cash contributions payable in respect of new benefit accrual in the WPD ESPS Schemes and the WPPS along with any cash contributions payable in respect of any incremental deficit arising from benefit accrual after 1 April 2010 have been benchmarked as part of total employment costs and will only be funded to the extent that they are deemed to be efficient. In addition, Ofgem carries out reasonableness reviews of the WPD ESPS Schemes' valuation outcomes and their corresponding deficit repair payment schedules following successive triennial valuations. As a result, if Ofgem deem that certain pension deficit costs have not have been efficiently and/or reasonably incurred, they may further restrict the amount that can be recovered from customers in the future.

Combined Operating Activities of WPDE, WPDW, WPD South West and WPD South Wales

As required by Ofgem in its regulation of distribution network operators (DNOs and each a DNO), WPDE, WPDW, WPD South West and WPD South Wales are separate legal entities, which are subject to financial ring-fencing and which hold separate distribution licences. However, on a management and commercial level WPDE, WPDW, WPD South West and WPD South Wales are operated on a combined basis under the commercial brand "Western Power Distribution". As a result, any event which has an adverse impact on Western Power Distribution may affect the management and delivery of operations for WPDE, WPDW, WPD South West and WPD South Wales.

Procurement Risk

In order to support its core business activities, it is necessary for each of the Issuers to purchase significant quantities of resources and enter into contracts for the supply of other products and services. Although the Issuers routinely enter into long-term contracts to protect their commercial position, significant price rises and/or failure to secure key materials could have a significant adverse effect on the operations and/or financial position of the Issuers. Whilst each Issuer receives protection from inflation through its price controls being linked to the retail price index, it will be exposed or benefit from any changes relative to inflation, either as a result of commodity prices or issues around supply and demand for plant and equipment or with its contractors. To the extent it purchases equipment from overseas, this exposure would also extend to exchange rate fluctuations.

Key management personnel and employees

Each Issuer's business depends upon the efforts and dedication of its senior management team. Competition for highly qualified personnel is intense, and the loss of the services of any of these key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on each Issuer's business, financial condition and results of operations.

Each Issuer's future business success depends in part on its ability to continue to recruit, train, motivate and retain employees and on its ability to continue to employ creative employees and consultants. The loss of service of any key personnel, or an inability to attract and retain qualified employees and consultants, could have a material adverse impact on each Issuer's business, financial condition and results of operations.

Each Issuer's workforce is covered by collective bargaining agreements, which impacts its labour costs. The current collective bargaining agreements are renewed on a rolling basis and each Issuer cannot ensure that the collective bargaining agreements will continue without required amendments or that it will reach new agreements with the unions on satisfactory terms if this event occurs. Furthermore, work stoppages, strikes or similar industrial actions could adversely impact each Issuer's business, financial position and results of operations.

Factors which are material for the purpose of assessing the market risks associated with the Notes

Notes may not be a suitable investment for all investors

Each potential investor in any Note must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (ii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Risks related to the structure of the Notes

Early redemption by a Relevant Issuer at its option

A Relevant Issuer may, in the limited circumstances set out in Condition 6 (*Redemption, Purchase and Options*) and subject to the provisions as to minimum redemption price there set out, redeem the Notes prior to their stated maturity date. This early redemption feature may limit the market value of the Notes. The market value of the Notes is unlikely to rise substantially above the price at which they can be redeemed. In addition, depending on prevailing market conditions at the time, an investor receiving the proceeds of an early redemption of the Notes may not be able to reinvest those proceeds in a comparable security at an effective interest rate as high as that of the Notes.

Index Linked Interest Notes and Index Linked Redemption Notes

A Relevant Issuer may issue Notes with principal and/or interest determined by reference to the UK Retail Price Index (**RPI**). RPI may go down as well as up. Information on the RPI can be found at www.statistics.gov.uk.

Where the amount of interest payable on a Tranche of Notes is subject to adjustment by reference to RPI, a decrease in RPI over the reference period will reduce the amount of interest payable in respect of such Notes. In a deflationary environment, the annual interest received may be lower than the rate of interest specified in the applicable Final Terms.

Where the amount payable upon redemption of any Tranche of Notes is subject to adjustment by reference to RPI, a decrease in RPI over the reference period may reduce the amount to be repaid upon redemption of such Notes to less than the nominal amount of such Notes, unless the applicable Final Terms specify a minimum redemption amount which is equal to or higher than the nominal amount of such Notes.

The historical experience of RPI should not be viewed as an indication of the future performance of RPI during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to RPI and the suitability of such Notes in light of its particular circumstances.

There are particular risks associated with an investment in Index Linked Interest Notes and Index Linked Redemption Notes (**Indexed Notes**). In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Relevant Issuer's ability to convert the interest

rate will affect the secondary market in, and the market value of, such Notes since the Relevant Issuer may be expected to convert the rate when it is likely to result in a lower overall cost of borrowing for the Relevant Issuer. If the Relevant Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Relevant Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing market rates.

Fixed Rate Notes

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Note Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification, waiver or authorisation of any breach, or proposed breach, of any of the provisions of the Notes or the Trust Deed or (ii) determine without the consent of the Noteholders that any Event of Default (as defined in the Trust Deed) shall not be treated as such or (iii) the substitution of another company as principal debtor under the Notes in place of the Relevant Issuer, in the circumstances described in Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*) (provided that, in each case, it is not, in the opinion of the Note Trustee, materially prejudicial to the interests of the Noteholders).

The value of the Notes could be adversely affected by a change in English law or administrative practice

The Terms and Conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Minimum Denominations

In relation to any issue of Notes which have denominations consisting of a minimum specified denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be

traded in amounts in excess of the minimum specified denomination that are not integral multiples of such minimum specified denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum specified denomination in his account with the relevant clearing system would not be able to sell such holding without first purchasing a principal amount of Notes at or in excess of the minimum specified denomination such that its holding amounts to a specified denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum specified denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of minimum specified denominations such that its holding amounts to a specified denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

Eligibility of the Notes for Eurosystem Monetary Policy

Those Notes issued in NGN form or to be held under the NSS are intended to be held in a manner which will allow Eurosystem eligibility. This means that such Notes are upon issue deposited with one of the international central securities depositories as common safekeeper and does not necessarily mean that such Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem (**Eurosystem Eligible Collateral**) either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria and other obligations (including the provision of further information) as specified by the ECB from time to time. The Issuers do not give any representation, warranty, confirmation or guarantee to any investor in the Notes that the Notes will, either upon issue, or at any or all times during their life, satisfy all or any requirements for Eurosystem eligibility and be recognised as Eurosystem Eligible Collateral. Any potential investor in the Notes should make their own conclusions and seek their own advice with respect to whether or not the Notes constitute Eurosystem Eligible Collateral.

Risks applicable to certain types of Exempt Notes

There are particular risks associated with an investment in certain types of Exempt Notes, such as Index Linked Notes. In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it.

The Relevant Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Relevant Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;

- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes will have more volatile market values than conventional Floating Rate Notes.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Risks related to the market generally

Set out below is a brief description of certain material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Although application has been made for the Notes to be admitted to listing on the Official List and to trading on the regulated market, there is no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a severely adverse effect on the market value of Notes.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Relevant Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Relevant Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings assigned to the Notes may not reflect all the risks associated with an investment in those Notes

The ratings assigned to the Notes may not reflect the potential impact of all risks that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time. Any adverse change in an applicable credit rating could affect the trading price for the Notes.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority (ESMA) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

As the Global Notes (or Global Certificates, as applicable) are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Relevant Issuer

The Notes will be represented by the Global Notes (or Global Certificates, as applicable) and, except in certain limited circumstances described in the permanent Global Note, investors will not be entitled to receive definitive Notes. The Global Notes (or Global Certificates, as applicable) will be delivered to a common safekeeper for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes (or Global Certificates, as applicable). While the Notes are represented by the Global Notes (or Global Certificates, as applicable), investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Relevant Issuer will discharge its payment obligations under the Notes by making payments to the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note (or Global Certificate, as applicable) must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Relevant Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes (or Global Certificates, as applicable).

Holders of beneficial interests in the Global Notes (or Global Certificates, as applicable) will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

SUPPLEMENTARY PROSPECTUSES

Following the publication of this Prospectus, a supplementary prospectus may be prepared by the Issuers and approved by the UK Listing Authority, which will comprise a supplementary prospectus in accordance with section 87G of the FSMA. Statements contained in any such supplementary prospectus (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

The Issuers will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplementary prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the FCA shall be incorporated in, and form part of, this Prospectus:

- (a) The directors' report, the independent auditors report and financial statements set out at pages 23 to 64 of the annual report and financial statements of WPDE for the year ended 31 March 2016 (the **WPDE 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDE 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDE 2016 Annual Report may be read in isolation with regard to the financial position of WPDE;
- (b) The directors' report, the independent auditors' report and financial statements set out at pages 26 to 60 of the annual report and financial statements of WPDE for the year ended 31 March 2017 (the **WPDE 2017 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDE 2017 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDE 2017 Annual Report may be read in isolation with regard to the financial position of WPDE;
- (c) The directors' report, the independent auditors report and financial statements set out at pages 24 to 67 of the annual report and financial statements of WPDW for the year ended 31 March 2016 (the **WPDW 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDW 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDW 2016 Annual Report may be read in isolation with regard to the financial position of WPDW;
- (d) The directors' report, the independent auditors' report and financial statements set out at pages 24 to 58 of the annual report and financial statements of WPDW for the year ended 31 March 2017 (the **WPDW 2017 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPDW 2017 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPDW 2017 Annual Report may be read in isolation with regard to the financial position of WPDW;
- (e) The directors' report, the independent auditors report and financial statements set out at pages 23 to 65 of the annual report and financial statements of WPD South West for the year ended 31 March 2016 (the **WPD South West 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South West 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPD South West 2016 Annual Report may be read in isolation with regard to the financial position of WPD South West;
- (f) The directors' report, the independent auditors' report and financial statements set out at pages 24 to 59 of the annual report and financial statements of WPD South West for the year ended 31 March 2017 (the **WPD South West 2017 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South West 2017 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPD South West 2017 Annual Report may be read in isolation with regard to the financial position of WPD South West;
- (g) The directors' report, the independent auditors report and financial statements set out at pages 23 to 69 of the annual report and financial statements of WPD South Wales for the year ended 31 March 2016 (the **WPD South Wales 2016 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South Wales 2016 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPD South Wales 2016 Annual Report may be read in isolation with regard to the financial position of WPD South Wales;

- (h) The directors' report, the independent auditors' report and financial statements set out at pages 24 to 63 of the annual report and financial statements of WPD South Wales for the year ended 31 March 2017 (the **WPD South Wales 2017 Annual Report**). For the avoidance of doubt, the statement contained on the cover page of the WPD South Wales 2017 Annual Report may be disregarded as irrelevant for the purposes of investors and the WPD South Wales 2017 Annual Report may be read in isolation with regard to the financial position of WPD South Wales;
- (i) The Terms and Conditions set out on pages 39 to 73 of the prospectus dated 27 April 2011 and issued by WPDE and WPDW;
- (j) The Terms and Conditions set out on pages 52 to 86 of the prospectus dated 10 September 2013 and issued by WPDE, WPDW, WPD Southwest and WPD South Wales;
- (k) The Terms and Conditions set out on pages 49 to 83 of the prospectus dated 14 April 2015 and issued by WPDE, WPDW, WPD Southwest and WPD South Wales; and
- (l) The Terms and Conditions set out on pages 52 to 87 of the prospectus dated 9 September 2016 and issued by WPDE, WPDW, WPD Southwest and WPD South Wales.

If the documents which are incorporated by reference themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this Prospectus for the purposes of the Prospectus Directive except where such information or other documents are specifically incorporated by reference.

Copies of the documents incorporated by reference in this Prospectus may be viewed electronically and free of charge at www.westernpower.co.uk and will be available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

PRESENTATION OF FINANCIAL INFORMATION

The financial information relating to the Issuers, as incorporated by reference into this Prospectus in respect of the financial year ended 31 March 2016 and the financial year ended 31 March 2017, has been prepared in accordance with accounting principles generally accepted in the United Kingdom and the International Financial Reporting Standards (IFRS) adopted by the EU.

FORM OF THE NOTES

Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Final Terms to be issued in NGN form or to be held under the NSS respectively (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depository.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a Common Depository or if the Global Certificate is not held under the NSS, registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is a NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 Relationship of accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (**Alternative Clearing System**) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Relevant Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Relevant Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3 Exchange

3.1 Temporary Global Notes

Whilst any Note is represented by a temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the temporary Global Note if the temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent (**Certification**).

In respect of each Tranche initially represented by a temporary Global Note, on and after the date (the **Exchange Date**) which is 40 days after such temporary Global Note is issued, interests in such temporary Global Note will be exchangeable (free of charge) upon a request as described therein for either (i) interests in a permanent Global Note of the same Series or (ii) definitive Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Notes. The holder of a temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the temporary Global Note for an interest in a permanent Global Note or for definitive Notes is improperly withheld or refused.

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an alternative clearing system and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

3.3 Exchange for Definitive Notes

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations. If temporary Global Notes are exchangeable for Definitive Notes upon notice, then such Definitive Notes may only be issued to be held in clearing systems if in denominations equal to €100,000 (or equal to £100,000/\$200,000, as applicable) and integral multiples thereof.

3.4 Global Certificates

If the Final Terms state that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) (*Transfer of Registered Notes*) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(if principal in respect of any Notes is not paid when due; or

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with the consent of the Relevant Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.4(i) or 3.4(ii) above, the registered holder has given the Registrar not less than 30 days' notice at its specified office of the registered holder's intention to effect such transfer.

3.5 Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Relevant Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is a NGN, the Relevant Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, **Definitive Notes** means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Relevant Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

4 Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payment

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused by or on behalf of the Issuer. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made in relation to such nominal amount of the temporary Global Note with respect to which there has been Certification dated no earlier than such due date for payment.

All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for

endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent provided for in the Conditions. If the Global Note is in CGN form, a record of each payment so made

will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 9(e)(vii) (*Appointment of Agents*) and Condition 10(e) (*Payment by another Paying Agent*) will apply to the Definitive Notes only.

If the Global Note is in NGN form, the Issuer shall procure that details of each such payment shall be entered pro rata in the records of the relevant clearing system and, in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a Global Note in NGN form will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. For the purpose of any payments made in respect of a Global Note, "in the relevant place of presentation" shall be disregarded in the definition of "business day" set out in Condition 9(h) (*Non-Business Days*).

All payments in respect of Notes represented by a Global Certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Certificate. Such payments will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

4.3 Meetings

The holder of a Global Note or of the Notes represented by a Global Certificate or single Certificate shall (so long as at least the required proportion of the aggregate principal amount of the outstanding Notes is represented by such holder) be treated as being two voters for the purposes of forming a quorum. The holder of a Global Note or of the Notes represented by a Global Certificate shall be treated as being entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes.

4.4 Cancellation

On cancellation of any Note represented by a permanent Global Note (other than upon its redemption), the Issuer shall procure that details of such cancellation shall be entered pro rata in the records of the relevant clearing systems and, upon any such entry being made, the nominal amount of the Notes recorded in the records of the relevant clearing systems and represented by this permanent Global Note shall be reduced by the aggregate nominal amount of the Notes so cancelled.

4.5 Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer if they are purchased together with the right to receive all future payments of interest thereon.

4.6 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes shall, while such Notes are represented by a permanent Global Note or a Global Certificate, be exercised by the Issuer giving notice to the Issuing and Paying Agent, the Noteholders and the relevant clearing systems (or procuring that

such notice is given on its behalf) within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the case of a partial exercise of an option, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg and shall be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant clearing systems and represented by the permanent Global Note or Global Certificate shall be reduced accordingly.

4.7 Noteholder's Option

Any option of the Noteholders provided for in the Conditions of any Notes may, while such Notes are represented by a permanent Global Note or a Global Certificate, be exercised by the holder of such permanent Global Note or Global Certificate by giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant clearing systems and represented by the permanent Global Note or Global Certificate shall be reduced by the aggregate nominal amount stated in the relevant exercise notice.

4.8 Trustee's Powers

So long as any Note is held by or on behalf of Euroclear or Clearstream, Luxembourg, in considering the interests of Noteholders the Note Trustee may consider the interests (either individual or by category) of its accountholders or participants with entitlements to any such Note as if such accountholders or participants were the holder(s) thereof.

4.9 Notices

Notices required to be given in respect of the Notes represented by a Global Note (or Global Certificate, as applicable) may be given by their being delivered (so long as such Global Note or Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg and/or an alternative clearing system) to Euroclear, Clearstream, Luxembourg and/or such alternative clearing system, as the case may be, or otherwise to the holder of the Global Note (or Global Certificate, as applicable), rather than by publication as required by the Conditions.

FORM OF FINAL TERMS

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended[, from 1 January 2018,] to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (" EEA "). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (" MiFID II "); or (ii) a customer within the meaning of Directive 2002/92/EC (" Insurance Mediation Directive "), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the " PRIIPs Regulation ") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[Date]

[Western Power Distribution (East Midlands) plc]/[Western Power Distribution (South Wales) plc]/[Western Power Distribution (South West) plc]/ [Western Power Distribution (West Midlands) plc]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the £3,000,000,000
Euro Medium Term Note Programme

Part A Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated [●] September 2017 [and the supplement[s] dated [●][and [●]], which [together] constitute[s] a base prospectus (the **Prospectus**)] for the purposes of the Prospectus Directive (Directive 2003/71/EC), as amended (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing [at www.westernpower.co.uk] [and] during normal business hours at Avonbank, Feeder Road, Bristol BS2 0TB [and copies may be obtained from Avonbank, Feeder Road, Bristol BS2 0TB]. The Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of the London Stock Exchange) the applicable Final Terms will also be published on the website of the London Stock Exchange: www.londonstockexchange.com/exchange/news/market-news/market-news-home.html .]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the prospectus dated [●], which is incorporated by reference into the Prospectus dated [●] September 2017. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/BC), as amended (the **Prospectus Directive**) and must be read in conjunction with the Prospectus dated [●] September 2017 [and the supplement[s] dated [●][and [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, including the Conditions incorporated by reference in the Prospectus. The Prospectuses [and the supplement[s]] are available for viewing [at [*website of relevant Issuer*]] [and] during normal business hours at Avonbank, Feeder Road, Bristol BS2 0TB [and copies may be obtained from Avonbank, Feeder Road, Bristol BS2 0TB. The Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of the London Stock Exchange) the applicable

Final Terms will also be published on the website of the London Stock Exchange: www.londonstockexchange.com/exchange/news/market-news/market-news-home.html .]

- 1 Issuer: [Western Power Distribution (East Midlands) plc/ Western Power Distribution (West Midlands) plc/Western Power Distribution (South West) plc/Western Power Distribution (South Wales) plc]
- 2 (i) Series Number: [●]
- (ii) Tranche Number: [●]
- (iii) Date on which the Notes will be consolidated and form a single Series [The Notes will be consolidated and form a single Series with [●] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 25 below[, which is expected to occur on or about [●]][Not Applicable]
- 3 Specified Currency or Currencies: [●]
- 4 Aggregate Nominal Amount:
- (i) Series: [●]
- (ii) Tranche: [●]
- 5 (i) Issue Price of Tranche: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
- 6 (i) Specified Denominations: [●][[€/£100,000/\$200,000] and integral multiples of [€/£/\$1,000] in excess thereof up to and including [€/£199,000/\$399,000]. No Notes in definitive form will be issued with a denomination of integral multiples above [€/£199,000/\$399,000].]
- (ii) Calculation Amount: [●]
(Applicable to Notes in definitive form)
- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date: [●] [Issue Date] [Not Applicable]
- 8 Maturity Date: [●]
- Interest Basis: [[●] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [●] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]

[(further particulars specified below)]

10 Redemption Basis:

Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [] per cent. of their nominal amount

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes may be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply)

11 Change of Interest Basis or
Redemption/ Payment Basis:

[] [Not Applicable]

12 Put/Call Options:

[Investor Put]

[Restructuring Put Option]

[Issuer Call]

[(further particulars specified in paragraph[s] [20]/[21]/[22] below)]

[Not Applicable]

13 [Date approval by Committee of the Board of Directors for issuance of Notes obtained:] [●]

Provisions Relating to Interest (if any) Payable

14 Fixed Rate Note Provisions

[Applicable/Not Applicable]

- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]
- (ii) Interest Payment Date(s): [●] in each year up to and including the Maturity Date/[●]
- (iii) Fixed Coupon Amount[(s)]: (Applicable to Notes in definitive form) [●] per Calculation Amount
- (iv) Broken Amount(s): (Applicable to Notes in definitive form) [[●] per Calculation Amount, payable on the Interest Payment Date falling on [●]/Not Applicable]
- (v) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/Actual]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360] / [360/360] / [Bond Basis]
[30E/360] / [Eurobond Basis]
[Actual/Actual ICMA]
[30E/360 (ISDA)]
- (vi) Determination Date(s): [●] in each year

15 Floating Rate Note Provisions

[Applicable/Not Applicable]

- (i) Specified Period(s) [●]
- (ii) Specified Interest Payment Dates: [●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in paragraph (iv) below]
- (iii) First Interest Payment Date [●]
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (v) Additional Business Centre(s): [●]
- (vi) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]

(vii) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):

(viii) Screen Rate Determination: [Applicable/Not Applicable]

- Reference Rate: month [LIBOR/EURIBOR]

- Interest Determination Date(s):

- Relevant Screen Page:

- Relevant Time: [●]
- (ix) ISDA Determination: [Applicable/Not Applicable]
 - Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
 - *(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)*
- (x) Linear Interpolation [Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (xi) Margin(s): [+/-] [●] per cent. per annum
- (xii) Minimum Rate of Interest: [●] per cent. per annum
- (xiii) Maximum Rate of Interest: [●] per cent. per annum
- (xiv) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/Actual]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360] / [360/360] / [Bond Basis]
[30E/360] / [Eurobond Basis]
[Actual/Actual ICMA]
[30E/360 (ISDA)]

16 Zero Coupon Note Provisions

- [Applicable/Not Applicable]
- (i) Accrual Yield: [●] per cent. per annum
- (ii) Reference Price: [●]
- (iii) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Condition 6(b) (Early Redemption:) applies]
[Actual/Actual (ISDA)] / [Actual/Actual]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360] / [360/360] / [Bond Basis]

[30E/360] / [Eurobond Basis]

[Actual/Actual ICMA]

[30E/360 (ISDA)]

[Applicable/Not Applicable]

17 Index Linked Interest Note Provisions

(i) Rate of Interest:

[Fixed, calculated in accordance with paragraph 14 above][Floating, calculated in accordance with paragraph 15 above]

(ii) Minimum Indexation Factor:

[Not Applicable][●]

(iii) Maximum Indexation Factor:

[Not Applicable][●]

(iv) Base Index Figure:

[●]

(v) Limited Indexation Month(s):

[●]/[Not Applicable]

(vi) Reference Gilt:

[●] per cent. Index-Linked Treasury Stock due [●]

(vii) Index Figure applicable

[3][8] months lag

18 Ratings Downgrade Rate Adjustment Provisions Relating to Redemption

[Applicable/Not Applicable]

- 19 **Index Linked Redemption Provisions** [Applicable/Not Applicable]
- (i) Minimum Indexation Factor: [Not Applicable][●]
 - (ii) Maximum Indexation Factor: [Not Applicable][●]
 - (iii) Base Index Figure: [●]
 - (iv) Reference Gilt: [●] per cent. Index-Linked Treasury Stock due [●]
 - (v) Index Figure applicable [3][8] months lag
 - (vi) Redeemable in part: [Applicable/Not Applicable]
 - (1) Minimum Redemption Amount: [●]
 - (2) Maximum Redemption Amount: [●]
- 20 **Issuer Call** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
 - (ii) Optional Redemption Amount(s) [[●] per Calculation Amount]
 - (iii) Redeemable in part: [Applicable/Not Applicable]
 - (1) Minimum Redemption Amount: [●]
 - (2) Maximum Redemption Amount: [●]
- 21 **Investor Put** [Applicable (Condition [6(f) (*Redemption at the Option of Noteholders*) applies]/Not Applicable]
- (i) Optional Redemption Date(s): [[●]
 - (ii) Notice Period: [●]/[Refer to Condition 6(f) (*Redemption at the Option of Noteholders*)]
 - (iii) Optional Redemption Amount(s): [[●] per Calculation Amount]
- 22 **[Restructuring Put Option** [Applicable [6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*) applies]/Not Applicable]
- (i) Optional Redemption Amount(s): [[●] per Calculation Amount]
- 23 Final Redemption Amount: [[●] per Calculation Amount]

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes may be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

24 Early Redemption Amount payable on redemption per Calculation Amount] for taxation reasons or on event of default

(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.)

General Provisions Applicable to the Notes

25 Form of Notes:

(i) if issued in Bearer form:

[Bearer/Registered]

[Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice.]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]

(ii) if issued in registered form:

[Global Certificate registered in the name of a nominee for [a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS) exchangeable for Certificates on [I] days' notice in the circumstances specified in the Global Certificate]

New Global Note/NSS:

[Yes] [No]

26 Additional Financial Centre(s) or other special provisions relating to payment dates:

[Not Applicable/[●]]

27 Talons for future Coupons to be attached to Definitive Notes:

[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made]/[No]

THIRD PARTY INFORMATION

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of

[Western Power Distribution (East Midlands) plc]

[Western Power Distribution (West Midlands) plc]

[Western Power Distribution (South West) plc]

[Western Power Distribution (South Wales) plc]

By:

Part B
Other Information

1 Listing and Admission to Trading

(i) Listing and admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [●].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority and this is expected to be effective from [●].]

[Not Applicable]/[●]

(ii) Estimate of total expenses related to admission to trading: [●]

2 Ratings

Ratings: The Notes to be issued [have been] [are expected to be] rated:

[●] by [●]

[The Notes to be issued have not been rated.]

3 Interests of Natural and Legal Persons Involved in the Issue

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.]/[●]

4 Reasons for the Offer, Estimated Net Proceeds and Total Expenses

(i) [Reasons for the offer] [●]

(ii) Estimated net proceeds: [●]

(iii) Estimated total expenses: [●]

5 [Yield (Fixed Rate Notes only)]

Indication of yield: [●]

Operational Information

(i) ISIN Code: [●]

- (ii) Common Code:
- (iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any):

(vi) [Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the international central securities depositories (ICSD) as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank (the ECB) being satisfied that Eurosystem eligibility criteria have been met.]/[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

7 Distribution

(i) Method of distribution: [Syndicated/Non-syndicated]

(ii) If syndicated, names and addresses of Managers): [Not Applicable/give names, addresses]

(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)

(iii) Date of Dealer Agreement: []

(iv) Stabilisation Manager(s) (if any): [Not Applicable/give name]

(v) If non-syndicated, name and address of relevant Dealer: [Not Applicable/give name and address]

(vi) U.S. Selling Restrictions:

[Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]

(vii) Prohibition of Sales to EEA Retail Investors:

[Applicable/Not Applicable]

(N.B. If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute “packaged” products and no KID will be prepared, “Applicable” should be specified.)

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes.

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended, from [1 January 2018,] to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (" EEA "). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (" MiFID II "); or (ii) a customer within the meaning of Directive 2002/92/EC (" Insurance Mediation Directive "), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the " PRIIPs Regulation ") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW.

[Date]

**[Western Power Distribution (East Midlands) plc]/[Western Power Distribution (South Wales) plc]/ [Western Power Distribution (South West) plc]/ [Western Power Distribution (West Midlands) plc]
(the "Issuer")**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

**under the £3,000,000,000
Euro Medium Term Note Programme**

Part A Contractual Terms

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Prospectus dated [●] [as supplemented by the supplement[s] dated [date[s]]] (the **Prospectus**). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Prospectus. Copies of the Prospectus may be obtained from [address] .

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Prospectus [dated [original date] which are incorporated by reference in the Prospectus].

The Notes offered pursuant to this Pricing Supplement are offered pursuant to an exemption to Prospectus Directive (Directive 2003/71/BC), as amended. The UK Listing Authority has neither approved nor reviewed information contained in the Prospectus or this Pricing Supplement relating to the Notes offered.

1 Issuer: [Western Power Distribution (East Midlands) plc/ Western Power Distribution (West Midlands) plc/Western Power Distribution (South West) plc/Western Power Distribution (South Wales) plc]

2 (i) Series Number: [●]

(ii) Tranche Number:

[●]

- (iii) Date on which the Notes will be consolidated and form a single Series [The Notes will be consolidated and form a single Series with [●] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 26 below[, which is expected to occur on or about [●]]]][Not Applicable]
- 3 Specified Currency or Currencies: [●]
- 4 Aggregate Nominal Amount:
- (i) Series: [●]
- (ii) Tranche: [●]
- 5 (i) Issue Price of Tranche: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
- 6 (i) Specified Denominations: [●][[€/£100,000/\$200,000] and integral multiples of [€/£/\$1,000] in excess thereof up to and including [€/£199,000/\$399,000]. No Notes in definitive form will be issued with a denomination of integral multiples above [€/£199,000/\$399,000].]
- (ii) Calculation Amount: [●]
(Applicable to Notes in definitive form)
- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date: [●] [Issue Date] [Not Applicable]
- 8 Maturity Date: [●]
- 9 Interest Basis: [[●] per cent. Fixed Rate]
[[LIBOR/EURIBOR/[●]] +/- [●] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[(further particulars specified below)]
- 10 Redemption Basis: [Redemption at par]
[Index Linked Redemption]
[●]
- 11 Change of Interest Basis or Redemption/ Payment Basis: [●] [Not Applicable]
- 12 Put/Call Options: [Investor Put]
[Restructuring Put Option]

[Issuer Call]
[(further particulars specified below)]

- 13 Status of the Notes: Senior
- 4 [Date approval by Committee of the Board of Directors for issuance of Notes obtained:]

Provisions Relating to Interest (if any) Payable

15 Fixed Rate Note Provisions

[Applicable/Not Applicable]

(i) Rate[(s)] of Interest:

per cent. per annum [payable [annually/semi-annually/ quarterly/other (specify)] in arrear]

(ii) Interest Payment Date(s):

in each year up to and including the Maturity Date/[]

- (iii) Fixed Coupon Amount[(s)]: (Applicable to Notes in definitive form) per Calculation Amount
- (iv) Broken Amount(s): (Applicable to Notes in definitive form) per Calculation Amount, payable on the Interest Payment Date falling on /Not Applicable]
- (v) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] / [360/360] / [Bond Basis] [30E/360] / [Eurobond Basis] [Actual/Actual ICMA] [30E/360 (ISDA)]
- (vi) Determination Date(s): in each year

16 Floating Rate Note Provisions

[Applicable/Not Applicable]

- (i) Specified Period(s)
- (ii) Specified Interest Payment Dates: in each year[, subject to adjustment in accordance with the Business Day Convention set out in paragraph (iv) below]
- (iii) First Interest Payment Date
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (v) Additional Business Centre(s):
- (vi) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (vii) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):
- (viii) Screen Rate Determination: [Applicable/Not Applicable]
 - Reference Rate: month [LIBOR/EURIBOR/
 - Interest Determination Date(s):
 - Relevant Screen Page:
 - Relevant Time:
- (ix) ISDA Determination: [Applicable/Not Applicable]

- Floating Rate Option: [●]

- Designated Maturity: [●]

- Reset Date: [●]

- *(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)*

(x) Linear Interpolation [Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]

(xi) Margin(s): [+/-] [●] per cent. per annum

(xii) Minimum Rate of Interest: [●] per cent. per annum

(xiii) Maximum Rate of Interest: [●] per cent. per annum

(xiv) Day Count Fraction: [Actual/Actual (ISDA)] / [Actual/Actual]
 [Actual/365 (Fixed)]
 [Actual/365 (Sterling)]
 [Actual/360]
 [30/360] / [360/360] / [Bond Basis]
 [30E/360] / [Eurobond Basis]
 [Actual/Actual ICMA]
 [30E/360 (ISDA)]

17 Zero Coupon Note Provisions [Applicable/Not Applicable]

(i) Accrual Yield: [●] per cent. Per annum

(ii) Reference Price: [●]

(iii) Any other formulas/basis of determining amount payable for Zero Coupon Notes which are Exempt Notes [●]

(iv) Day Count Fraction in relation to Early Redemption Amounts: [Condition 6(b) (Early Redemption:) applies]
 [Actual/Actual (ISDA)] / [Actual/Actual]
 [Actual/365 (Fixed)]
 [Actual/365 (Sterling)]
 [Actual/360]
 [30/360] / [360/360] / [Bond Basis]
 [30E/360] / [Eurobond Basis]
 [Actual/Actual ICMA]
 [30E/360 (ISDA)]

18 Index Linked Interest Note Provisions [Applicable/Not Applicable]

(i) Index/Formula: UK Retail Price Index

(ii) Rate of Interest: [Fixed, calculated in accordance with paragraph 15 above][Floating, calculated in accordance with paragraph 16 above]

(iii) Minimum Indexation Factor: [Not Applicable][●]

(iv) Maximum Indexation Factor: [Not Applicable][●]

(v) Base Index Figure: [●]

(vi) Limited Indexation Month(s): [●]/[Not Applicable]

(vii) Reference Gilt: [●] per cent. Index-Linked Treasury Stock due [●]

(viii) Index Figure applicable [3][8] months lag

19 Ratings Downgrade Rate Adjustment Provisions Relating to Redemption

[Applicable/Not Applicable]

20 Index Linked Redemption Provisions

[Applicable/Not Applicable]

(i) Index/Formula:

UK Retail Price Index

(ii) Minimum Indexation Factor:

[Not Applicable][●]

(iii) Maximum Indexation Factor:

[Not Applicable][●]

(iv) Base Index Figure:

[●]

(v) Reference Gilt:

[●] per cent. Index-Linked Treasury Stock due [●]

(vi) Index Figure applicable

[3][8] months lag

(vii) Redeemable in part:

[Applicable/Not Applicable]

(1) Minimum Redemption Amount: [●]

(2) Maximum Redemption Amount: [●]

21 **Issuer Call** [Applicable/Not Applicable]

(i) Optional Redemption Date(s): [●]

(ii) Optional Redemption Amount(s): [[●] per Calculation Amount]

(iii) Redeemable in part: [Applicable/Not Applicable]

(iv) Minimum Redemption Amount: [●]

(v) Maximum Redemption Amount: [●]

22 **Investor Put** [Applicable (Condition [6(f) (*Redemption at the Option of Noteholders*))]applies)/Not Applicable]

(i) Optional Redemption Date(s): [[●]

(ii) Notice Period: [●]/[Refer to Condition 6(f) (*Redemption at the Option of Noteholders*)]

(iii) Optional Redemption Amount(s): [[●] per Calculation Amount]

23 **[Restructuring Put Option]** [Applicable [6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*) applies]/Not Applicable]

(i) Optional Redemption Date(s): [On the Put Date (as specified in the relevant Put Event Notice) (where Condition (6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*)))]

(ii) Notice Period: [●] (in accordance with Condition 18 (*Notices*))

(iii) Optional Redemption Amount(s): [[●] per Calculation Amount]

24 **Final Redemption Amount:** [[●] per Calculation Amount]

25 Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required): [[●] per Calculation Amount]

General Provisions Applicable to the Notes

26 Form of Notes:

[Bearer/Registered]

(i) if issued in Bearer form:

[Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice.]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.]

(ii) if issued in registered form:

[Global Certificate registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS) exchangeable for Certificates on [●] days' notice in the circumstances specified in the Global Certificate]

New Global Note/NSS:

[Yes] [No]

27 Additional Financial Centre(s) or other special provisions relating to payment dates:

[Not Applicable/[●]]

28 Talons for future Coupons to be attached to Definitive Notes:

[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made]/[No]

29 Other terms or special conditions:

[Not Applicable/give details]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of

Western Power Distribution (East Midlands) plc]

Western Power Distribution (West Midlands) plc]

[Western Power Distribution (South West) plc]

[Western Power Distribution (South Wales) plc]

By:

Other Information

1 Listing and Admission to Trading

(i) Listing and admission to trading: [Not Applicable]/[●]

(ii) Estimate of total expenses related to [●]
admission to trading:

2 Ratings

Ratings: The Notes to be issued [have been] [are expected to be] rated:
[●] by [●]
[The Notes to be issued have not been rated.]

3 Interests of Natural and Legal Persons Involved in the Issue

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.]/[●]

Reasons for the Offer, Estimated Net Proceeds and Total Expenses

[Reasons for the offer [●]

Estimated net proceeds: [●]

Estimated total expenses: [●]

5 [Yield (Fixed Rate Notes only)]

Indication of yield: [●]

6 [Performance of Index and Other Information Concerning the Underlying (Indexed Notes only)]

(i) Name of underlying index: U.K. Retail Price Index (RPI) (all items) published by the Office of National Statistics

(ii) Information about the Index, its volatility and past and future performance can be obtained from: Information on RPI can be found at www.statistics.gov.uk

7 Operational Information

(i) ISIN Code: [●]

(ii) Common Code: [●]

(iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if any):

(vi) Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes] [No]

[Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.]

[Note that whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

8 Distribution

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers [Not Applicable/[●]]
- (iii) Date of Subscription Agreement [Not Applicable/[●]]
- (iv) Stabilisation Manager(s) (if any) [Not Applicable/[●]]
- (v) If non-syndicated, name of relevant Dealer: [●]
- (vi) U.S. Selling Restrictions [Reg. S Compliance Category 2; TEFRA D/TEFRA C/TEFRA not applicable]
- (vii) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]

(N.B. If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute “packaged” products and no KID will be prepared, “Applicable” should be specified.)

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes (as defined below) are constituted by, are subject to, and have the benefit of, an amended and restated trust deed dated on 9 September 2016 (as amended or supplemented from time to time, the **Trust Deed**) between Western Power Distribution (East Midlands) plc (**WPDE**), Western Power Distribution (West Midlands) plc (**WPDW**), Western Power Distribution (South West) plc (**WPD South West**) and Western Power Distribution (South Wales) plc (**WPD South Wales**) and, together with WPDE, WPDW and WPD South West, the **Issuers** and each an **Issuer**) and HSBC Corporate Trustee Company (UK) Limited (the **Note Trustee**, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). Notes issued by each Issuer are obligations solely of that Issuer (the **Relevant Issuer**) and without recourse whatsoever to any other Issuer. These terms and conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Registered Notes, Bearer Notes, Certificates, Coupons and Talons referred to below. An amended and restated agency agreement dated on 10 September 2013 (as amended or supplemented from time to time, the **Agency Agreement**) has been entered into in relation to the Notes between the Issuers, the Note Trustee, HSBC Bank plc as issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the Registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **Issuing and Paying Agent**, the **Paying Agents** (which expression shall include the Issuing and Paying Agent, the **Registrar**, the **Transfer Agents** (which expression shall include the Registrar) and the **Calculation Agent(s)**). Copies of the Trust Deed, the Agency Agreement and the Prospectus are available for inspection during usual business hours at the principal office of the Note Trustee (presently at 8 Canada Square, London E14 5HQ) and at the specified offices of the Paying Agents and the Transfer Agents.

Notes means the euro medium term notes issued by the Issuers constituted by the Trust Deed and for the time being outstanding. References herein to the Notes shall be references to the relevant Series of Notes only.

The Noteholders, the holders of the interest coupons (the **Coupons**) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **Talons**) (the **Couponholders**) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, **Tranche** means Notes which are identical in all respects and **Series** means a series of Notes comprising of one or more Tranches of Notes which are identical save for the issue date, issue price and/or the first payment of interest.

Any reference in these Conditions to Final Terms shall be deemed to include a reference to Pricing Supplement, where relevant.

1. Form, Denomination and Title

The Notes are issued in bearer form (**Bearer Notes**) or in registered form (**Registered Notes**) in each case in the Specified Denomination(s) shown in the Final Terms provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination.

Unless the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Final Terms.

If the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Pricing Supplement.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (**Certificates**) and, save as provided in Condition 2(c) (Exercise of Options or Partial Redemption in Respect of Registered Notes), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuers shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **Register**). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, **Noteholder** means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), **holder** (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them in the Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be

treated by the Issuer, the Note Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Note Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions Noteholder and holder of Notes and related expressions shall be construed accordingly.

2. No Exchange of Notes and Transfers of Registered Notes

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Relevant Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuers, with the prior written approval of the Registrar and the Note Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of a Relevant Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) (*Transfer of Registered Notes*) or (c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(f) (*Redemption at the Option of Noteholders*)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may

specify. In this Condition 2(d) (*Delivery of New Certificates*), **business day** means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

- (e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Relevant Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Relevant Issuer at its option pursuant to Condition 6(e) (*Redemption at the Option of the Relevant Issuer*), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. Status

The Notes and the Coupons relating to them constitute (subject to Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) direct, general, unconditional and unsecured obligations of the Issuers and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuers under the Notes and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*), at all times rank at least equally with all other unsecured and unsubordinated indebtedness of the Issuers present and future.

4. Negative Pledge and Restriction on Distribution of Dividends

- a) **Negative Pledge:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Relevant Issuer will ensure that no Relevant Indebtedness (as defined below) of the Relevant Issuer and no guarantee by the Relevant Issuer of any Relevant Indebtedness of any person will be secured by a mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Relevant Issuer unless the Relevant Issuer, before or at the same time as the creation of the Security Interest, takes any and all action necessary to ensure that:
 - (i) all amounts payable by the Relevant Issuer under the Notes, the Coupons and the Trust Deed are secured equally and rateably with the Relevant Indebtedness or guarantee, as the case may be, by the same Security Interest, in each case to the satisfaction of the Note Trustee; or
 - (ii) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Relevant Issuer under the Notes, the Coupons and the Trust Deed either (A) as the Note Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (B) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.
- (b) **Restriction on distribution of dividends:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Relevant Issuer shall not at any time declare or make a distribution (as defined in Section 1000 of the Corporation Tax Act 2010) or grant a loan or any other credit facility to

any of its shareholders unless (1) immediately following the occurrence of any such event, the Net Debt (as defined below) at such time would not exceed 85 per cent. of the Regulatory Asset Base relating to the year in which the relevant distribution or grant was first declared or made; and (2) written certification thereof, signed by two directors of the Relevant Issuer, has been provided to the Note Trustee on or prior to such distribution or grant. Such certification may be relied upon by the Note Trustee without further enquiry or evidence and, if relied upon by the Note Trustee, shall be conclusive and binding on all parties whether or not addressed to each such party.

(c) **Definitions:** In this Condition:

borrowed money means (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

Net Debt at any time, means the aggregate amount of all indebtedness for borrowed money of the Relevant Issuer at such time less the aggregate of:

- (i) amounts credited to current accounts or deposits and certificates of deposit (with a term not exceeding three months) at, or issued by, any bank, building society or other financial institution;

cash in hand;

- (iii) the lower of book and market value (calculated, where relevant, by reference to their bid price) of gilts issued by the United Kingdom Government; and

- (iv) subordinated intra-group items, loans from Affiliates (as defined in Condition 7 below) and shareholder loans,

in each case beneficially owned by the Relevant Issuer and in each case so that no amount shall be included or excluded more than once.

Regulatory Asset Base means in respect of any year, the regulatory asset base of the Relevant Issuer most recently published and as last determined and notified to the Relevant Issuer in respect of such year by the Great Britain Office of the Gas and Electricity Markets (**Ofgem**) or any successor of Ofgem (interpolated as necessary and adjusted for additions to the regulatory asset base of the Relevant Issuer and adjusted as appropriate for out-term inflation/regulatory depreciation in respect of the Relevant Issuer).

Relevant Indebtedness means:

- (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by bonds, notes, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which are or are capable of being quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market;
- (ii) monies borrowed or raised from, or any acceptance credit opened by, a bank, building society or other financial institution; and
- (iii) any leasing or hire purchase agreement which would be treated as a finance lease in the accounts of the relevant person.

Any reference to an obligation being “guaranteed” shall include a reference to an indemnity being given in respect of that obligation.

Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*).
- (b) **Interest on Floating Rate Notes:**
- (i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*). Such Interest Payment Date(s) is/are either shown in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Final Terms.

ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation

Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

the Floating Rate Option is as specified in the relevant Final Terms

the Designated Maturity is a period specified in the relevant Final Terms and

- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms.

For the purposes of this sub-paragraph (A), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity, Reset Date** and **Swap Transaction** have the meanings given to those terms in the ISDA Definitions.

Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

the offered quotation;

or

the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the Final Terms.

- (y) if the Relevant Screen Page is not available, or if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time),

or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Note Trustee and the Relevant Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be zero coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i) (*Early Redemption*:)).
- (d) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue

to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 (*Interest and other Calculations*) to the Relevant Date (as defined in Condition 10 (*Taxation*)).

Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding:

- (i) If any Margin is specified in the Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) (Interest on Floating Rate Notes) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified in the Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes **unit** means the lowest amount of such currency that is available as legal tender in the countries of such currency.

Calculations: The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

- (g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of each denomination of the Notes for the relevant Interest Accrual Period, Interest Period or Interest Payment Date calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation and/or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period, Interest Period or Interest Payment Date and, if required, the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Note Trustee, the Relevant Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the

rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Interest on Floating Rate Notes*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Note Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 12 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Note Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (h) **Linear Interpolation:** Where “Linear Interpolation” is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period *provided however* that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

Determination or Calculation by Note Trustee: If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, or take any action that it is required to do pursuant to these Conditions, the Calculation Agent shall forthwith notify the Relevant Issuer, the Note Trustee and the Issuing and Paying Agent and the Note Trustee (whether or not it receives such notice) shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Note Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

- (j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

Business Day means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and in each (if any) Business Centre; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **TARGET Business Day**) and a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in each (if any) Business Centre.

Day Count Fraction means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **Calculation Period**):

- (i) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if **Actual/365 (Fixed)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365
- (iii) if **Actual/365 (Sterling)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Period Date falling in a leap year, 366
- (iv) if **Actual/360** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360
- (v) if **30/360**, **360/360** or **Bond Basis** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30

- (vi) if **30E/360** or **Eurobond Basis** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

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where:

Y_1 is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30

- (vii) if **30E/360 (ISDA)** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_2 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30

(if **Actual/Actual-ICMA** is specified in the Final Terms,

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- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

if the Calculation Period is longer than one Determination Period, the sum of:

- (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
- (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

Determination Period means the period from and including a Determination Date in any year to but excluding the next Determination Date and

Determination Date means the date(s) specified as such in the Final Terms or, if none is so specified, the Interest Payment Date(s)

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

Euro-zone means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

Interest Accrual Period means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

Interest Amount means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

Interest Commencement Date means the Issue Date or such other date as may be specified in the Final Terms.

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

Interest Period means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

Interest Period Date means each Interest Payment Date unless otherwise specified in the Final Terms.

ISDA Definitions means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc..

Rate of Interest means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the Final Terms.

Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the Final Terms.

Reference Rate means the rate specified as such in the Final Terms (being either LIBOR or EURIBOR).

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the Final Terms.

Specified Currency means the currency specified as such in the Final Terms or, if none is specified, the currency in which the Notes are denominated.

TARGET System means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (k) **Calculation Agent:** The Relevant Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Final Terms and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Relevant Issuer shall (with the prior approval of the Note Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.
- (l) **Adjustment to Rate of Interest:** If, in respect of a Tranche of Notes, **Ratings Downgrade Rate Adjustment** is specified in the relevant Final Terms as being applicable, the Rate of Interest specified in the Final Terms (the **Initial Rate of Interest**) and payable on the Notes will be subject to adjustment from time to time in the event of a Rating Change or Rating Changes, within the period from and including the Issue Date of such Tranche of Notes to and including the date falling 18 months from such Issue Date (the **Rating Change Period** , with the final date of such Rating Change Period being the **Rating Change Period End Date**), which adjustment shall be determined as follows.

If, following a Rating Change within the Rating Change Period:

- (i) the lowest Rating then assigned to the Notes is A- or A3 or higher, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest;
- (ii) the lowest Rating then assigned to the Notes is BBB+ or Baa1, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.25 per cent. per annum;
- (iii) the lowest Rating then assigned to the Notes is BBB or Baa2, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.50 per cent. per annum; or
- (iv) the lowest Rating then assigned to the Notes is BBB- or Baa3 or lower, or if such Ratings are withdrawn by both of Moody's Investor Services Limited and Standard & Poor's Credit Market Services Europe Limited, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.75 per cent. per annum

in each case, the **Revised Rate of Interest**.

Following each Rating Change the Relevant Issuer will notify the Noteholders of the Revised Rate of Interest following such Rating Change in accordance with the provisions of Condition 18 (*Notices*) as soon as reasonably practicable after the occurrence of the Rating Change. If, in respect of an Interest Period (the **Relevant Interest Period**), there is more than one Rating Change, the Revised Rate of Interest which will apply for the succeeding Interest Period will be the Revised Rate of Interest resulting from the last Rating Change in the Relevant Interest Period.

There shall be no limit to the number of times that adjustments to the rate of interest payable on the Notes may be made pursuant to this Condition 5(l) during the Rating Change Period, provided always that at no time during the term of the Notes will the rate of interest payable on the Notes be less than the Initial Interest Rate or more than the Initial Interest Rate plus 0.75 per cent. per annum. For the avoidance of doubt, the rate of interest payable on the Notes from and including the first Interest Payment Date following the Rating Change Period End Date to maturity of the Notes shall be determined in accordance with the Ratings assigned to the Notes as of the Rating Change Period End Date.

Rating Agency means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors or Moody's Investors Service Limited or any of its subsidiaries and their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Relevant Issuer from time to time with the prior written approval of the Note Trustee; and

Rating Change means the public announcement by any Rating Agency assigning a credit rating to the Notes of a change in, or confirmation of, the rating of the Notes or, as the case may be, of a credit rating being applied.

6. Redemption, Purchase and Options

(a) Final Redemption:

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount (which, unless otherwise provided in the Final Terms, is its nominal amount).

(b) Early Redemption:

Zero Coupon Notes:

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*) shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the Final Terms.
- (B) Subject to the provisions of sub-paragraph (C) below, the **Amortised Face Amount** of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown in the Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this subparagraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c) (*Zero Coupon Notes*).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Final Terms.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*), shall be the Final Redemption Amount unless otherwise specified in the Final Terms.

- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Relevant Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Indexed Note) or at any time (if this Note is neither a Floating Rate Note nor an Indexed Note), on

giving not less than 30 nor more than 60 days' notice to the Note Trustee and the Noteholders in accordance with Condition 18 (Notices) (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) (Early Redemption) above) (together with interest accrued to the date fixed for redemption), if (i) the Relevant Issuer satisfies the Note Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 10 (Taxation) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Relevant Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Relevant Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c) (Redemption for Taxation Reasons), the Relevant Issuer shall deliver to the Note Trustee a certificate signed by two directors of the Relevant Issuer stating that the obligation referred to in (i) above cannot be avoided by the Relevant Issuer taking reasonable measures available to it and the Note Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

- (d) **Redemption for Indexation Reasons:** Upon the occurrence of any Index Event (as defined below), the Relevant Issuer may, upon giving not less than 30 nor more than 60 days' notice to the Note Trustee and the holders of the Indexed Notes in accordance with Condition 18 (*Notices*), redeem all (but not some only) of the Indexed Notes of all Tranches on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(a) (*Application of the Index Ratio*)) plus accrued but unpaid interest. No single Tranche of Indexed Notes may be redeemed in these circumstances unless all the other Tranches of Indexed Notes linked to the same underlying Index are also redeemed at the same time. Before giving any such notice, the Relevant Issuer shall provide to the Note Trustee a certificate signed by two directors of the Relevant Issuer (a) stating that the Relevant Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Relevant Issuer so to redeem have occurred and (b) confirming that the Relevant Issuer will have sufficient funds on such Interest Payment Date to effect such redemption. The Note Trustee shall be entitled to rely on such certificate without liability to any person.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

Index Event means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(b)(ii) (*Delay in publication of Index*) and the Note Trustee has been notified by the Issuing and Paying Agent or Agent Bank that publication of the Index has ceased or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Relevant Issuer and such circumstances are continuing.

- (e) **Redemption at the Option of the Relevant Issuer:** If Call Option is specified in the Final Terms, the Relevant Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Note

Trustee and the Noteholders redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued up to (and including) the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Note Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

In the case of a partial redemption of a Tranche of Notes represented by a New Global Note (as defined in the Trust Deed) pursuant to this Condition, the Notes to be redeemed (the **Redeemed Notes**) will be selected in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), not more than 30 days prior to the date fixed for redemption.

- (f) **Redemption at the Option of Noteholders:** If Investor Put is specified in the Final Terms, the Relevant Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Relevant Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) (specified in the Final Terms) at its Optional Redemption Amount (specified in the Final Terms) together with interest accrued up to (and including) the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (**Exercise Notice**) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Relevant Issuer.

(g) **Redemption at the Option of the Noteholders on a Restructuring Event**

- (i) If Restructuring Put Option is specified in the Final Terms (and for the avoidance of doubt, the Investor Put is also specified in the Final Terms), and:
- (a) if, at any time while any of the Notes remains outstanding, a Restructuring Event (as defined below) occurs and prior to the commencement of or during the Restructuring Period (as defined below):
 - (A) an independent financial adviser (as described below) shall have certified in writing to the Note Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Noteholders; or

- (B) if there are Rated Securities (as defined below), each Rating Agency (as defined below) that at such time has assigned a current rating to the Rated Securities confirms in writing to the Relevant Issuer at its request (which it shall make as set out below) that it will not be withdrawing or reducing the then current rating assigned to the Rated Securities by it from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall have already rated the Rated Securities below investment grade (as described above), the rating will not be lowered by one full rating category or more, in each case as a result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event,

the following provisions of this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*) shall cease to have any further effect in relation to such Restructuring Event.

- (b) if, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and (subject to Condition 6(g)(i)(a) (*Redemption at the Option of the Noteholders on a Restructuring Event*)):

within the Restructuring Period,
either:

- (i) if at the time such Restructuring Event occurs there are Rated Securities, a Rating Downgrade (as defined below) in respect of such Restructuring Event also occurs; or
- (ii) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) in respect of such Restructuring Event also occurs; and
- (B) an independent financial adviser shall have certified in writing to the Note Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Noteholders (a **Negative Certification**),

then, unless at any time the Relevant Issuer shall have given notice under Condition 6(e) (*Redemption at the Option of the Relevant Issuer*) or the holder shall have given notice under Condition 6(f) (*Redemption at the Option of Noteholders*) (if applicable), the holder of each Note will, upon the giving of a Put Event Notice (as defined below), have the option (the **Restructuring Put Option**) to require the Relevant Issuer to redeem or, at the option of the Relevant Issuer, purchase (or procure the purchase of) that Note on the Put Date (as defined below), at its Optional Redemption Amount (specified in the Final Terms) together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date..

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Noteholders if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to, or, as the case may be, there is assigned to the Notes or other unsecured and unsubordinated debt of the Relevant Issuer having an initial maturity of five

years or more by any Rating Agency, an investment grade rating (BBB-/Baa3) or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

Any Negative Certification shall be conclusive and binding on the Note Trustee, the Relevant Issuer and the Noteholders. The Relevant Issuer may, at any time, with the approval of the Note Trustee appoint an independent financial adviser for the purposes of this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*). If, within five Business Days following the occurrence of a Rating Downgrade or a Negative Rating Event, as the case may be, in respect of a Restructuring Event, the Relevant Issuer shall not have appointed an independent financial adviser for the purposes of Condition 6(g)(i)(b)(B) and (if so required by the Note Trustee) the Note Trustee is indemnified and/or prefunded and/or secured to its satisfaction against the costs of such adviser, the Note Trustee may appoint an independent financial adviser for such purpose following consultation with the Relevant Issuer.

- (ii) Promptly upon the Relevant Issuer becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Relevant Issuer shall, and at any time upon the Note Trustee if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding shall, give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 18 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Restructuring Put Option.
- (iii) To exercise the Restructuring Put Option, the holder of a Note must comply with the provisions of Condition 6(f) (*Redemption at the Option of Noteholders*). The applicable notice period for the purposes of Condition 6(f) (*Redemption at the Option of Noteholders*), as applied to a Restructuring Put Option, shall be the period (the **Put Period**) of 45 days after that on which a Put Event Notice is given. Subject to the relevant Noteholder having complied with Condition 6(f) (*Redemption at the Option of Noteholders*), the Relevant Issuer shall redeem or, at the option of that Relevant Issuer, purchase (or procure the purchase of) the relevant Note on the fifteenth day after the date of expiry of the Put Period (the **Put Date**) unless previously redeemed or purchased.

For the purposes of these Conditions:

- (a) **Distribution Services Area** means, in respect of a Relevant Issuer, the area specified as such in the distribution licence granted to it on 1 October 2001 under section 6(1)(c) of the Electricity Act 1989 (as amended by section 30 of the Utilities Act 2000), as of the date of such distribution licence.
- (b) A **Negative Rating Event** shall be deemed to have occurred if (1) a Relevant Issuer does not, either prior to or not later than 14 days after the date of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of that Relevant Issuer having an initial maturity of five years or more from a Rating Agency or (2) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being).
- (c) A **Put Event** occurs on the date of the last to occur of (1) a Restructuring Event, (2) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (3) the relevant Negative Certification.

- (d) **Rating Agency** means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors (**Standard & Poor's**) or Moody's Investors Service Limited or any of its subsidiaries and their successors (**Moody's**) or any rating agency substituted for any of them (or any permitted substitute of them) by the Relevant Issuer from time to time with the prior written approval of the Note Trustee.
- (e) A **Rating Downgrade** shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Relevant Issuer or by its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3), or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Bal), or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category or more.
- (f) **Rated Securities** means the Notes, if at any time and for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of a Relevant Issuer having an initial maturity of five years or more which is rated by a Rating Agency.

(**Restructuring Event** means the occurrence of any one or more of the following events:

)

- (A) (i) the Secretary of State for Business, Innovation and Skills (or any successor) giving the Relevant Issuer written notice of any revocation of its Distribution Licence; or
- (ii) the Relevant Issuer agreeing in writing with the Secretary of State for Business, Innovation and Skills (or any successor) to any revocation or surrender of its Distribution Licence; or
- (iii) any legislation (whether primary or subordinate) being enacted which terminates or revokes the Distribution Licence of the Relevant Issuer;

except, in each such case, in circumstances where a licence or licences on substantially no less favourable terms is or are granted to the Relevant Issuer or a wholly-owned subsidiary of the Relevant Issuer where such subsidiary at the time of such grant either executes in favour of the Note Trustee an unconditional and irrevocable guarantee in respect of all Notes issued by the Relevant Issuer in such form as the Note Trustee may approve or becomes the primary obligor under the Notes issued by the Relevant Issuer in accordance with Condition 13(c) (*Substitution*); or

- (B) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions upon which a Relevant Issuer is authorised and empowered under relevant legislation to distribute electricity in the Distribution Services Area unless two directors of such Issuer have certified in good faith to the Note Trustee that the modified terms and conditions are not materially less favourable to the business of that Relevant Issuer;

- (C) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State for Business, Innovation and Skills (or any successor) and/or the Gas and Electricity Markets Authority (or any successor) under section 3A of the Electricity Act 1989 (as amended by the Utilities Act 2000) (as this may be amended from time to time) unless two directors of such Relevant Issuer have certified in good faith to the Note Trustee that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of that Relevant Issuer.

Restructuring **Period**
means:

- (A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or
- (B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day 90 days following the later of (aa) the date (if any) on which the Relevant Issuer shall seek to obtain a rating as contemplated by the definition of Negative Rating Event; (bb) the expiry of the 14 days referred to in the definition of Negative Rating Event and (cc) the date on which a Negative Certification shall have been given to the Note Trustee in respect of that Restructuring Event.
- (i) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, refusal to assign a rating of at least investment grade as provided in this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*), does not announce or publicly confirm or inform the Relevant Issuer in writing at its request (which it shall make as set out in the following paragraph) that the reduction or, where applicable, declining to assign a rating of at least investment grade, was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

The Relevant Issuer undertakes to contact the relevant Rating Agency immediately following that reduction, or where applicable the refusal to assign a rating of at least investment grade, to confirm whether that reduction, or refusal to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event. The Relevant Issuer shall notify the Note Trustee immediately upon receipt of any such confirmation from the relevant Rating Agency.

- (h) **Purchases:** The Relevant Issuer may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (i) **Cancellation:** All Notes purchased by or on behalf of the Relevant Issuer or its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in

each case, if so surrendered, shall, together with all Notes redeemed by the Relevant Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Relevant Issuer in respect of any such Notes shall be discharged.

7. Indexation

This Condition 7 (*Indexation*) is applicable only if the relevant Final Terms specifies that the Notes are Index Linked Interest Notes and/or Index Linked Redemption Notes.

(a) Application of the Index Ratio

Each payment of interest in respect of the Index Linked Interest Notes shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio (or Limited Index Ratio in the case of Limited Indexed Notes) applicable to the month in which such payment falls to be made and rounded in accordance with Condition 5(e) (*Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding*).

Each payment of principal in respect of the Index Linked Redemption Notes shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio (or Limited Index Ratio in the case of Limited Indexed Notes) applicable to the month in which such payment falls to be made and rounded in accordance with Condition 5(e) (*Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding*).

(b) Changes in Circumstances Affecting the Index

- (i) **Change in base:** If at any time and from time to time the Index is changed by the substitution of a new base therefore, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of “Index” and “Index Figure” in Condition 8 (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefore); and (2) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.
- (ii) **Delay in publication of Index:** If the Index Figure relating to any month (the **relevant month**) which is required to be taken account for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth business day before the date on which any payment of interest or principal on the Notes is due (the **date for payment**), the Index Figure relating to the relevant month shall be (1) such substitute index figure (if any) as an Indexation Adviser considers to have been published by the Bank of England or, as the case may be, the United Kingdom Debt Management Office (or such other designated debt manager of Her Majesty’s Treasury, from time to time) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by the Indexation Adviser (and approved by the Note Trustee); or (1) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(b)(i) (*Change in base*)) before the date for payment.

(c) Application of Changes

Where the provisions of Condition 7(b)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(b)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Note is still outstanding, then:

- (i) in relation to a payment of principal or interest in respect of such Note other than upon final redemption of such Note, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(b)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth Business Day before the date for payment; and
- (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(d) Cessation of or Fundamental Changes to the Index

- (i) If (1) the Note Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published; or (2) the Note Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) when any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Note Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Noteholders, the Note Trustee will give written notice of such occurrence to the Relevant Issuer, and the Relevant Issuer and the Note Trustee together shall seek to agree for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Relevant Issuer and the Noteholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.
- (ii) If the Relevant Issuer and the Note Trustee fail to reach agreement as mentioned above within 20 Business Days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Relevant Issuer and the Note Trustee or, failing agreement on and the making of such appointment within 20 Business Days following the expiry of the day period referred to above, by the Note Trustee (in each case, such bank or other person so appointed being referred to as the **Expert**), to determine for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Relevant Issuer and the Noteholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Relevant Issuer and the Note Trustee in connection with such appointment shall be borne by the Relevant Issuer.
- (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Relevant Issuer and the Note Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall

be deemed amended in such manner as the Note Trustee and the Relevant Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Relevant Issuer, the other Secured Creditors, the Note Trustee and the Noteholders, and the Relevant Issuer shall give notice to the Noteholders in accordance with Condition 18 (*Notices*) of such amendments as promptly as practicable following such notification.

8. Definitions

In these Conditions:

Affiliate means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, **control** means control as defined in the Companies Act;

Base Index Figure means (subject to Condition 7(b)(i) (Change in base)) the base index figure as specified in the relevant Final Terms;

Calculation Date means any date when a payment of interest or, as the case may be, principal falls due;

Capital and Reserves means the aggregate of:

- (i) the amount paid up or credited as paid up on the share capital of the Relevant Issuer;
and
- (ii) the total of the capital, revaluation and revenue reserves of the Group (as defined below), including any share premium account, capital redemption reserve and credit balance on the profit and loss account, but excluding sums set aside for taxation and amounts attributable to outside shareholders in Subsidiary Undertakings (as defined below) and deducting any debit balance on the profit and loss account,

all as shown in the then latest audited consolidated balance sheet and profit and loss account of the Group prepared in accordance with the historical cost convention (as modified by the revaluation of certain fixed assets) for the purposes of the Companies Act 2006, but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account of the Relevant Issuer since the date of that balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group and/or as the Auditors (as defined in the Trust Deed) may consider appropriate.

consolidated means in relation to the financial statements and accounts of the Relevant Issuer and/or the Group, those statements and accounts as consolidated under International Financial Reporting Standards, provided that if such consolidated accounts are not prepared, it shall mean the non-consolidated financial statements and accounts of the Relevant Issuer prepared in accordance with generally accepted accounting principles in the United Kingdom.

Distribution Licence means an electricity distribution licence granted under section 6(1)(c) of the Electricity Act 1989, as amended from time to time.

Group means the Relevant Issuer and, if and to the extent it has any, its Subsidiary Undertakings and “member of the Group” shall be construed accordingly.

Index or **Index Figure** means, in relation to any relevant month (as defined in Condition 7(b)(ii) (*Delay in publication of Index*)), subject as provided in Condition 7(b)(i) (Change in base), the UK Retail Price Index (**RPI**) (for all items) published by the Office for National Statistics (January 1987 = 100) (currently contained in the Monthly Digest of Statistics) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt.

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (Changes in Circumstances Affecting the Index) and Condition 7(d) (Cessation of or Fundamental Changes to the Index) below, and if “3 months lag” is specified in the relevant Final Terms, be calculated in accordance with the following formula:

$$\text{IFA} = \text{RPI}_{m3+} \frac{(\text{Day of Calculation Date 1})}{(\text{Days in Month of Calculation Date})} (\text{RPI}_{m2} + \text{RPI}_{m3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

IFA means the Index Figure applicable;

RPI_{m-3} means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

RPI_{m-2} means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (Changes in Circumstances Affecting the Index) and Condition 7(d) (Cessation of or Fundamental Changes to the Index) below, and if “8 months lag” is specified in the relevant Final Terms, be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication;

Index Linked Interest Notes means Notes with an Interest Basis specified as being Index Linked Interest in the relevant Final Terms.

Index Linked Redemption Notes means Notes with a Redemption Basis specified as being Index Linked Redemption in the relevant Final Terms.

Index Ratio applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

Indexed Notes means Index Linked Interest Notes and Index Linked Redemption Notes.

Limited Index Ratio means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

Limited Indexation Factor means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided

that (a) if such ratio is greater than the Maximum Indexation Factor specified

in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

Limited Indexation Month means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

Limited Indexed Notes means Indexed Notes to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

Maximum Indexation Factor means the indexation factor specified as such in the relevant Final Terms;

Minimum Indexation Factor means the indexation factor specified as such in the relevant Final Terms; and

Reference Gilt means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Relevant Issuer and approved by the Note Trustee (an **Indexation Adviser**).

Subsidiary means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

Subsidiary Undertaking shall have the meaning given to it by section 1162 of the Companies Act 2006 (but, in relation to the Relevant Issuer, shall exclude any undertaking (as defined in section 1161 of the Companies Act 2006) whose accounts are not included in the then latest published audited consolidated accounts of the Relevant Issuer, or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

9. Payments and Talons

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f)(v) (*Unmatured Coupons and unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f)(ii) (*Unmatured Coupons and unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. **Bank** means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) Registered Notes:

- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the day before the due date for payment thereof (the **Record Date**). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a

Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Relevant Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Relevant Issuer, any adverse tax consequence to the Relevant Issuer.
- (d) **Payments subject to Fiscal Laws:** All payments are subject in all cases (i) to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 10 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to Condition 10 (Taxation)) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuers are listed in the Agency Agreement. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuers and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuers reserve the right at any time with the approval of the Note Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuers shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Note Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and unexchanged Talons:**

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Indexed Notes), such Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing

Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 11 (*Prescription*)).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note or Indexed Notes, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
 - (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Relevant Issuer may require.
 - (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11 (*Prescription*)).
- (h) **Non-Business Days:** Subject as provided in the relevant Final Terms, if any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, **business day** means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in the relevant place of presentation in such jurisdiction as shall be specified as “ **Additional Financial Centre(s)** ” in the relevant Final Terms and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

10. Taxation

All payments of principal and interest by or on behalf of the Relevant Issuer in respect of the Notes, and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Relevant Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or

deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon; or
- (b) **Lawful avoidance of withholding:** to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment; or
- (c) **Presentation more than 30 days after the Relevant Date:** presented or surrendered (or in respect of which the Certificate representing it is presented or surrendered) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions, **Relevant Date** in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) **principal** shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 (*Redemption, Purchase and Options*) or any amendment or supplement to it, (ii) **interest** shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and other Calculations*) or any amendment or supplement to it and (iii) **principal** and/or **interest** shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

11. Prescription

Claims against the Relevant Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

12. Events of Default

If any of the following events (**Events of Default**) occurs and is continuing, the Note Trustee at its discretion may, and if so requested by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, give notice to the Relevant Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

- (i) **Non-Payment:** if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 14 days in the case of principal and 21 days in the case of interest or, where relevant, the Relevant Issuer, having become obliged to redeem, purchase or procure the purchase of (as the case may be) any Notes pursuant to Condition 6 (*Redemption, Purchase and Options*) fails to do so within a period of 14 days of having become so obliged; or
- (ii) **Breach of Other Obligations:** the Relevant Issuer does not perform, observe or comply with any one or more of its other obligations, covenants, conditions or provisions under the Notes or the Trust Deed and (except where the Note Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Note Trustee may in its absolute discretion permit) next following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (iii) **Cross-Acceleration:** if (A) any other indebtedness for borrowed money (as defined in Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*) but, for the purposes of this paragraph (iii), excluding Non-recourse Indebtedness) of the Relevant Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of a default or (B) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (C) the Relevant Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (D) any security given by the Relevant Issuer or any Principal Subsidiary for any indebtedness for borrowed money of any person or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this paragraph (iii) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (on the basis of the middle spot rate for the relevant currency against pounds sterling as quoted by any leading bank on the day on which this paragraph (iii) applies) and two per cent. of the Capital and Reserves; or
- (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any substantial part of the property, assets or revenues of the Relevant Issuer and is not discharged or stayed within 90 days; or
- (v) **Insolvency:** the Relevant Issuer is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of its debts generally or a material part of a particular type of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting its debts generally or any part of a particular type of the debts of the Relevant Issuer; or

- (vi) **Winding-up:** (A) an administrator or liquidator is appointed in relation to the Relevant Issuer (and, in each case, not discharged within 90 days) or (B) an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Relevant Issuer, or (C) the Relevant Issuer shall apply or petition for a winding-up or administration order in respect of itself or (D) the Relevant Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case ((A) to (D) inclusive) except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Note Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or
- (vii) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Relevant Issuer; or
- (viii) **Illegality:** it is or will become unlawful for the Relevant Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed,

provided that in the case of paragraph (ii) the Note Trustee shall have certified (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders.

Definitions: in this Condition:

Excluded Subsidiary means any Subsidiary (as defined in Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) of the Relevant Issuer:

- (A) which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset;
- (B) none of whose indebtedness for borrowed money in respect of the financing of such ownership, acquisition, development and/or operation of an asset is subject to any recourse whatsoever to any member of the Group (other than another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in subparagraph (B)(II). of the definition of Non-recourse Indebtedness below; and
- (C) which has been designated as such by the Relevant Issuer by written notice to the Note Trustee, provided that the Relevant Issuer may give written notice to the Note Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary.

Non-recourse Indebtedness means any indebtedness for borrowed money:

which is incurred by an Excluded Subsidiary; or

- (B) in respect of which the person or persons to whom any such indebtedness for borrowed money is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof other than:
 - I. recourse to such borrower for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from any specific asset or assets over or in respect of which security has been granted in respect of such indebtedness for borrowed money; and/or

- II. recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such indebtedness for borrowed money in an enforcement of any encumbrance given by such borrower over any such asset or assets or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such indebtedness for borrowed money, provided that (aa) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (bb) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for borrowed money, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or

- III. recourse to such borrower generally, or directly or indirectly to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available.

Principal Subsidiary at any time shall mean each Subsidiary of the Relevant Issuer (in each case not being an Excluded Subsidiary or any other Subsidiary of the Relevant Issuer, as the case may be, whose only indebtedness for borrowed money is Non-recourse Indebtedness):

- (A) whose (a) profits on ordinary activities before tax or (b) gross assets, in each case attributable to the Relevant Issuer represent 20 per cent. or more of the consolidated profits on ordinary activities before tax of the Group or, as the case may be, consolidated gross assets of the Group, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a company which itself has Subsidiaries) and the then latest audited consolidated financial statements of the Group provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Group relate, the reference to the then latest audited consolidated financial statements of the Group for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in such financial statements by reference to its then latest relevant audited financial statements, adjusted as deemed appropriate by the Auditors; or

- (B) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Relevant Issuer which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this sub-paragraph (B), upon publication of its next audited financial statements (but without prejudice to the provisions of sub-paragraph (A) above) but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Relevant Issuer on or at any time after the date on which such audited financial statements have been published by virtue

of the provisions of sub-paragraph (A) above or before, on or at any time after such date by virtue of the provisions of this sub-paragraph (B).

A certificate by two directors of the Relevant Issuer that, in their opinion, a Subsidiary of the Relevant Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Note Trustee without further enquiry or evidence and the Note Trustee will not be responsible or liable for any loss occasioned by acting on such a certificate and, if relied upon by the Note Trustee, shall be conclusive and binding on all parties, whether or not addressed to each such party.

13. Meetings of Noteholders, Modification, Waiver and Substitution

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders of one or more Series of Notes to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the affected Series of Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing one more than 50 per cent. in nominal amount of the affected Series of Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the affected Series of Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia* :

- (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes;
- (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes;
- (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes;
- (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown in the Final Terms, to reduce any such Minimum and/or Maximum;
- (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount;
- (vi) to vary the currency or currencies of payment or denomination of the Notes;
- (vii) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Relevant Issuer, whether or not those rights arise under the Trust Deed; or
- (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution,

in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the affected Series of Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be

binding on all Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of affected Series of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) **Modification of the Trust Deed:** The Note Trustee may agree, without the consent of the Noteholders or Couponholders, (i) to any modification of any of the provisions of the Trust Deed or the Notes, or Coupons or these Conditions that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) if in the opinion of the Note Trustee the interests of the Noteholders will not be materially prejudiced thereby, to any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed or the Notes, or Coupons or these Conditions, or determine that any Event of Default shall not be treated as such. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Note Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- (c) **Substitution:** The Note Trustee may agree, subject to the execution of a deed or undertaking supplemental to the Trust Deed in form and manner satisfactory to the Note Trustee and such other conditions as the Note Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Relevant Issuer's successor in business in place of the Relevant Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Note Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Note Trustee be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Note Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Note Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Note Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Relevant Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

(e) **Modifications**

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

14. Enforcement

At any time after the occurrence of an Event of Default which is continuing, and, in the case of paragraph (ii) of Condition 12 (*Events of Default*) where the Note Trustee has certified (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders, the Note Trustee may, at its discretion and without further notice, institute such proceedings against the Relevant Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution

or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Relevant Issuer unless the Note Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15. Indemnification of the Note Trustee

The Trust Deed contains provisions for the indemnification of the Note Trustee and for its relief from responsibility. The Note Trustee is entitled to enter into business transactions with the Issuers and any entity related to the Issuers without accounting for any profit.

The Note Trustee may rely without liability on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Note Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Note Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuers, the Note Trustee and the Noteholders.

16. Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in London (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Relevant Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Relevant Issuer on demand the amount payable by the Relevant Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Relevant Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

17. Further Issues

The Relevant Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects save for the Issue Date, Interest Commencement Date and Issue Price) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such different terms as the Relevant Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further issues may be constituted by the Trust Deed or any deed supplemental to it. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Note Trustee so decides.

18. Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If in the opinion of the Note Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

19. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

20. Governing Law and Jurisdiction

- (a) **Governing Law:** The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Coupons or Talons (**Proceedings**) may be brought in such courts. The Issuers have in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Relevant Issuer for general corporate purposes.

DESCRIPTION OF THE ISSUERS

The four Issuers, WPDE, WPDW, WPD South West and WPD South Wales are the regulated monopoly distributors of electricity in the Midlands area of England, the South West of England and South Wales. All four companies are indirectly wholly owned subsidiaries of Western Power Distribution Limited, (registered number 09223384) (**WPD**), together with WPD Distribution Network Holdings Ltd (registered number 08857746), WPDE, WPDW, WPD South West and WPD South Wales, the **WPD Group**). The WPD Group is a wholly owned subsidiary of PPL WPD Ltd whose registered number is 09172857 and whose registered office is Avonbank, Feeder Road, Bristol, BS2 0TB. The ultimate parent of PPL WPD Limited is PPL Corporation (**PPL**), an energy and utility holding company based in Pennsylvania, USA. The WPD Group has been wholly-owned by PPL since 6 September 2002.

Each of the four Issuers is regulated by the Great Britain Office of Gas and Electricity Markets (**Ofgem**).

Key Strengths

The Issuers believe they have possession of key operational and credit strengths outlined below. The offer of the Notes presents an opportunity to invest in an investment grade regulated UK electricity distribution network business that benefits from:

- A stable, well established transparent regulatory regime;
- Strong and predictable operating cash flow;
- No volume risk;
- Inflation linked earnings and asset base;
- Positive cash flow generation before financing;
- Industry leading delivery of Ofgem output targets; and
- Accurate forecasting and efficient delivery of investment programmes.

Description of WPDE

History

WPDE is the regulated monopoly distributor of electricity in the East Midlands area of England. WPDE was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPDE is at Avonbank, Feeder Road, Bristol, BS2 0TB and its telephone number is + 44-117-9332000. WPDE joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPDE has no subsidiary companies.

WPDE was formerly known as Central Networks East plc and changed its name to Western Power Distribution (East

Midlands) plc on 1 April 2011.

Description of Principal Activity

WPDE is one of the 14 regulated electricity distribution network operators (**DNO**) in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute

electricity in the East Midlands area of England and its principal activity is the distribution of electricity to industrial, commercial and domestic customers within its regulated area.

Its network covers approximately 16,000 square kilometres, extending from the Lincolnshire coast to the outskirts of Coventry, and from Milton Keynes in the south to the Derbyshire Peak District in the north. As a result, it serves a diverse customer base including large urban areas such as Nottingham, Derby, Northampton and Leicester, as well as rural communities.

As at 31 March 2017, WPDE distributed electricity to over 2.6 million customers through approximately 73,000 kilometres of network.

Western Power Distribution (East Midlands) plc Distribution Service Area map



Description of WPDW

WPDW is the regulated monopoly distributor of electricity in the West Midlands area of England. WPDW was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPDW is at Avonbank, Feeder Road, Bristol, BS2 0TB and its telephone number is + 44-117-9332000. WPDW joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPDW has no subsidiary companies.

WPDW was formerly known as Central Networks West plc and changed its name to Western Power Distribution (West Midlands) plc on 1 April 2011.

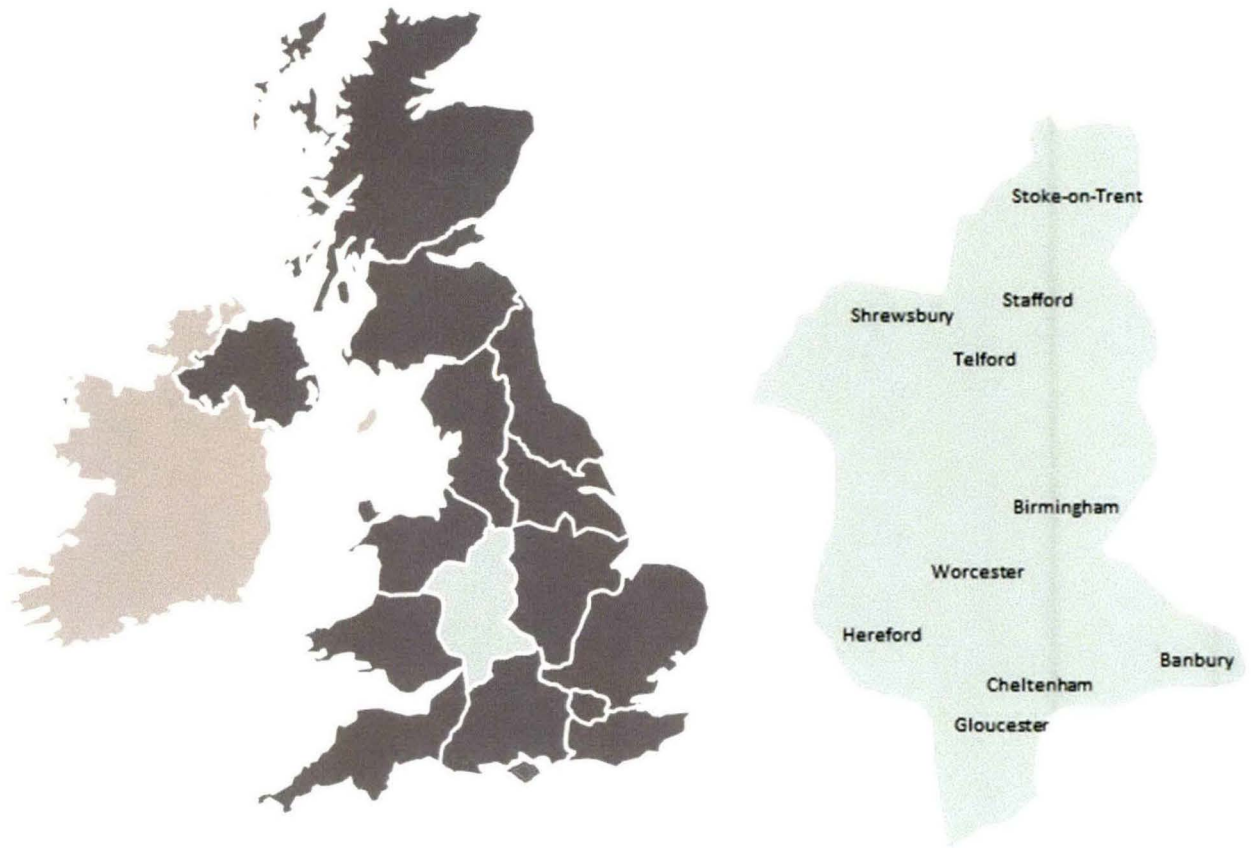
Description of Principal Activity

WPDW is also one of the 14 DNOs in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute electricity in the West Midlands area of England and its principal activity is the distribution of electricity to industrial, commercial and domestic customers.

Its network covers approximately 13,300 square kilometres, extending from the outskirts of Bristol in the South to Staffordshire in the North and from approximately the M6 motorway to the Welsh border. As a result, WPDW serves a diverse customer base including England's second largest city, Birmingham, as well as rural communities.

As at 31 March 2017, WPDW distributed electricity to almost 2.5 million customers through approximately 64,500 kilometres of network.

Western Power Distribution (West Midlands) plc Distribution Service Area map



Description of WPD South West

WPD South West is the regulated monopoly distributor of electricity in the south-western area of England. WPD South West was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPD South West is Avonbank, Feeder Road, Bristol, BS2 0TB. Its telephone number is +44-117-933-2000. WPD South West joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPD South West has no subsidiary companies.

WPD South West was formerly known as South Western Electricity plc and changed its name to Western Power Distribution (South West) plc on 31 July 2001.

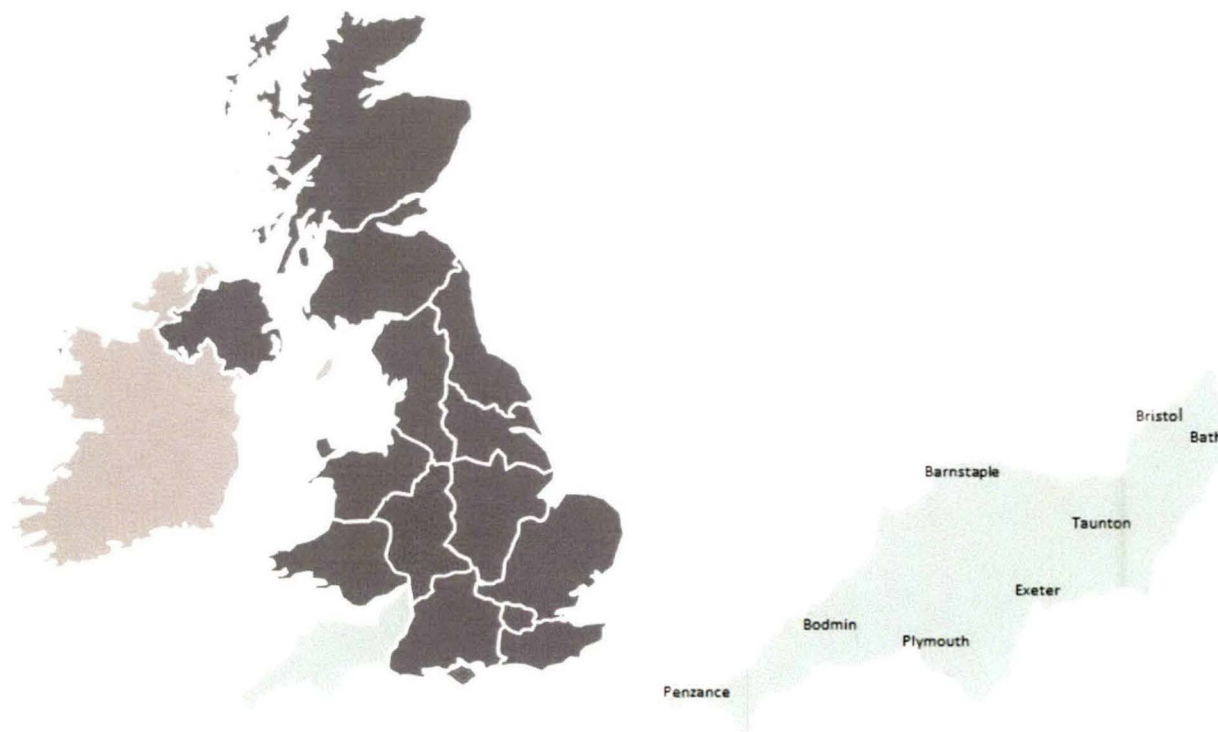
Description of Principal Activity

WPD South West is also one of the 14 DNOs in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute electricity in the South West area of England and its principal activity is the distribution of electricity to industrial, commercial and domestic customers.

Its network covers approximately 14,400 square kilometres, extending from Bristol and Bath in the northeast, southwest along the peninsula to Land's End and beyond to the Isles of Scilly. WPD South West serves a diverse customer base from the largest cities and towns in WPD South West's service area of Bath, Bristol, Exeter, Plymouth and Taunton to small rural communities.

As at 31 March 2017, WPD South West distributed electricity to almost 1.6 million customers through approximately 50,000 kilometres of network.

Western Power Distribution (South West) plc Distribution Service Area map



Description of WPD South Wales

WPD South Wales is the regulated monopoly distributor of electricity in South Wales. WPD South Wales was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. The registered office of WPD South Wales is Avonbank, Feeder Road, Bristol, BS2 0TB. Its telephone number is + 44-117-933-2000. WPD South Wales joined the WPD Group on 1 April 2011.

At the date of this Prospectus WPD South Wales has no subsidiary companies.

WPD South Wales was formerly known as South Wales Electricity plc and changed its name to Western Power Distribution (South Wales) plc on 31 July 2001.

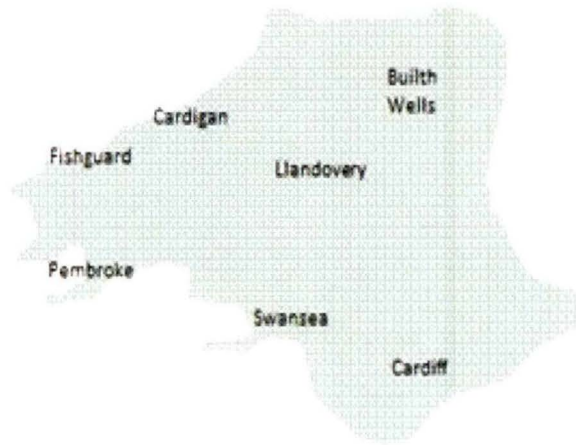
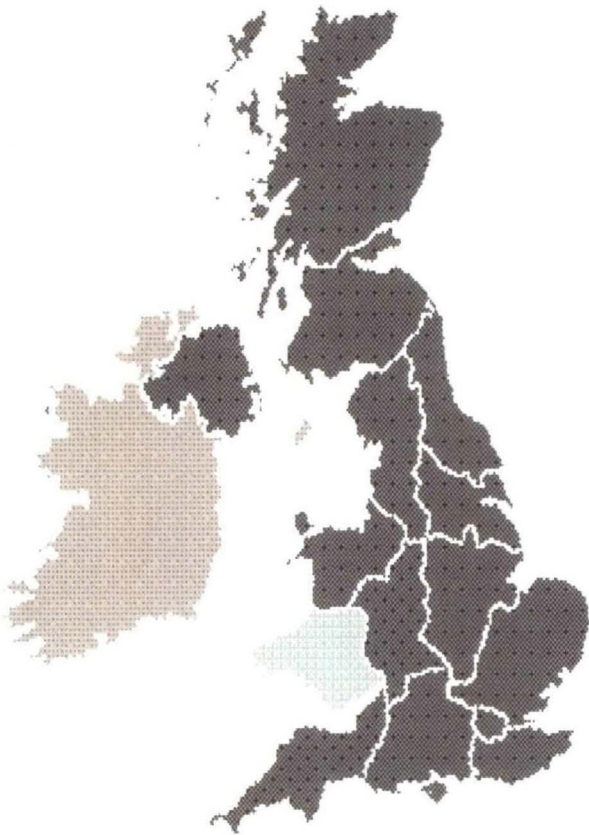
Description of Principal Activity

WPD South Wales is also one of the 14 DNOs in England, Wales and Scotland. It is the regulated distributor of electricity with a distribution licence authorising it to distribute electricity in South Wales and its principal activity is the distribution of electricity to industrial, commercial and domestic customers.

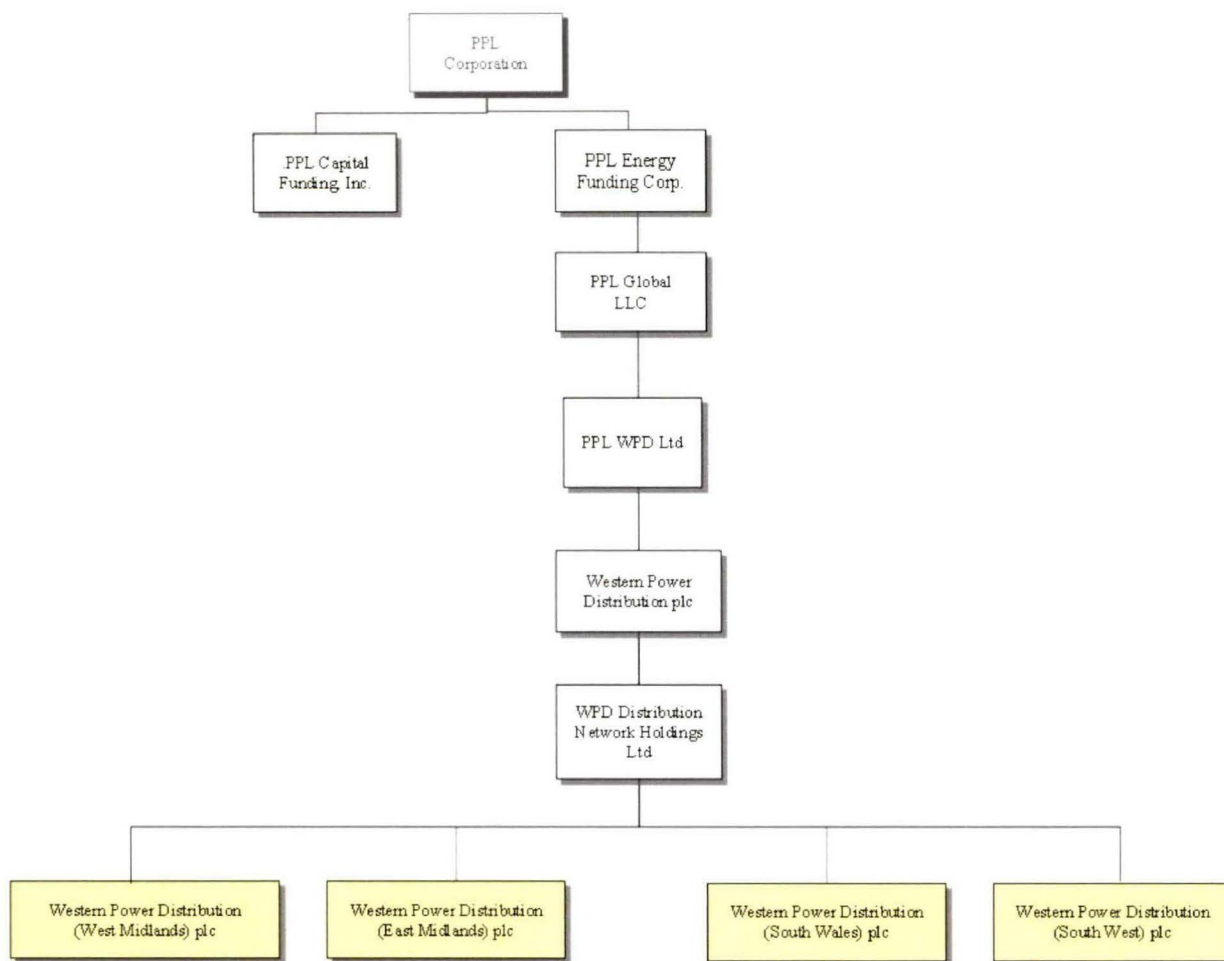
Its network covers approximately 11,800 square kilometres. The service area in Wales covers the south of the country. It covers an extremely diverse region including areas such as the Brecon Beacons National Park to the north, the Pembrokeshire Coast National Park in the West and city of Cardiff in the south. The largest cities and towns in WPD South Wales' service area are Cardiff, Swansea and Newport. Most of the population of South Wales is located in the coastal belt region between Newport and Llanelli, (to the east and west of Cardiff), or in the valleys region to the north of this coastal belt. The remainder of the area is sparsely populated.

As at 31 March 2017, WPD South Wales distributed electricity to over 1.1 million customers through approximately 36,000 kilometres of network.

Western Power Distribution (South Wales) plc Distribution Service Area map



WPD Summary Group Structure Chart



Description of PPL Corporation

PPL Corporation, headquartered in Allentown, Pennsylvania, is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL owns or controls nearly 8,000 megawatts of generating capacity in the United States, sells energy in key U.S. markets and delivers electricity and natural gas to over 10 million customers in the United States and the United Kingdom.

Business Overview

The Western Power Distribution Business

WPDE, WPDW, WPD South West and WPD South Wales are all indirect subsidiaries of WPD which is an indirect subsidiary of PPL and operate together as a single commercial entity under the brand “Western Power Distribution”. “Western Power Distribution”, as used in this Prospectus, means the multiparty commercial operations of WPDE, WPDW, WPD South West and WPD South Wales.

As required by Ofgem in its regulation of DNOs, WPDE, WPDW, WPD South West and WPD South Wales, are separate legal entities, which are subject to financial ring-fencing and which hold separate distribution licences. As a result of this, all four entities are separately assessed by Ofgem and undergo a separate distribution price control review process (as further explained in the section entitled “*Regulation applying to the Issuers*”).

However, on a management and commercial level, WPDE, WPDW, WPD South West and WPD South Wales, are operated on a combined basis through shared divisional management (as further explained in the section entitled “*Description of the Western Power Distribution Business*”). According to publicly available information accessed through the Energy Networks Association website, Western Power Distribution is the second largest electricity network operator in the United Kingdom (by customer numbers) as at 31 March 2017, with more than 7.8 million customers.

As WPDE, WPDW, WPD South West and WPD South Wales are separate entities for legal and regulatory purposes they each produce accounts. The costs of shared services, employees and operations are allocated back to each entity (as appropriate) in order to produce such accounts.

As at 31 March 2017, WPDE and WPDW had a regulated asset value (RAV) of £2.25 billion and £2.26 billion respectively. In addition the WPD South West and WPD South Wales operations had a RAV of £1.46 billion and £0.99 billion respectively. In total Western Power Distribution have a total RAV of £6.97 billion making it the largest electricity network operator in the United Kingdom by RAV.

Potential investors are also referred to the section entitled “*Combined Operating Activities of WPDE, WPDW, WPD South West and WPD South Wales*” within the section entitled “*Risk Factors*” above.

Strategy

Monitoring the satisfaction of end users connected to the network with the quality of supply provided is a key element of the Western Power Distribution strategy. Each Western Power Distribution entity aims to meet or exceed all the performance criteria established by Ofgem. Network performance is measured by two key criteria:

- (a) *availability*: the number of customer minutes lost per connected customer (CML); and
- (b) *security*: the number of supply interruptions (if greater than 3 minutes) recorded per 100 connected customers (CI).

All licensees who operate a distribution system are required to report annually to Ofgem on their performance in maintaining system security and availability. The IIS incentive scheme financially incentivises all licensees including WPDE, WPDW, WPD South West and WPD South Wales with respect to both key measures of supply delivered to customers. Ofgem also incentivises the quality of telephone response the customer receives when they contact the licensees, which is assessed by a customer survey carried out on a monthly basis.

For the year 2016/17, the reported adjusted minutes lost per customer and the adjusted interruptions per 100 customers for each of the four companies were:

	WPD South Wales		WPD South West		WPD East Midlands		WPD West Midlands	
	CI	CML	CI	CML	CI	CML	CI	CML
OFGEM IIS Target 2016/17	53.7	33.6	58.9	43.6	52.1	39.1	87.1	53.6
IIS Outturn 2016/17	41.6	25.7	52.5	39.7	44.9	22.0	59.0	32.0
% Out Performance	22.5%	23.5%	10.9%	8.9%	13.8%	43.7%	32.3%	40.3%

(Figures unaudited)

In addition to this in 2016/17, 85.3 per cent of customers off supply in the South West as a result of a High Voltage ("HV") fault were restored within one hour of a fault occurring, with the figure being 87.8% for South Wales, 90.0% for WPDE and 91.2% for WPDW.

The Energy Ombudsman has the role of complaint handling and customer representation for the electricity sector in the United Kingdom and replaced *energywatch* in October 2008.

Directors of WPDE, WPDW, WPD South West and WPD South Wales

All four entities are managed by a Board of Directors comprising the following individuals:

Name	Position	Principal non-Group activities
R A Symons	Chief Executive Officer	None
D C S Oosthuizen	Finance Director	None
I R Williams	Resources and External Affairs Director	None
P Swift	Operations Director	None
M E Fletcher	Sufficiently Independent Director*	None
A J Cardew	Sufficiently Independent Director*	None

*As required by OFGEM.

The business address of each of the Directors is Avonbank, Feeder Road, Bristol BS2 0TB. No Director has any actual or potential conflict of interest between his duties to WPDE, WPDW, WPD South West and WPD South Wales and his private interests and/or other duties.

Regulation applying to the Issuers

Licences

The distribution licences held by WPDE, WPDW, WPD South West and WPD South Wales authorise the licensees to distribute electricity for the purpose of providing a supply in Great Britain with additional obligations under Section B of the distribution licence for any premises in the distribution services area specified in the distribution licence. The licence exists in perpetuity, and can only be revoked by Ofgem (giving no less than 25 years' notice) or by breach of licence. A failure of an Issuer to comply with its licence could lead to an enforcement order being issued by Ofgem. Ofgem has the power to levy fines of up to 10 per cent. of turnover for any breach. In certain circumstances, for example, insolvency, the distribution licence itself may be revoked. The licences provide for a distribution services area, equating to the former authorised area of the former public electricity suppliers in the East Midlands and West Midlands areas the South West of England and South Wales, respectively, in which the respective licensee has certain specific distribution services obligations.

Under the Electricity Act 1989 (as amended), an electricity distributor has a duty, except in certain circumstances, to make a connection between its distribution system and any premises within the designated area for the purpose of enabling electricity to be conveyed to or from the premises and to make a connection between its distribution system and any distribution system of another authorised distributor, for the purpose of enabling electricity to be conveyed to or from that other system.

Each DNO benefits from a regional monopoly and its operations are regulated by its distribution licence. Each DNO is subject to annual limits on its regulated revenues and the quality of supply it must provide, and is provided with financial incentives to minimise its costs and improve the service it provides to its customers.

Distribution Price Controls

Distribution price controls (each a **Distribution Price Control**) are intended to provide companies with sufficient revenues to allow them to finance their efficient operating costs and capital investment. In addition to setting revenues, the price controls also include targets for the overall quality of network performance based upon the average number and duration of supply outages experienced by customers. Companies can be either rewarded or penalised for exceeding or failing these targets.

The charges made for the use of the distribution network are regulated on the basis of annually profiled revenues adjusted for RPI. The RPI is a measure of inflation and in RIIO-ED1 prices are set using a forecast of RPI; subsequently reconciled 2 years later for the actual RPI observed.

It is then for DNOs to develop a charging regime in accordance with Ofgem's approved methodology in order to recover from suppliers an amount up to the allowed revenue. Historically, these tariffs have been a matter for each company individually but Ofgem has implemented licence conditions which compel distributors to work together and set tariffs based upon a common methodology.

The current distribution price control was agreed with Ofgem in May 2014 for the period from 1 April 2015 to 31 March 2023. This resulted in a reduction in the price for the distribution of electricity in the first year of RIIO-ED1 (2015/16). The decreases, before taking into account inflation, were 9.1 per cent. for WPDE, 9.4 per cent. for WPDW and respective

decreases of 17.5 per cent. and 23.8 per cent. for South West and South

Wales. For the remaining seven years of RIIO-ED1 the revenues increase annually. All of these annual movements will have RPI inflation applied to them.

DNOs must also meet the standards of performance, which are set by Ofgem to ensure an appropriate level of quality of supply (the **Guaranteed Standards of Performance**). If a company fails to provide the level of service specified, it must make a fixed payment to the end user affected.

The objective of RIIO-ED1 is to drive real benefits for consumers; providing companies with strong incentives to meet the challenges of delivering a sustainable energy sector at a lower cost.

Key features of the regulation of electricity distribution businesses in RIIO-ED1 and beyond, include:

- (a) a move to eight year price controls with mid-point reviews restricted to outputs and whether they remain appropriate;
- (b) The RIIO-ED1 price control includes an Annual Iteration Process. This allows base revenues to be updated during the price control for financial adjustments covering tax, pension deficit payments and the cost of debt allowed to be recovered in revenues, adjustments relating to actual and allowed total expenditure (Totex) and the Totex Incentive Mechanism and legacy price control adjustments from preceding price control periods. Under the Annual Iteration Process, the financial model used to calculate base revenue is re-run using a series of revised input values. This process calculates an incremental change to base revenue, the "MOD" term, which is advised by 30th November preceding each regulatory year.
- (c) more closely align regulatory and physical asset lives on new assets purchased after 2015. This resulted in a decision to extend the regulatory depreciation lives for new expenditure on assets installed after 1 April 2015 from 20 years to 45 years over the course of RIIO-ED1.
- (d) the delivery of 76 different outputs to customers (both qualitative and quantitative) across the areas of safety, reliability, environment, connections, customer satisfaction and social obligations.
- (e) the introduction of a proportionate treatment concept where the degree of scrutiny of licence holders' business plans for any forthcoming price control period is related to the quality of the business plan and records of previous performance, with the possibility of some companies achieving limited scrutiny and an early settlement decision (to be known as a "Fast Track" decision); and
- (f) more clarity around the cost of capital and capitalisation policies at the beginning of the review period as well as recognising the role of equity in financing network businesses, together with a move to a rolling cost of debt allowance based on trailing averages of corporate bond indices. The allowed cost of equity for each of the Issuers is 6.4 per cent. As fast tracked companies, the cost of debt for the Issuers is calculated from a 10 year rolling average of real rates that will be determined from the arithmetical average of the iBoxx A-rated and BBB-rated non-financial indices (of eligible bonds greater than 10 years) less the implied 10-year gilt inflation break evens published daily by the Bank of England. For the year 2017/18, the cost of debt for the Issuers is set at 2.22 per cent.

The WPD business plan, covering all four DNOs, can be found on the WPD website, www.westernpower.co.uk. The comprehensive plan provides details of the level of investment, the improvements in customer service, the financing requirements, the 76 outputs, etc. that will occur within the RIIO-ED1 period.

Customer Information

WPDE's network, which consists of approximately 52,000 kilometres of underground cables and 21,000 kilometres of overhead line (as at 31 March 2017), distributed 26.2 terawatt hours of electricity in the year ended 31 March 2017 to approximately 2.6 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 62 per cent. of revenues and 52 per cent. of units distributed (for the year ended 31 March 2017). WPDE has approximately 17,700 larger customers as of 31 March 2017 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 38 per cent. of revenues and 48 per cent. of units distributed (for the year ended 31 March 2017).

WPDW's network, which consists of approximately 41,000 kilometres of underground cables and 23,500 kilometres of overhead line (as at 31 March 2017), distributed 23.3 terawatt hours of electricity in the year ended 31 March 2017 to approximately 2.5 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 63 per cent. of revenues and 54 per cent. of units distributed (for the year ended 31 March 2017). WPDW has approximately 17,600 larger customers as of 31 March 2017 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 37 per cent. of revenues and 46 per cent. of units distributed (for the year ended 31 March 2017).

WPD South West's network, which consists of approximately 22,000 kilometres of underground cables and 28,000 kilometres of overhead line (as at 31 March 2017), distributed 13.5 terawatt hours of electricity in the year ended March 2017 to approximately 1.6 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 74 per cent. of revenues and 62 per cent. of units distributed (for the year ended 31 March 2017). WPD South West has approximately 9,600 larger customers as of 31 March 2017 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 26 per cent. of revenues and 38 per cent. of units distributed (for the year ended 31 March 2017).

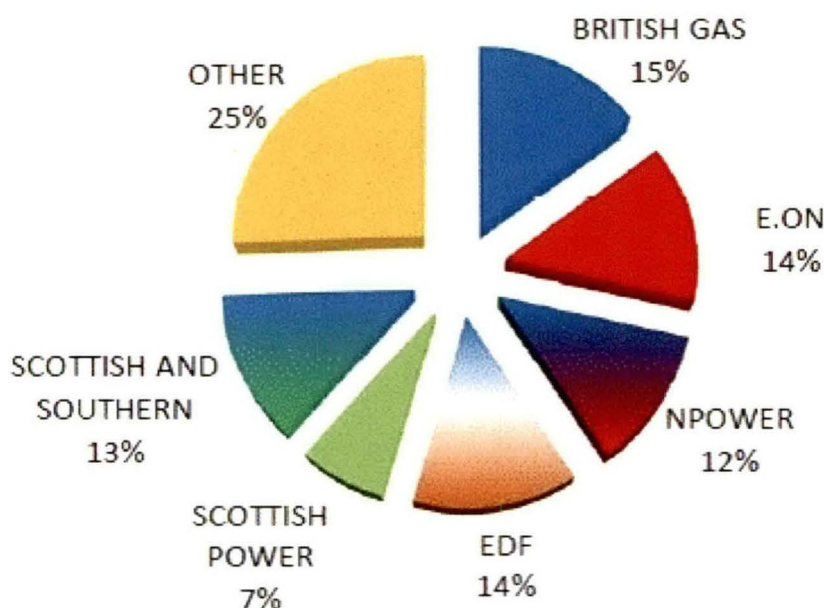
WPD South Wales' network, which consists of approximately 18,000 kilometres of underground cables and 18,000 kilometres of overhead line (as at 31 March 2017), distributed 11.0 terawatt hours of electricity in the year ended 31 March 2017 to approximately 1.1 million end customers. While over 99 per cent. of these end users are domestic premises and smaller businesses, this group accounts for 66 per cent. of revenues and only 46 per cent. of units distributed (for the year ended 31 March 2017). WPD South Wales has approximately 6,500 larger customers as of 31 March 2017 (large commercial and industrial customers based on consumption above 100kW and half hourly metering) who account for the remaining 34 per cent. of revenues and 54 per cent. of units distributed (for the year ended 31 March 2017).

Transmission and Distribution Facilities

Electricity is transported across National Grid Electricity Transmission plc's transmission system at 400kV or 275kV to 14 Grid Supply Points (GSPs) connected to WPDE's distribution network and 16 GSPs connected to WPDW's network, and 11 GSPs connected to both the WPD South West and WPD South Wales networks, where it is transformed to 132kV and enters Western Power Distribution's distribution systems. 88 per cent. of all electricity that enters Western Power Distribution's system is received at these 52 GSPs (as at 31 March 2017). Within the last few years there has been a substantial increase in distributed generation within the WPD area, which accounts for the remaining 12 per cent. that is distributed by WPD.

Whilst Western Power Distribution supplies some 7.8 million connected customers, revenue is derived via some 99 electricity suppliers operating in Western Power Distribution's area with the following market shares as of March 2017:

DUoS - Supplier Split at March 2017



Operation and control of Western Power Distribution's distribution systems are continuously monitored and coordinated from three control centres located on the outskirts of Birmingham for the West Midlands, near Nottingham for the East Midlands and on the outskirts of Cardiff for the South West and South Wales. Electricity is received by end users at various voltages depending upon their requirements.

Employee Relations

The WPD Group places considerable value on the involvement of its employees in its affairs. Staff are kept informed of the WPD Group's aims, objectives, performance and plans and their effect on them as employees through newsletters, regular team briefings and other meetings, as well as through the WPD Group's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest. A series of roadshow presentations by the directors of the WPD Group each year ensure that all staff are aware of, and can contribute to, the WPD Group's corporate goals.

Pensions – WPDE and WPDW

Background

WPDW and WPDE (together the **Midlands Issuers**) have an obligation to fund pensions in a number of pension arrangements. The pension arrangement which currently represents the majority of the funding the Midlands Issuers will be required to make towards their pension arrangements is the Central Networks Group of the Electricity Supply Pension Scheme (the **Central Networks Group** and **ESPS** respectively). The Central Networks Group is closed to new members and new employees join the Issuers' Defined Contribution Scheme called the Western Power Pension Scheme (or **WPPS**).

The Central Networks Group is a sectionalised group of the ESPS which was established on 1 April 2011 in order to receive a transfer of the assets and liabilities of the current and former employees of the Midlands

Issuers or certain of their subsidiaries who were members of the E.On Group of the ESPS. The third actuarial valuation of the Central Networks Group, which determined future cash contributions payable, was completed as at 31 March 2016.

Cash contributions – Central Networks Group

The deficit repair payments currently agreed in relation to the 2016 Valuation (deficit of £603m) are as follows:

- £81.85m per annum payable by the Midlands Issuers between 1 April 2016 to 31 March 2017, with £81.85m plus indexation in line with the increase in RPI over the year to February 2017 for the period from 1 April 2017 to 31 March 2018 payable in equal monthly instalments; plus
- £80m per annum for the period from 1 April 2018 to 31 March 2021 payable in equal monthly instalments; plus
- £48m per annum for the period from 1 April 2021 to 31 March 2026 payable in equal monthly instalments; plus
- £2.0m per annum for the period from 1 April 2017 to 31 March 2026 payable in equal monthly instalments, in relation to the expense loading in respect of non-active members.

The estimated deficit at 31 March 2017 on a “roll-forward” basis was £423m. This was mainly due to the prepayment of all of the deficit repair contributions and the estimated future benefit accrual contributions for 2017/18 being paid on 31 March 2017.

Cash contributions - Other

In addition to contributions to eliminate the deficit, the Midlands Issuers will be required to pay contributions at the required contribution rate towards the benefits that members will continue to accrue in the Central Networks Group and the WPPS, along with contributions to meet the running costs of the Central Networks Group and the Pension Protection Fund levies payable.

Pensions – WPD South West and WPD South Wales

Background

WPD South West and WPD South Wales (together the **WWIssuers**) have an obligation to fund pensions in a number of pension arrangements. The pension arrangement requirements in relation to the WPD ESPS Schemes currently represent the majority of the pension funding requirements the WW Issuers will be required to meet. The WPD ESPS Schemes are closed to new members and new employees are to join the WPPS.

In addition, WPD South Wales is the principal employer of the Western Power Utilities Pension Scheme (**WPUPS**), which is a defined benefit scheme providing benefits to previous employees of various Hyder group companies and was transferred from Hyder in April 2002. However PPL WPD Limited has taken financial responsibility for this scheme. Hyder (in liquidation) was acquired by an affiliate of PPL WPD Limited and previously owned WPD South Wales. WPUPS is closed to new members and future accrual.

WPD (South Wales) is also the principal employer of the Infracore 92 Pension Scheme (I92), which is an hybrid defined contribution/defined benefit scheme providing benefits to previous employees of a Hyder group subsidiary company, formerly known as Swalec and which was transferred from Swalec in August 2000.

Cash contributions – WPD Group

The deficit repair payments currently agreed in relation to the WPD Group 2016 Valuation (deficit of £507m, including an expense reserve for non-active members) are as follows:

- £86.966m payable by the WW Issuers between 1 April 2016 to 31 March 2017 payable in equal monthly instalments; plus
- £86.966m plus indexation in line with the increase in the RPI over the year to February 2017 for the period from 1 April 2017 to 31 March 2018 payable in equal monthly instalments; plus
- £86.6m per annum for the period from 1 April 2018 to 31 March 2021 payable in equal monthly instalments; plus
- £20.9m per annum for the period from 1 April 2021 to 31 March 2026 payable in equal monthly instalments; plus
- £1.4m per annum for the period from 1 April 2017 to 31 March 2026 payable in equal monthly instalments, in relation to the expense loading in respect of non-active members.

The estimated deficit at 31 March 2017 on a “roll-forward” basis was £303.7m. This was mainly due to the prepayment of all of the deficit repair contributions and the estimated future benefit accrual contributions for 2017/18 being paid on 31 March 2017.

Cash contributions – WPUPS¹

The deficit repair payments currently agreed in relation to the 2016 Valuation (deficit of £126m) are as follows:

- £1,364,173 per month payable by the WW Issuers between 1 April 2016 to 31 March 2017; plus
- £80.0m lump sum payable on or before 31 January 2017; plus
- £7.0m per annum for the period from 1 April 2020 to 31 March 2026 payable in equal monthly instalments.

The estimated funding position at 31 March 2017 on a “roll-forward” basis was £3.7m surplus. This was mainly due to the lump-sum payment of £80m on 31 January 2017.

Cash contributions – I92

The deficit repair payments currently agreed in relation to the 2016 Valuation (deficit of £3.54m) are as follows:

- A lump sum of £2.5m on or before 31 January 2017; plus
- £235,000 per annum payable by WPD (South Wales) plc between 31 March 2021 and 31 March 2026 (inclusive).

The estimated deficit at 31 March 2017 on a “roll-forward” basis was £0.96m. This was mainly due to the lump-sum payment of £2.5m on 31 January 2017.

Cash contributions – Other

In addition to contributions to eliminate the deficits, the WW Issuers will be required to pay contributions at the required contribution rates towards the benefits that members will continue to accrue in the WPD Group and the WPPS, along with contributions to meet the running costs of the WPD Group, the WPUPS, the WPPS and the Pension Protection Fund levies payable.

¹(Reimbursed by PPL WPD Limited - See “*Pensions - WPD South West and WPD South Wales - Background*” above).

TAXATION

UK Taxation

The following is a summary of each Issuer's understanding of current United Kingdom law and published HM Revenue & Customs (HMRC) practice relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of the Notes. It does not necessarily apply where income is deemed for tax purposes to be the income of any other person. Some aspects do not apply to certain classes of person to whom special rules may apply and it is not intended to be exhaustive. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of the Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Notes

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes carry a right to interest and the Notes are and continue to be listed on a "recognised stock exchange", within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of, and in accordance with, the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Payments of interest on the Notes may be made without withholding or deduction on account of United Kingdom tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement or borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Notes that have a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any other available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction or tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

The proposed financial transactions tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "FATCA", a "foreign financial institution" (as defined by FATCA) may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Notes (as described under "Terms and Conditions of the Notes – Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

The Dealers have, in the Dealer Agreement, agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Dealer Agreement, the Issuers have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in the paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, it will offer and sell Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of any Series of Notes or the closing date related to such Series of Notes (such period the **Distribution Compliance Period**) only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until the end of the Distribution Compliance Period for any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Indexed Notes shall be subject to such additional U.S. selling restrictions as the Relevant Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

Prohibition of Sales to EEA Retail Investors

From 1 January 2018, unless the Final Terms in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II;

) or

- (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

elling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) in relation to any Notes having a maturity of less than one year (a) it is a person whose ordinary activities involve it in acquiring, holding managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses, where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Relevant Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Relevant Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Relevant Issuer, the Note Trustee nor any of the other Dealers shall have any responsibility therefore.

Neither the Relevant Issuer, the Note Trustee nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Relevant Issuer and the relevant Dealer shall agree.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of WPDW passed on 4 September 2013, of WPDE passed on 4 September 2013, of WPD South West passed on 4 September 2013 and of WPD South Wales passed on 4 September 2013. The update of the Programme has been duly authorised by a resolution of the Board of Directors of each of the Issuers passed at a meeting of each of the Board of Directors held on 13 September 2017.

Each issue of Notes under the Programme will be authorised by the Committee of the Board of Directors of the Relevant Issuer.

Listing of Notes

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Regulated Market of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the regulated market of the London Stock Exchange. The listing of the Programme in respect of Notes is expected to be granted on or before 21 September 2017.

Documents Available

For the period of 12 months following the date of this Prospectus, copies of the documents referred to in the section *Documents Incorporated by Reference* and the following documents will, when published, be available from the registered office of each Issuer and from the specified office of the Paying Agents for the time being in London:

- (i) the memorandum and articles of association of each Issuer;
- (ii) the Agency Agreement;
- (iii) the Trust Deed; and
- (iv) a copy of this Prospectus and of any supplements thereto.

In addition, the documents referred to in the section *Documents Incorporated by Reference*, this Prospectus and each Final Terms relative to the Notes which are admitted to trading on the regulated market of the London Stock Exchange are also available at the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L 1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Material Contracts

There are no material contracts entered into other than in the ordinary course of the Issuers' businesses which could result in either being under an obligation or entitlement that is material to the Issuers' ability to meet their obligations to Noteholders in respect of the Notes being issued.

Significant or Material Change

There has been no significant change in the financial or trading position of any of the Issuers and / or of their subsidiaries since 31 March 2017 and there has been no material adverse change in the prospects of any of the Issuers since 31 March 2017.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which any Issuer is aware) of any of the Issuers in the 12 months preceding the date of this document which may have or have in the recent past had a significant effect on the financial position or profitability of any of the Issuers.

Auditors

Ernst & Young LLP, registered to carry out audit work by the Institute of Chartered Accountants in England and Wales, have audited, without qualification, in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board the financial statements of WPD South West, WPD South Wales, WPDW and WPDE for the financial year ended on 31 March 2016.

Ernst & Young LLP, as previous auditors of the Issuers, did not have any material interest in any Issuer.

Deloitte LLP, registered to carry out audit work by the Institute of Chartered Accountants in England and Wales, have audited, without qualification, in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board the financial statements of WPD South West, WPD South Wales, WPDW and WPDE for the financial year ended on 31 March 2017.

Deloitte LLP, as incumbent auditors of the Issuers, do not have any material interest in any Issuer.

The audit reports in respect of the financial years ended 2016 and 2017 for WPD South West, WPD South Wales, WPDW and WPDE contain the statement that such report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and that their audit work has been undertaken so that they might state to the company's members those matters they are required to state to them in an auditor's report and for no other purpose.

Such a statement is recommended in guidance issued by the Institute of Chartered Accountants in England and Wales for inclusion in all Section 235 and Chapter 3 of Part 16 audit reports (as applicable) produced by audit firms.

Post-issuance information

The Issuers do not intend to provide any post-issuance information in relation to any issues of Notes.

Dealers transacting with the Issuers

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuers, other members of the WPD Group and their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuers, other members of the WPD Group and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuers or Issuers' affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuers routinely hedge their credit exposure to the Issuers consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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ISSUERS

Western Power Distribution (West Midlands) plc

Avonbank
Feeder Road
Bristol BS2 0TB

Western Power Distribution (East Midlands) plc

Avonbank
Feeder Road
Bristol BS2 0TB

Western Power Distribution (South West) plc

Avonbank
Feeder Road
Bristol BS2 0TB

Western Power Distribution (South Wales) plc

Avonbank
Feeder Road
Bristol BS2 0TB

NOTE TRUSTEE

HSBC Corporate Trustee Company (UK) Limited

8 Canada Square
London E14 5HQ

ISSUING AND PAYING AGENT, REGISTRAR, TRANSFER AGENT AND CALCULATION AGENT

HSBC Bank plc

8 Canada Square
London E14 5HQ

LEGAL ADVISERS

To the Issuers as to English Law

Allen & Overy LLP

One Bishops Square
London E1 6AD

*To the Arranger, the Dealers
and the Note Trustee as to English Law*

Clifford Chance LLP

10 Upper Bank Street
London E14 5JJ

AUDITORS

Deloitte LLP

Hill House
1 Little New Street
London EC4A 3TR

ARRANGER

The Royal Bank of Scotland plc (trading as NatWest Markets)

250 Bishopsgate
London EC2M 4AA

DEALERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

Lloyds Bank plc
10 Gresham Street
London EC2V 7AE

Banco Santander, S.A.
Ciudad Grupo Santander
Edificio Encinar
Avenida de Cantabria s/n
28660, Boadilla del Monte
Madrid, Spain

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ

HSBC Bank plc
8 Canada Square
London E14 5HQ

MUFG Securities EMEA plc
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ

RBC Europe Limited
Riverbank House
2 Swan Lane
London EC4R 3BF

Mizuho International plc
Mizuho House
30 Old Bailey
London EC4M 7AU

The Royal Bank of Scotland plc
(trading as NatWest Markets)
250 Bishopsgate
London EC2M 4AA

**AMENDMENT NO. 1
TO
PPL EMPLOYEE STOCK OWNERSHIP PLAN**

WHEREAS, PPL Services Corporation ("PPL") has adopted the PPL Employee Stock Ownership Plan ("Plan") effective January 1, 2000; and

WHEREAS, the Plan was amended and restated effective December 1, 2016, and NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective October 1, 2017, Section 7.5, Termination of Employment, is amended to read as follows:

**ARTICLE VII
DISTRIBUTION**

7.5 Termination of Employment. Upon a Participant's retirement or other termination of employment with PPL and all Affiliated Companies, he shall be entitled to receive his interest in the Fund. Subject to Subsection 7.7(c), (a) if the value of his interest in the Fund exceeds \$5,000 (\$1,000 effective March 28, 2005), his interest shall not be paid to him or applied for his benefit until (1) he consents in writing to such payment or application, or (2) he attains his 65th birthday or (3) he dies; whichever occurs first; (b) otherwise, his interest shall be paid to him or applied for his benefit in a single sum on or before the close of the first calendar quarter next following the calendar quarter in which such termination takes place.

II. Except as provided in this Amendment No. 1, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 1 is executed this _____ day of _____, 2017.

Employee Benefit Plan Board

By: _____

Julissa Burgos
Chair, Employee Benefit Plan Board

g:\steno\jj\plans\esop amend_1.doc

\$200,000,000

TERM LOAN CREDIT AGREEMENT

dated as of October 26, 2017

among

**LOUISVILLE GAS AND ELECTRIC COMPANY,
as the Borrower,**

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

**U.S. BANK NATIONAL ASSOCIATION,
as Administrative Agent**

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Appendices:

Appendix A - Commitments

Exhibits:

- Exhibit A-1 - Form of Notice of Borrowing
- Exhibit A-2 - Form of Notice of Conversion/Continuation
- Exhibit B - Form of Note
- Exhibit C - Form of Assignment and Assumption Agreement
- Exhibit D - Forms of Opinion of Counsel for the Borrower

TERM LOAN CREDIT AGREEMENT (this “Agreement”) dated as of October 26, 2017 is entered into among LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the “Borrower”), the LENDERS party hereto from time to time and U.S. BANK NATIONAL ASSOCIATION, as the Administrative Agent. The parties hereto agree as follows:

RECITALS

The Borrower has requested that the Lenders provide a term loan facility for the purposes set forth herein, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto covenant and agree as follows:

ARTICLE I DEFINITIONS

Section 1.01 Definitions. All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Adjusted London Interbank Offered Rate” means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the nearest 1/100th of 1%) by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

“Administrative Agent” means U.S. Bank, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“Affiliate” means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise. In no event shall the Administrative Agent or any Lender be deemed to be an Affiliate of the Borrower or any of its Subsidiaries.

“Agreement” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, restated, supplemented or modified from time to time.

“Applicable Lending Office” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Base Rate Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

“Applicable Percentage” means, for purposes of calculating the applicable interest rate for any day for (i) any Base Rate Loans, 0.00% or (ii) any Euro-Dollar Loans, 0.50%.

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Asset Sale” means any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

“Assignee” has the meaning set forth in Section 9.06(c).

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit C, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“Availability Period” means the period from and including the Effective Date to but excluding the Termination Date.

“Bail-In Action” means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

“Bail-In Legislation” means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“Base Rate” means for any day, a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) except during any period of time during which a notice delivered to the Borrower under Section 2.14 or Section 2.15 shall remain in effect, the London Interbank Offered Rate plus 1%.

“Base Rate Borrowing” means a Borrowing comprised of Base Rate Loans.

“Base Rate Lending Office” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Base Rate Lending Office) or such other office as such Lender may hereafter designate as its Base Rate Lending Office by notice to the Borrower and the Administrative Agent.

“Base Rate Loan” means a Loan in respect of which interest is computed on the basis of the Base Rate.

“Borrower’s Rating” means the senior secured long-term debt rating of the Borrower from S&P or Moody’s.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrowing” means a borrowing consisting of Loans of a single Type made by the Lenders on a single date and, in the case of a Euro-Dollar Borrowing, having a single Interest Period pursuant to Section 2.01.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized by law to close; provided that when used with respect to any borrowing of, payment or prepayment of principal of or interest on, or the Interest Period for, a Euro-Dollar Loan, or a notice by the Borrower with respect to any such borrowing payment, prepayment or Interest Period, the term “Business Day” shall also mean that such day is a London business Day.

“Capital Lease” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee’s balance sheet.

“Capital Lease Obligations” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own, directly or indirectly, 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“Commitment” means, with respect to any Lender, the commitment of such Lender to (i) make Loans under this Agreement as set forth in Appendix A and as such Commitment may be reduced from time to time pursuant to Section 2.08 or Section 9.06(c) or increased from time to time pursuant to Section 9.06(c).

“Commitment Ratio” means, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“Connection Income Taxes” means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise or branch profits or similar taxes, duties, levies, impost, deductions, charges, and withholdings and all liabilities with respect thereto.

“Consolidated Capitalization” means the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowners’ equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“Consolidated Debt” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated

Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“Consolidated Subsidiary” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“Continuing Lender” means with respect to any event described in Section 2.08(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“Corporation” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“Debtor Relief Laws” means the Bankruptcy Code, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time, including any Lender subject to a Bail-In Action. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more clauses of the definition of “Lender Default” shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to cure as expressly contemplated in the definition of “Lender Default”) upon delivery of written notice of such determination to the Borrower and each Lender.

“Delayed Draw Commitment Fee” has the meaning set forth in Section 2.07(a).

“Delayed Draw Commitment Fee Rate” shall mean a rate per annum equal to 0.10%.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“EEA Financial Institution” means (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” means any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“Effective Date” means the date on which the Administrative Agent determines that the conditions specified in or pursuant to Section 4.01 have been satisfied.

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended) or (v) an Approved Fund; provided, that, in each case (a) upon and following the occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, “Eligible Assignee” shall not include the Borrower or any of its Affiliates.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

“Environmental Liabilities” means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws or relate to Hazardous Substances.

“Equity-Linked Securities” means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Group” means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

“EU Bail-In Legislation Schedule” means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor Person), as in effect from time to time.

“Euro-Dollar Borrowing” means a Borrowing comprised of Euro-Dollar Loans.

“Euro-Dollar Lending Office” means, as to each Lender, its office, branch or Affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or Affiliate of such Lender as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

“Euro-Dollar Loan” means a Loan in respect of which interest is computed on the basis of the Adjusted London Interbank Offered Rate pursuant to the applicable Notice of Borrowing or Notice of Conversion/Continuation.

“Euro-Dollar Reserve Percentage” of any Lender for the Interest Period of any LIBOR Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including “Eurocurrency Liabilities” (as defined in Regulation D). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

“Event of Default” has the meaning set forth in Section 7.01.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b) of the Internal Revenue Code.

“Federal Funds Rate” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to the nearest 1/100th of 1%) charged by U.S. Bank on such day on such transactions as determined by the Administrative Agent; provided, further, that if any such rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“FERC” means the Federal Energy Regulatory Commission.

“Fund” means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans, bonds and similar extensions of credit in the ordinary course of its activities.

“GAAP” means United States generally accepted accounting principles applied on a consistent basis.

“Governmental Authority” means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

“Group of Loans” means at any time a group of Loans consisting of (i) all Loans which are Base Rate Loans at such time or (ii) all Loans which are Euro-Dollar Loans of the same Type having the same Interest Period at such time; provided, that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Sections 2.15 or 2.18, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Hazardous Substances” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“Indemnitee” has the meaning set forth in Section 9.03(b).

“Interest Period” means with respect to each Euro-Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Conversion/Continuation and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice; provided, that:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall, subject to clause (iii) below, be extended to the next succeeding Business Day unless such

Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last Business Day of a calendar month; and

(iii) no Interest Period shall end after the Maturity Date.

“Interest Rate Protection Agreements” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“Lender” means each bank or other lending institution listed in Appendix A as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors.

“Lender Default” means (i) the failure (which has not been cured) of any Lender to (a) fund all or any portion of its Loans within two Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (b) pay to the Administrative Agent or any Lender any other amount required to be paid by it hereunder within two Business Days of the date when due, or (ii) a Lender having notified the Borrower and the Administrative Agent in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender’s obligation to fund a Loan hereunder and states that such position is based on such Lender’s determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), or (iii) the failure, within three Business Days after written request by the Administrative Agent or the Borrower, of a Lender to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that a Lender Default in effect pursuant to this clause (iii) shall be cured upon receipt of such written confirmation by the Administrative Agent and the Borrower) or (iv) a Lender has, or has a direct or indirect parent company that has, (a) become the subject of a proceeding under any Debtor Relief Law, or (b) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity, or (v) the Lender becomes the subject of a Bail-in Action; provided that a Lender Default shall not exist solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender.

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Loan” means a Base Rate Loan or a Euro-Dollar Loan (made on either the Effective Date or the Post-Effective Date Loan Date), and “Loans” means any combination of the foregoing.

“Loan Documents” means this Agreement and the Notes.

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“London Interbank Offered Rate” means:

(i) for any Euro-Dollar Loan for any Interest Period, the interest rate for deposits in Dollars for a period of time comparable to such Interest Period which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period; provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any Interest Period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of U.S. Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (i), such comparable or successor rate shall be applied in a manner consistent with market practice.

(ii) for any interest rate calculation with respect to a Base Rate Loan, the interest rate for deposits in Dollars for a period equal to one month (commencing on the date of determination of such interest rate) which appears on Reuters Screen LIBOR01 (or any applicable successor page) at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted); provided, however, that if more than one such rate is specified on Reuters Screen LIBOR01 (or any applicable successor page), the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If for any reason such rate is not available on Reuters Screen LIBOR01 (or any applicable successor page), the term “London Interbank Offered Rate” means for any applicable one-month interest period, the arithmetic mean of the rate per annum at which deposits in Dollars are offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time) on such date of determination (provided that if such day is not a Business Day for which a London Interbank Offered Rate is quoted, the next preceding Business Day for which a London Interbank Offered Rate is quoted) in an amount approximately equal to the principal amount of the Base Rate Loan of U.S. Bank. To the extent that a comparable or successor rate is chosen by the Administrative Agent in connection with any rate set forth in this clause (ii), such comparable or successor rate shall be applied in a manner consistent with market practice.

Notwithstanding the foregoing, if the London Interbank Offered Rate determined in accordance with the foregoing shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material

adverse effect on the ability of the Borrower to perform its obligations under this Agreement, the Notes or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents.

“Material Debt” means Debt (other than the Notes) of the Borrower in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Maturity Date” means the date that is one year and 364 days after the Effective Date or, if such date is not a Business Day, the next preceding Business Day.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Multiemployer Plan” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“New Lender” means with respect to any event described in Section 2.08(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“Non-Defaulting Lender” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“Non-Recourse Debt” means Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“Non-U.S. Lender” has the meaning set forth in Section 2.17(e).

“Note” means a promissory note, substantially in the form of Exhibit B hereto, issued at the request of a Lender evidencing the obligation of the Borrower to repay outstanding Loans.

“Notice of Borrowing” has the meaning set forth in Section 2.03.

“Notice of Conversion/Continuation” has the meaning set forth in Section 2.06(d)(ii).

“Obligations” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any Loan under, or any Note issued pursuant to, this Agreement or any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Administrative Agent as to which the Administrative Agent shall have a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document;

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document; and

(v) in the case of each of clauses (i) through (iv) above, together with all renewals, modifications, consolidations or extensions thereof.

“OFAC” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“Other Connection Taxes” means, with respect to the Administrative Agent or any Lender, taxes, duties, levies, impost, deductions, charges, and withholdings and all liabilities with respect thereto imposed as a result of a present or former connection between such Person and the jurisdiction imposing such tax (other than connections arising from such Person having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document).

“Other Taxes” has the meaning set forth in Section 2.17(b).

“Outstandings” means at any time, with respect to any Lender, the sum of the aggregate principal amount of such Lender’s outstanding Loans.

“Participant” has the meaning set forth in Section 9.06(b).

“Participant Register” has the meaning set forth in Section 9.06(b).

“Patriot Act” has the meaning set forth in Section 9.13.

“PBGC” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Permitted Business” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Post-Effective Date Loan Date” means the date, if any, after the Effective Date and during the Availability Period on which the Lenders make the Post-Effective Date Loan.

“Post-Effective Date Loan” means the Loan, if any, made after the Effective Date pursuant to Section 2.01 .

“Post-Effective Date Loan Sublimit” means \$100,000,000.00.

“Prime Rate” means the rate of interest publicly announced by U.S. Bank from time to time as its Prime Rate.

“Public Reporting Company” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934, as amended.

“Quarterly Date” means the last Business Day of each of March, June, September and December.

“Rating Agency” means S&P or Moody’s, and “Rating Agencies” means both of them.

“Register” has the meaning set forth in Section 9.06(e).

“Regulation U” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Regulation X” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“Replacement Date” has the meaning set forth in Section 2.08(b).

“Replacement Lender” has the meaning set forth in Section 2.08(b).

“Required Lenders” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders or, if the Commitments shall have been terminated, having at least 51% of the aggregate amount of the Outstandings of the Non-Defaulting Lenders at such time.

“Responsible Officer” means, as to any Person, the chief executive officer, president, chief financial officer, vice president, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

“Retiring Lender” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.08(b) .

“S&P” means Standard & Poor’s Ratings Group, a division of S&P Global Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“Sanctioned Country” means a country, region or territory that is, or whose government is, the subject of comprehensive territorial Sanctions (currently, Crimea, Cuba, Iran, North Korea, and Syria).

“Sanctioned Person” means a Person that is, or is owned or controlled by Persons that are, (i) the subject of any Sanctions, or (ii) located, organized or resident in a Sanctioned Country.

“Sanctions” means sanctions administered or enforced by OFAC, the U.S. State Department, the European Union, any European Union member state, Her Majesty’s Treasury of the United Kingdom or any other applicable sanctions authority.

“SEC” means the Securities and Exchange Commission.

“Subsidiary” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“Taxes” has the meaning set forth in Section 2.17(a).

“Termination Date” means the earliest to occur of (i) the Post-Effective Date Loan Date (after giving effect to the Post-Effective Date Loan, if any, on such date), (ii) 11:59 p.m. (New York City time) on the date that is 180 days after the Effective Date and (iii) the date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“Type”, when used in respect of any Loan or Borrowing, shall refer to the rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“United States” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“U.S. Bank” means U.S. Bank National Association, and its successors.

“Voting Stock” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“Wholly Owned Subsidiary” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

“Write-Down and Conversion Powers” means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

ARTICLE II THE CREDITS

Section 2.01 The Loans. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Loans denominated in Dollars to the Borrower pursuant to this Section 2.01 in an aggregate amount not to exceed such Lender’s Commitment. The Loans shall be available in up to two drawings, one drawing on the Effective Date and one drawing on a date during the Availability Period in an amount that shall not exceed the Post-Effective Date Loan Sublimit. The amount of each Loan shall be specified by the Borrower in accordance with Section 2.03. Each Borrowing shall be in an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount of the unused Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments. Loans borrowed under this Section 2.01 and paid or prepaid may not be reborrowed. The Commitment shall be automatically reduced upon each drawing of Loans in an amount equal to the principal amount drawn.

Section 2.02 [Reserved].

Section 2.03 Notice of Borrowings. The Borrower shall give the Administrative Agent notice (substantially in the form of Exhibit A-1 hereto (a “ Notice of Borrowing ”)) not later than (a) 11:30 A.M. (New York City time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (New York City time) on the third Business Day before each Euro-Dollar Borrowing, specifying:

- (i) the date of such Borrowing, which shall be a Business Day;
- (ii) the aggregate amount of such Borrowing;
- (iii) the initial Type of the Loans comprising such Borrowing;
- (iv) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period; and
- (v) the account or accounts in which the proceeds of the Borrowing should be credited.

Notwithstanding the foregoing, no more than six (6) Groups of Euro-Dollar Loans shall be outstanding at any one time, and any Loans which would exceed such limitation shall be made as Base Rate Loans.

Section 2.04 Notice to Lenders; Funding of Loans.

(a) Notice to Lenders. Upon receipt of a Notice of Borrowing, the Administrative Agent shall promptly notify each Lender of such Lender's ratable share (if any) of the Borrowing referred to in the Notice of Borrowing, and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Funding of Loans. Not later than (a) 1:00 P.M. (New York City time) on the date of each Base Rate Borrowing and (b) 12:00 Noon (New York City time) on the date of each Euro-Dollar Borrowing, each Lender shall make available its ratable share of such Borrowing, in Federal or other funds immediately available in New York City, to the Administrative Agent at its address referred to in Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article IV has not been satisfied, the Administrative Agent shall apply any funds so received in respect of a Borrowing available to the Borrower at the Administrative Agent's address not later than (a) 3:00 P.M. (New York City time) on the date of each Base Rate Borrowing and (b) 2:00 P.M. (New York City time) on the date of each Euro-Dollar Borrowing.

(c) Funding By the Administrative Agent in Anticipation of Amounts Due from the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (except in the case of a Base Rate Borrowing, in which case prior to the time of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06, in the case of the Borrower, and (ii) the Federal Funds Rate, in the case of such Lender. Any payment by the Borrower hereunder shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make its share of a Borrowing available to the Administrative Agent. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) Obligations of Lenders Several. The failure of any Lender to make a Loan required to be made by it as part of any Borrowing hereunder shall not relieve any other Lender of its obligation, if any, hereunder to make any Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on such date of Borrowing.

Section 2.05 Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender

hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to subsections (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to such Lender (or, if required by such Lender, to such Lender and its registered assigns). Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 9.06(c)) be represented by one or more Notes payable to such Lender or any assignee pursuant to Section 9.06(c), except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in subsections (a) and (b) above.

Section 2.06 Interest Rates.

(a) Interest Rate Options. The Loans shall, at the option of the Borrower and except as otherwise provided herein, be incurred and maintained as, or converted into, one or more Base Rate Loans or Euro-Dollar Loans.

(b) Base Rate Loans. Each Loan which is made as, or converted into, a Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made as, or converted into, a Base Rate Loan until it becomes due or is converted into a Loan of any other Type, at a rate per annum equal to the sum of the Base Rate for such day plus the Applicable Percentage for Base Rate Loans for such day. Such interest shall, in each case, be payable quarterly in arrears on each Quarterly Date and on the Maturity Date and, with respect to the principal amount of any Base Rate Loan converted to a Euro-Dollar Loan, on the date such Base Rate Loan is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for such day.

(c) Euro-Dollar Loans. Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during the Interest Period applicable thereto, at a rate per annum equal to the sum of the Adjusted London Interbank Offered Rate for such Interest Period plus the Applicable Percentage for Euro-Dollar Loans for such day. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the sum of (A) the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due plus (B) the Applicable Percentage for Euro-Dollar Loans for such day (or, if the circumstance described in Section 2.14 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(d) Method of Electing Interest Rates.

(i) Subject to Section 2.06(a), the Loans included in each Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, with respect to each Group of Loans, the Borrower shall have the option (A) to convert

all or any part of (y) so long as no Default is in existence on the date of conversion, outstanding Base Rate Loans to Euro-Dollar Loans and (z) outstanding Euro-Dollar Loans to Base Rate Loans; provided, in each case, that the amount so converted shall be equal to \$10,000,000 or any larger integral multiple of \$1,000,000, or (B) upon the expiration of any Interest Period applicable to outstanding Euro-Dollar Loans, so long as no Default is in existence on the date of continuation, to continue all or any portion of such Loans, equal to \$10,000,000 and any larger integral multiple of \$1,000,000 in excess of that amount as Euro-Dollar Loans. The Interest Period of any Base Rate Loan converted to a Euro-Dollar Loan pursuant to clause (A) above shall commence on the date of such conversion. The succeeding Interest Period of any Euro-Dollar Loan continued pursuant to clause (B) above shall commence on the last day of the Interest Period of the Loan so continued. Euro-Dollar Loans may only be converted on the last day of the then current Interest Period applicable thereto or on the date required pursuant to Section 2.18.

(ii) The Borrower shall deliver a written notice of each such conversion or continuation (a "Notice of Conversion/Continuation") to the Administrative Agent no later than (A) 12:00 Noon (New York City time) at least three (3) Business Days before the effective date of the proposed conversion to, or continuation of, a Euro-Dollar Loan and (B) 11:30 A.M. (New York City time) on the day of a conversion to a Base Rate Loan. A written Notice of Conversion/Continuation shall be substantially in the form of Exhibit A-2 attached hereto and shall specify: (A) the Group of Loans (or portion thereof) to which such notice applies, (B) the proposed conversion/continuation date (which shall be a Business Day), (C) the aggregate amount of the Loans being converted/continued, (D) an election between the Base Rate and the Adjusted London Interbank Offered Rate and (E) in the case of a conversion to, or a continuation of, Euro-Dollar Loans, the requested Interest Period. Upon receipt of a Notice of Conversion/Continuation, the Administrative Agent shall give each Lender prompt notice of the contents thereof and such Lender's pro rata share of all conversions and continuations requested therein. If no timely Notice of Conversion/Continuation is delivered by the Borrower as to any Euro-Dollar Loan, and such Loan is not repaid by the Borrower at the end of the applicable Interest Period, such Loan shall be converted automatically to a Base Rate Loan on the last day of the then applicable Interest Period.

(e) Determination and Notice of Interest Rates. The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error. Any notice with respect to Euro-Dollar Loans shall, without the necessity of the Administrative Agent so stating in such notice, be subject to adjustments in the Applicable Percentage applicable to such Loans after the beginning of the Interest Period applicable thereto. When during an Interest Period any event occurs that causes an adjustment in the Applicable Percentage applicable to Loans to which such Interest Period is applicable, the Administrative Agent shall give prompt notice to the Borrower and the Lenders of such event and the adjusted rate of interest so determined for such Loans, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07 Fees.

(a) Delayed Draw Loan Commitment Fee. The Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the "Delayed Draw Commitment Fee") for each day at a rate per annum equal to the Delayed Draw Commitment Fee Rate for such day. The Delayed Draw Commitment Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the amount by which such Lender's Commitment exceeds the sum of its Outstandings on such day.

(b) Payments. Except as otherwise provided in this Section 2.07, accrued fees under this Section 2.07 in respect of Loans shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and , if later, on the date the Loans shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.08 Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Outstandings at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Outstandings. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Replacement of Lenders; Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.14 , 2.15 , 2.16 or 2.17 , (ii) the obligation of any Lender to make Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (iii) any Lender is a Defaulting Lender (each such Lender described in clauses (i), (ii) or (iii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.08(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay to the Retiring Lender an amount equal in the aggregate to the sum of (x) the principal of, and all accrued but unpaid interest on, all outstanding Loans of the Retiring Lender, (y) all unpaid drawings that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.10, together with all accrued but unpaid interest with respect thereto and (z) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.07; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i) above).

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided , that the provisions of Sections 2.12 , 2.16 , 2.17 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any Loans made or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.08(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders,

the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Loans owed to the Retiring Lender and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.12, 2.16, 2.17 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any Loans made or any other actions taken by such Retiring Lender while it was a Lender.

(c) **Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata).** At any time a Lender is a Defaulting Lender, subject to Section 2.08(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) either (x) no Loans are outstanding or (y) the aggregate Outstandings of such Defaulting Lender in respect of Loans is zero; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.08(c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent or any Lender may have against such Defaulting Lender.

(d) **Termination Date.** The Commitments shall terminate on the Termination Date.

(e) **Redetermination of Commitment Ratios.** On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.08(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Loans shall thereafter be based upon such redetermined Commitment Ratios. The right of the Borrower to effect such a termination pursuant to Section 2.08(b) or (c) is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Outstandings will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.09 Repayment of Loans. The Loans shall mature on the Maturity Date and the Borrower shall repay to the Administrative Agent, for the ratable account of the Lenders on the Maturity Date, the aggregate principal amount of all Loans made to the Borrower outstanding on such date (together with accrued interest thereon and fees in respect thereof and all other amounts owed with respect to the Obligations hereunder).

Section 2.10 Optional Prepayments and Repayments.

(a) **Prepayments of Loans.** Subject to Section 2.12, the Borrower may (i) upon at least one (1) Business Day's notice to the Administrative Agent, prepay any Base Rate Borrowing or (ii) upon at least three (3) Business Days' notice to the Administrative Agent, prepay any Euro-Dollar Borrowing, in each case in whole at any time, or from time to time in part in amounts aggregating \$10,000,000 or any larger integral multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Borrowing.

(b) Notice to Lenders. Upon receipt of a notice of prepayment pursuant to Section 2.10(a), the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share (if any) of such prepayment, and such notice shall not thereafter be revocable by the Borrower.

Section 2.11 General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on the Loans and fees hereunder not later than 12:00 Noon (New York City time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in New York City, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal of or interest on the Base Rate Loans or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on the Euro-Dollar Loans shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12 Funding Losses. If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan pursuant to the terms and provisions of this Agreement (any conversion of a Euro-Dollar Loan to a Base Rate Loan pursuant to Section 2.18 being treated as a payment of such Euro-Dollar Loan on the date of conversion for purposes of this Section 2.12) on any day other than the last day of the Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert or prepay any Euro-Dollar Loan after notice has been given in accordance with the provisions of this Agreement, or in the event of payment in respect of any Euro-Dollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.08(b), the Borrower shall reimburse each Lender within fifteen (15) days after demand for any resulting loss or expense incurred by it (and by an existing Participant in the related Loan), including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow or prepay; provided, that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13 Computation of Interest and Fees. Interest on Loans based on the Prime Rate hereunder shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the

actual number of days elapsed. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14 Basis for Determining Interest Rate Inadequate, Unfair or Unavailable. If on or prior to the first day of any Interest Period for any Euro-Dollar Loan: (a) Lenders having 50% or more of the aggregate amount of the commitments advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent, will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Dollar Loans for such Interest Period; or (b) the Administrative Agent shall determine that no reasonable means exist for determining the Adjusted London Interbank Offered Rate, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Lenders, whereupon, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans shall be suspended; and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two (2) Business Days before the date of (or, if at the time the Borrower receives such notice the day is the date of, or the date immediately preceding, the date of such Euro-Dollar Borrowing, by 10:00 A.M. (New York City time) on the date of) any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 2.15 Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower, whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Dollar Loans, or to convert outstanding Loans into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro-Dollar Loan of such Lender then outstanding shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (b) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 2.16 Increased Cost and Reduced Return.

(a) Increased Costs. If after the Effective Date, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall (i) impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Loans participated in by, assets of, deposits with or for

the account of or credit extended by, any Lender (or its Applicable Lending Office), (ii) subject any Lender to any tax of any kind whatsoever with respect to this Agreement, any participation in any Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (other than (A) Taxes, (B) Other Taxes, (C) the imposition of, or any change in the rate of, any taxes described in clause (i)(a) and clauses (ii) through (iv) of the definition of Taxes in Section 2.17(a) (D) Connection Income Taxes, and (E) Taxes attributable to a Lender's failure to comply with Section 2.17(e)) or (iii) impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loans, Notes, obligation to make Euro-Dollar Loans and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Notes with respect thereto, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy or liquidity, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the Effective Date, that will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) Notwithstanding anything to the contrary herein, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "change in law" under this Article II regardless of the date enacted, adopted or issued.

Section 2.17 Taxes.

(a) **Payments Net of Certain Taxes.** Any and all payments made by the Borrower to or for the account of any Lender or the Administrative Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and franchise or similar taxes imposed on, the Administrative Agent or any Lender (a) by the jurisdiction (or subdivision thereof) under the laws of which such Lender or the Administrative Agent is organized or in which its principal office is located or, in the case of each Lender, in which its Applicable Lending Office is located or (b) that are Other Connection Taxes, (ii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as “ Taxes ”). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or the Administrative Agent, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 2.17(a)) such Lender or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) **Other Taxes.** In addition, the Borrower agrees to pay any and all present or future stamp or court or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement, any Note or any other Loan Document or from the execution, delivery, performance, registration or enforcement of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (collectively, “ Other Taxes ”).

(c) **Indemnification.** The Borrower agrees to indemnify each Lender and the Administrative Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 2.17(c)), whether or not correctly or legally asserted, paid by such Lender or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or the Administrative Agent seeking indemnification pursuant to this Section 2.17(c) . This indemnification shall be paid within 15 days after such Lender or the Administrative Agent (as the case may be) makes demand therefor.

(d) **Refunds or Credits.** If a Lender or the Administrative Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17 , it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or the Administrative Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided , however , that the Borrower

agrees to repay, upon the request of such Lender or the Administrative Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or the Administrative Agent in the event such Lender or the Administrative Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time hereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a “Non-U.S. Lender”) shall deliver to the Borrower and the Administrative Agent: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, (x) certifying that such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender and (y) with respect to any other applicable payments under or entered into in connection with any Loan Document, establishing an exemption from, or reduction of, United States withholding tax pursuant to the “business profits” or “other income” article of such tax treaty; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement and the other Loan Documents is effectively connected with the conduct of a trade or business in the United States; (C) in the case of a Non-U.S. Lender claiming the benefit of the exemption for portfolio interest under Section 871(h) or 881(c) of the Internal Revenue Code, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN or W-8BEN-E, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) such Non-U.S. Lender is not (1) a “bank” within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a “10-percent shareholder” of the Borrower within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a “controlled foreign corporation” that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Borrower within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Non-U.S. Lender; or (D) to the extent the Non-U.S. Lender is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8ECI, W-8BEN, W-8BEN-E, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender’s obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely

for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-BEN, W-8BEN-E, W-8ECI or W-8IMY or FATCA-related documentation described above, or successor forms, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.17(a), (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.17, then such Lender will use reasonable efforts (which shall include efforts to rebook the Loans held by such Lender to a new Applicable Lending Office, or through another branch or affiliate of such Lender) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to deliver to Borrower any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or the Administrative Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.18 Base Rate Loans Substituted for Affected Euro-Dollar Loans. If (a) the obligation of any Lender to make or maintain, or to convert outstanding Loans to, Euro-Dollar Loans has been suspended pursuant to Section 2.15 or (b) any Lender has demanded compensation under Section 2.16(a) with respect to its Euro-Dollar Loans and, in any such case, the Borrower shall, by at least four Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(i) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro-Dollar Loans shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Lenders); and

(ii) after each of its Euro-Dollar Loans has been repaid, all payments of principal that would otherwise be applied to repay such Loans shall instead be applied to repay its Base Rate Loans.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Lenders.

Section 2.19 [Reserved].

Section 2.20 Defaulting Lenders. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then such Defaulting Lender will not be entitled to any fees accruing during such period pursuant to Section 2.07(a).

ARTICLE III [RESERVED]

ARTICLE IV CONDITIONS

Section 4.01 Conditions to Effective Date. The obligation of each Lender to make a Loan on the occasion of the first Borrowing hereunder is subject to the satisfaction of the following conditions:

(a) This Agreement. The Administrative Agent shall have received counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telex, facsimile or other written confirmation from such party of execution of a counterpart hereof by such party) to be held in escrow and to be delivered to the Borrower upon satisfaction of the other conditions set forth in this Section 4.01.

(b) Notes. On or prior to the Effective Date, the Administrative Agent shall have received a duly executed Note for the account of each Lender requesting delivery of a Note pursuant to Section 2.05.

(c) Officers' Certificate. The Administrative Agent shall have received a certificate dated the Effective Date signed on behalf of the Borrower by a Responsible Officer of the Borrower certifying that (A) on the Effective Date and after giving effect to the Loans being made on the Effective Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Loan Documents are true and correct on and as of the Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date.

(d) Proceedings. On the Effective Date, the Administrative Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto are true, correct and complete copies of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and each other document delivered in connection herewith or therewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing the Loan Documents to which the Borrower is a party or any other document delivered in connection herewith or therewith.

(e) Opinions of Counsel. On the Effective Date, the Administrative Agent shall have received opinions from (i) Pillsbury Winthrop Shaw Pittman LLP, counsel to the Borrower, and (ii) the Vice President and Deputy General Counsel, Legal and Environmental Affairs and Corporate Secretary of the Borrower, addressed to the Administrative Agent and each Lender, dated the Effective Date, substantially in the form of Exhibit D hereto.

(f) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the order(s) of the FERC, authorizing borrowings hereunder in connection with the transactions contemplated by this Agreement and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Administrative Agent, materially adverse conditions upon the consummation of such transactions.

(g) Payment of Fees. All costs, fees and expenses due to the Administrative Agent and the Lenders accrued through the Effective Date shall have been paid in full.

(h) Counsel Fees. The Administrative Agent shall have received full payment from the Borrower of the fees and expenses of Davis Polk & Wardwell LLP described in Section 9.03 which are billed through the Effective Date and which have been invoiced one Business Day prior to the Effective Date.

(i) Know Your Customer. The Administrative Agent and each Lender shall have received all documentation and other information required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including, without limitation, the Patriot Act, as has been reasonably requested in writing.

(j) Notice of Borrowing. Receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03 .

Section 4.02 Conditions to Borrowings. The obligation of any Lender to make any Loan on any date on or after the Effective Date (including the Post-Effective Date Loan on the Post-Effective Date Loan Date) is subject to the satisfaction of the following conditions:

(a) the Effective Date shall have occurred;

(b) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.03;

(c) the fact that, immediately before and after giving effect to such Borrowing, no Default shall have occurred and be continuing; and

(d) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Borrowing, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.04(c), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date.

Each Borrowing under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Borrowing as to the facts specified in clauses (c) and (d) of this Section.

ARTICLE V
REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants on the Effective Date and the Post-Effective Date Loan Date that:

Section 5.01 Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02 Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party.

Section 5.03 Legality; Etc. This Agreement and each other Loan Document (other than the Notes) to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, and the Notes, when executed and delivered in accordance with this Agreement, will constitute legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 5.04 Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2016 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Deloitte & Touche LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2017 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2016, there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement, the Notes or the other Loan Documents.

Section 5.05 Litigation. Except as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2016, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent

and each Lender, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement, the Notes or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06 No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Borrower for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulation U or Regulation X of said Board of Governors. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 5.07 ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 5.08 Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the approval of the FERC, as shall have been obtained prior to the Effective Date and shall be in full force and effect.

Section 5.09 Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or required to register as an investment company under such Act.

Section 5.10 Tax Returns and Payments. The Borrower has filed or caused to be filed all Federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Borrower shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 5.11 Compliance with Laws.

(a) To the knowledge of the Borrower, the Borrower is in compliance with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (i) such compliance is being contested in good faith by appropriate proceedings or (ii) non-compliance would not reasonably be expected to materially and adversely affect its ability to

perform any of its obligations under this Agreement, the Notes or any other Loan Document to which it is a party.

Section 5.12 No Default. No Default has occurred and is continuing.

Section 5.13 Environmental Matters.

(a) Except (x) as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2016, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, or (y) to the extent that the liabilities of the Borrower and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) below of this Section 5.13(a), inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Borrower's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Borrower's Annual Report on Form 10-K for the year ended December 31, 2016, or in any subsequent report of the Borrower filed with the SEC on a Form 10-K, 10-Q or 8-K Report, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Borrower's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 5.13, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.14 OFAC. None of the Borrower, any Subsidiary of the Borrower, nor, to the knowledge of the Borrower, any director, officer, or Affiliate of the Borrower or any of its Subsidiaries: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Persons or in Sanctioned Countries, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Countries. The proceeds of any Loan will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person, or in any Sanctioned Country.

Section 5.15 Anti-Corruption. None of the Borrower or any of its Subsidiaries nor, to the knowledge of the Borrower, any director, officer, agent, employee or other person acting on behalf of the Borrower or any of its Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "FCPA") or any other applicable anti-corruption law; and the Borrower have instituted and maintain policies and procedures designed to ensure continued compliance therewith. No part of the proceeds of the Loans will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity in violation of the FCPA or any other applicable anti-corruption law.

ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any Note or other Loan Document remains unpaid:

Section 6.01 Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website or PPL Corporation's website (<http://www.pplweb.com>) or making such information available on IntraLinks, SyndTrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Borrower), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of the Borrower)), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a Responsible Officer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Borrower is a Public Reporting Company, promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, and in each case a certificate of the chief accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks, SyndTrak or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities)

(each, a "Public Lender"). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided , however , that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated "Public Investor." "Information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02 Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03 Conduct of Business and Maintenance of Existence. The Borrower will (a) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (b) except as otherwise permitted in Section 6.07 , preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04 Compliance with Laws, Etc. The Borrower will comply with all applicable laws, regulations and orders of any Governmental Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental

Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) noncompliance could not reasonably be expected to have a Material Adverse Effect.

Section 6.05 Books and Records. The Borrower (a) will keep, and, will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (b) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to, or shall be limited to the extent regarding, any matters which the Borrower deems, in good faith, to be confidential or subject to legal or regulatory restrictions on access, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential or appropriately qualifies for such legal or regulatory access.

Section 6.06 Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower for general corporate purposes of the Borrower and its Subsidiaries, including for working capital purposes and for making investments in or loans to Subsidiaries. No such use of the proceeds for general corporate purposes will be, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock within the meaning of Regulation U. The proceeds of any Loan will not be used, directly or indirectly, to fund any activities or business of or with any Sanctioned Person, or in any Sanctioned Country.

Section 6.07 Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (a) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (b) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (c) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (d) the senior long-term debt ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08 Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower’s most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower; (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower’s Ratings after giving effect to any such Asset Sale.

Section 6.09 Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

ARTICLE VII DEFAULTS

Section 7.01 Events of Default. If one or more of the following events (each an "Event of Default ") shall have occurred and be continuing:

(a) the Borrower shall fail to pay when due any principal on any Loans; or

(b) the Borrower shall fail to pay when due any interest on the Loans, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or

(c) the Borrower shall fail to observe or perform any covenant or agreement contained in Sections 6.05(b), 6.06, 6.07, 6.08 or 6.09 ; or

(d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or

(e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or

(f) any representation, warranty or certification made by the Borrower in this Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(g) the Borrower shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or

(h) the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(i) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or

other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower under the Bankruptcy Code; or

(j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(k) the Borrower shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Loans at such time, by notice to the Borrower declare the Loans (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Loans shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; provided, that, in the case of any Default or any Event of Default specified in Section 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Loans (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

ARTICLE VIII THE ADMINISTRATIVE AGENT

Section 8.01 Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise

exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no agent other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02 Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not an agent. With respect to the Loans made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03 Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04 Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default". If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06 Non-Reliance on the Administrative Agent and Other Lenders. Each Lender expressly acknowledges that none of the Administrative Agent or officer, director, employee, agent, attorney-in-fact or affiliate of the Administrative Agent has made any representations or warranties to it and that no act by the Administrative Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Lender. Each

Lender acknowledges to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of, and investigation into, the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. The Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07 Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectability or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or of the existence or possible existence of any Default.

Section 8.08 Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders severally agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no

Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Loans, fees and other obligations of the Borrower arising hereunder.

Section 8.09 Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days' notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document

ARTICLE IX MISCELLANEOUS

Section 9.01 Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term "writing" shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to any Lender pursuant to Article II if such Lender has notified the Administrative Agent that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, teletype, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or teletype (provided , however, that if any notice or other communication sent by electronic mail, posting on an internet webpage or teletype is received by a recipient after such recipient's normal business hours, such notice or other communication shall be deemed received upon the opening of such recipient's next Business Day), (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or teletype numbers, in the case of the Borrower

and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower:

Louisville Gas and Electric Company

20 West Main Street
Louisville, Kentucky 40202
Attention: Treasurer
Telephone: 502-627-4956
Facsimile: 502-627-4742

with a copy to:

Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202
Attention: Vice President and Deputy General Counsel,
Legal and Environmental Affairs
and Corporate Secretary
Telephone: 502-627-2501
Facsimile: 502-627-3367

with a copy to:

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

with a copy to:

PPL Services Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Assistant Treasurer
Telephone: 610-774-4182
Facsimile: 610-774-5235

if to the Administrative Agent:

U.S. Bank National Association
61 Fifth Avenue, 6th Floor
New York, NY 10017
Attention: Maria Distefano
Telephone: 917-326-3944

Facsimile: 917-256-2890
Email: maria.distefano@usbank.com

with a copy to:

U.S. Bank National Association
461 Fifth Avenue, 7th Floor
New York, NY 10017
Attention: James O'Shaughnessy
Telephone: 917-326-3924
Facsimile: 646-935-4533
Email: james.oshughnessy@usbank.com

with a copy to:

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
Attention: Jason Kyrwood
Telephone: 212-450-4653
Facsimile: 212-450-5425

Section 9.02 No Waivers; Non-Exclusive Remedies. No failure by the Administrative Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03 Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Administrative Agent, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Administrative Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by the Administrative Agent and each Lender, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Borrower shall not be liable for any legal fees or disbursements of any counsel for the Administrative Agent and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Administrative Agent and each Lender, their respective Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an "Indemnitee") and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with

any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) **Indemnity in Respect of Environmental Liabilities.** The Borrower agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) **Waiver of Damages.** To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04 Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Loan made or Note held by it which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Loan or any Note made or held by such other Lender, except as otherwise expressly contemplated by this Agreement, the Lender receiving such proportionately greater payment shall purchase such participations in the Loan made or Notes held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to the Loan made or Notes held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05 Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent are affected thereby, by

the Administrative Agent); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) extend or increase the Commitment of any Lender or subject any Lender to any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the principal of or rate of interest on any Loan (except in connection with a waiver of applicability of any post-default increase in interest rates), (iii) postpone the date fixed for any payment of interest on any Loan or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment, (iv) postpone or change the date fixed for any scheduled payment of principal of any Loan, (v) change any provision hereof in a manner that would alter the pro rata funding of Loans required by Section 2.04(b), the pro rata sharing of payments required by Sections 2.11(a) or 9.04 or the pro rata reduction of Commitments required by Section 2.08(a) or (vi) change the currency in which Loans are to be made or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

Section 9.06 Successors and Assigns.

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Loans. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Loan in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating

interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register (solely for tax purposes) in which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person except to the extent that such disclosure is necessary to establish that such interest in the Loan or other obligation under the Loan Documents is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and the Notes with respect to its Loans and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit C attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of the Borrower, which shall not be unreasonably withheld or delayed, and the Administrative Agent, which consent shall not be unreasonably withheld or delayed; provided, that if an Assignee is an Approved Fund or Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Loans made or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.17(e)

(d) Assignments to Federal Reserve Banks. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement and its Note to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on

which the Administrative Agent will record the Commitments from time to time of each Lender, the principal amount (and stated interest) of the Loans made by each Lender (and any Notes evidencing the same) and each repayment in respect of the principal amount of the Loans of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such Loans. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the other Lenders shall treat each Person in whose name a Loan and the Note evidencing the same is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made and any Note issued pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this Section 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments, Loans and Notes shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments, Loans and Notes for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by the Borrower at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.08(b), unless, with respect to any Notes held by such Lender, the requirements of Section 9.06(c) and this Section 9.06(e) have been satisfied.

Section 9.07 Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with the internal laws (without regarding to the conflict of laws provisions) of the State of New York, but giving effect to federal laws applicable to national banks. The Borrower hereby submits to the exclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City, borough of Manhattan, for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.08 Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective Date. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. On and after the Effective Date, this Agreement and the other Loan Documents constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.09 Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the

effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

Section 9.10 Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The word "will" shall be construed to have the same meaning as the word "shall". The term "including" shall be construed to have the same meaning as the phrase "including without limitation".

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person's successors and permitted assigns.

(f) Unless the context otherwise requires, whenever any statement is qualified by "to the best knowledge of" or "known to" (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

(g) Unless otherwise specified, all references herein to times of day shall constitute references to New York City time.

Section 9.11 WAIVER OF JURY TRIAL. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12 Confidentiality. Each Lender agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender or to the Administrative Agent, (ii) to any other Person if reasonably incidental to the administration of the Loans, (iii) upon the order of any court or administrative agency, (iv) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (v) which had been publicly disclosed other than as a result of a disclosure by the Administrative Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which the Administrative Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender's or the Administrative Agent's Affiliates and their respective directors, officers, employees, service providers and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ix) with the consent of the Borrower, (x) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower's Obligations hereunder. Notwithstanding the foregoing, the Administrative Agent, any Lender or Davis Polk & Wardwell LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a "tombstone" or other release limited to describing the names of the Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13 USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14 No Fiduciary Duty. The Administrative Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the "Lender Parties"), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the "Borrower Parties"). The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree

that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15 Acknowledgment and Consent to Bail-in of EEA Financial Institutions. Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and

(b) the effects of any Bail-in Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of any EEA Resolution Authority.

Section 9.16 Survival. Sections 2.12, 2.16, 2.17 and 9.03 shall survive the Termination Date for the benefit of the Administrative Agent and each Lender, as applicable.

Section 9.17 Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges

payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Rate to the date of repayment, shall have been received by such Lender.

Section 9.18 Severability. Any provision of any Loan Document held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions thereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

Section 9.19 Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 9.20 Document Imaging. The Borrower hereby acknowledges the receipt of a copy of this Agreement and all other Loan Documents. The Administrative Agent may, on behalf of the Borrower, create a microfilm or optical disk or other electronic image of this Agreement and any or all of the Loan Documents. The Administrative Agent may store the electronic image of this Agreement and the Loan Documents in their electronic form and then destroy the paper original as part of the Administrative Agent's normal business practices, with the electronic image deemed to be an original.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY,
as Borrower

By: /s/ Daniel K. Arbough _____

Name: Daniel K. Arbough

Title: Treasurer

[Signature Page to LGE Credit Agreement]

U.S. BANK NATIONAL ASSOCIATION,
as Administrative Agent and Lender

By: /s/ Andrew N. Taylor_____

Name: Andrew N. Taylor

Title: Senior Vice President

[Signature Page to LGE Credit Agreement]

COMMITMENTS

Lender	Commitment
U.S. Bank National Association	\$200,000,000.00
Total	\$200,000,000.00

Form of Notice of Borrowing

_____, ____

U.S. Bank National Association
 461 Fifth Avenue, 6th Floor
 New York, NY 10017
 Attention: Maria Distefano
 Email:
 Commercialcustservicecincinnati1@usbank.com
 and maria.distefano@usbank.com

Ladies and Gentlemen:

This notice shall constitute a “Notice of Borrowing” pursuant to Section 2.03 of the \$200,000,000 Term Loan Credit Agreement dated as of October 26, 2017 (the “Credit Agreement”) among Louisville Gas and Electric Company, the lending institutions party thereto from time to time and U.S. Bank National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The date of the Borrowing will be _____, _____.¹
2. The aggregate principal amount of the Borrowing will be _____.²
3. The Borrowing will consist of [Base Rate] [Euro-Dollar] Loans.
4. The initial Interest Period for the Loans comprising such Borrowing shall be _____.³

[Insert appropriate delivery instructions, which shall include bank and account number].

¹Must be a Business Day.

²Borrowings must be an aggregate principal amount of \$10,000,000 or any larger integral multiple of \$1,000,000, except the Borrowing may be in the aggregate amount of the remaining unused Commitment.

³Applicable for Euro-Dollar Loans only. Insert “one month”, “two months”, “three months” or “six months” (subject to the provisions of the definition of “Interest Period”).

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____

Name:

Title:

Form of Notice of Conversion/Continuation

U.S. Bank National Association
 461 Fifth Avenue, 6th Floor
 New York, NY 10017
 Attention: Maria Distefano
 Email:
 Commercialcustservicecincinnati1@usbank.com
 and
 maria.distefano@usbank.com

Ladies and Gentlemen:

This notice shall constitute a "Notice of Conversion/Continuation" pursuant to Section 2.06(d)(ii) of the \$200,000,000 Term Loan Credit Agreement dated as of October 26, 2017 (the "Credit Agreement") among Louisville Gas and Electric Company, the lending institutions party thereto from time to time and U.S. Bank National Association, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement.

1. The Group of Loans (or portion thereof) to which this notice applies is [all or a portion of all Base Rate Loans currently outstanding] [all or a portion of all Euro-Dollar Loans currently outstanding having an Interest Period of ___ months and ending on the Election Date specified below] .

2.The date on which the conversion/continuation selected hereby is to be effective is _____, _____(the " Election Date ").⁴

3.The principal amount of the Group of Loans (or portion thereof) to which this notice applies is \$_____.⁵

4.[The Group of Loans (or portion thereof) which are to be converted will bear interest based upon the [Base Rate] [Adjusted London Interbank Offered Rate].] [The Group of Loans (or portion thereof) which are to be continued will bear interest based upon the [Base Rate][Adjusted London Interbank Offered Rate].]

5. The Interest Period for such Loans will be _____.⁶

⁴Must be a Business Day.

⁵May apply to a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to

which such notice applies, and the remaining portion to which it does not apply, are each \$10,000,000 or any larger integral multiple of \$1,000,000.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____

Name:

Title:

⁶Applicable only in the case of a conversion to, or a continuation of, Euro-Dollar Loans. Insert "one month", "two months", "three months" or "six months" (subject to the provisions of the definition of Interest Period).

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Form of Note

FOR VALUE RECEIVED, the undersigned, LOUISVILLE GAS AND ELECTRIC COMPANY, a Kentucky corporation (the "Borrower"), promises to pay to _____ (the "Lender") or its permitted successors and its registered assigns, in accordance with the Credit Agreement (as hereinafter defined), the principal sum of _____ AND _____/100s DOLLARS (\$ _____), or, if less, the principal amount of all Loans advanced by the Lender to the Borrower pursuant to the Credit Agreement (as defined below), plus interest as hereinafter provided.

All capitalized terms used herein shall have the meanings ascribed to them in that certain \$200,000,000 Term Loan Credit Agreement dated as of October 26, 2017 (as the same may be amended, modified or supplemented from time to time, the "Credit Agreement") by and among the Borrower, the lenders party thereto (collectively, the "Lenders") and U.S. Bank National Association, as administrative agent (the "Administrative Agent") for itself and on behalf of the Lenders, except to the extent such capitalized terms are otherwise defined or limited herein.

The Borrower shall repay principal outstanding hereunder from time to time, as necessary, in order to comply with the Credit Agreement. All amounts paid by the Borrower shall be applied to the Obligations in such order of application as provided in the Credit Agreement.

A final payment of all principal amounts and other Obligations then outstanding hereunder shall be due and payable on the maturity date provided in the Credit Agreement, or such earlier date as payment of the Loans shall be due, whether by acceleration or otherwise.

The Borrower shall be entitled to borrow, continue and convert the Lender's Loans (or portions thereof) hereunder pursuant to the terms and conditions of the Credit Agreement. Prepayment of the principal amount of any Loan may be made as provided in the Credit Agreement.

The Borrower hereby promises to pay interest on the unpaid principal amount hereof as provided in Article II of the Credit Agreement. Interest under this Note shall also be due and payable when this Note shall become due (whether at maturity, by reason of acceleration or otherwise). Overdue principal and, to the extent permitted by law, overdue interest, shall bear interest payable on DEMAND at the default rate as provided in the Credit Agreement.

In no event shall the amount of interest due or payable hereunder exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made by the Borrower or inadvertently received by the Lender, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the Lender in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Lender not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

The Borrower for itself, its successors and assigns hereby waives presentment for payment, demand, notice of non-payment or dishonor, protest and notice of protest of this Note.

No delay or omission on the part of the Lender or its permitted successors and its registered assigns in exercising its rights under this Note, or delay or omission on the part of the Lender or its permitted successors and its registered assigns, the Administrative Agent or the Lenders collectively, or any of them, in exercising its or their rights under the Credit Agreement or under any other Loan Document, or course of conduct relating thereto, shall operate as a waiver of such rights or any other right of the Lender or its permitted successors and its registered assigns, nor shall any waiver by the Lender or its permitted successors and its registered assigns, the Administrative Agent, the Required Lenders or the Lenders collectively, or any of them, of any such right or rights on any one occasion be deemed a bar to, or waiver of, the same right or rights on any future occasion.

This Note is one of the Notes referred to in, and evidences the Lender's Loans (or portion thereof) under, and is entitled to the benefits and subject to the terms of, the Credit Agreement, which contains provisions with respect to the acceleration of the maturity of this Note upon the happening of certain stated events, and provisions for prepayment.

Unless and until an Assignment and Acceptance effecting the assignment or transfer of the obligations evidenced hereby shall have been accepted by the Administrative Agent and recorded in the Register as provided in the Credit Agreement, the Borrower and the Administrative Agent shall be entitled to deem and treat the Lender as the owner and holder of this Note and the Loan evidenced hereby.

This Note shall be governed by and construed in accordance with the internal laws of the State of New York.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its duly authorized representatives as of the day and year first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____

Name:

Title:

By: _____

Name:

Title:

Form of Assignment and Assumption Agreement

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the] [each] Assignor identified on the Schedules hereto as “Assignor” [or “Assignors” (collectively, the “Assignors” and each an “Assignor”) and [the] [each] Assignee identified on the Schedules hereto as “Assignee” or “Assignees” (collectively, the “Assignees” and each an “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees] hereunder are several and not joint.] Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor’s] [the respective Assignors’] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

1. Assignor: *See Schedule attached hereto*
2. Assignee: *See Schedule attached hereto*
3. Borrower: Louisville Gas and Electric Company

4. Administrative Agent: U.S. Bank National Association, as the administrative agent under the Credit Agreement

5. Credit Agreement: The \$200,000,000 Term Loan Credit Agreement dated as of October 26, 2017 by and among Louisville Gas and Electric Company, as Borrower, the Lenders party thereto and U.S. Bank National Association, as Administrative Agent (as amended, restated, supplemented or otherwise modified)

6. Assigned Interest: *See Schedule attached hereto*

[7. Trade Date: _____¹¹

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⁷For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

⁸For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

⁹Select as appropriate.

¹⁰Include bracketed language if there are either multiple Assignors or multiple Assignees.

¹¹To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

Effective Date: _____, 20____

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____

Title:

ASSIGNEE

See Schedule attached hereto

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[Consented to and]¹² Accepted:

U.S. BANK NATIONAL ASSOCIATION,
as Administrative Agent

By
Title:

[Consented to:]¹³

LOUISVILLE GAS AND ELECTRIC COMPANY

By
Title:

¹²To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

¹³To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

Assigned Interests:

Aggregate Amount of Commitment/ Loans for all Lenders ¹⁴	Amount of Commitment/ Loans Assigned ¹⁵	Percentage Assigned of Commitment/ Loans ¹⁶	CUSIP Number
\$	\$	%	

[NAME OF ASSIGNEE]¹⁷ [and is an Affiliate of [*identify Lender*]]¹⁸

¹⁴Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

¹⁵Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

¹⁶Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

¹⁷Add additional signature blocks, as needed.

¹⁸Select as applicable.

ANNEX 1 to Assignment and Assumption

TERM LOAN CREDIT AGREEMENT DATED AS OF
OCTOBER 26, 2017
BY AND AMONG

LOUISVILLE GAS AND ELECTRIC COMPANY, AS BORROWER,
THE LENDERS PARTY THERETO
AND U.S. BANK NATIONAL ASSOCIATION,
AS ADMINISTRATIVE AGENT

STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2 Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by the Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire the Assigned Interest, is experienced in acquiring assets of such type, (v) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender and (vi) based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the][such] Assigned Interest and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such

documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date. Notwithstanding the foregoing, the Administrative Agent shall make all payments of interest, fees or other amounts paid or payable in kind from and after the Effective Date to [the][the relevant] Assignee.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

Forms of Opinion of Counsel for the Borrower

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D-1

October __, 2017

To the Administrative Agent and each of the Lenders party as of the date hereof to the Term Loan Credit Agreement referred to below

Louisville Gas and Electric Company
\$200,000,000 Term Loan Credit
Agreement

Ladies and Gentlemen:

We have acted as special counsel to Louisville Gas and Electric Company, a Kentucky corporation (the "Company"), in connection with the negotiation, execution and delivery of the \$200,000,000 Term Loan Credit Agreement dated as of October __, 2017 among the Company, U.S. Bank National Association, as Administrative Agent, and the other Lenders party thereto (the "Credit Agreement"). This letter is being delivered to you at the request of the Company pursuant to Section 4.01(e) of the Credit Agreement.

In preparing this letter, we have reviewed the Credit Agreement and the other documents executed and delivered by the Company in connection therewith. We have also reviewed the Order of the Federal Energy Regulatory Commission dated September 18, 2017 (Docket No. ES17-41-000) (the "FERC Order").

Subject to the assumptions, qualifications and other limitations set forth below, it is our opinion that:

1. The Credit Agreement constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms.
2. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940.

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3. The borrowings under the Credit Agreement and the use of proceeds thereof as contemplated by the Credit Agreement do not violate Regulation U or X of the Board of Governors of the Federal Reserve System.

In rendering our opinions set forth in this letter, we have (a) without independent verification, relied, with respect to factual matters, statements and conclusions, on certificates, notifications and statements, whether written or oral, of governmental officials and individuals identified to us as officers and representatives of the Company and on the representations made by the Company in the Credit Agreement and other documents delivered to you in connection therewith and (b) reviewed originals, or copies of such agreements, documents and records as we have considered relevant and necessary as a basis for our opinions set forth in this letter. We note that, as counsel to the Company, we do not represent it generally and there may be facts relating to the Company of which we have no knowledge.

We have assumed: (a) the accuracy and completeness of all certificates, agreements, documents, records and other materials submitted to us; (b) the authenticity of original certificates, agreements, documents, records and other materials submitted to us; (c) the conformity with the originals of any copies submitted to us; (d) the genuineness of all signatures; (e) the legal capacity of all natural persons; (f) that the Credit Agreement constitutes the valid, legally binding and enforceable agreement of the parties thereto under all applicable law (other than, in the case of the Company, the law of the State of New York); (g) that the Company (i) is duly organized, validly existing and in good standing under the law of its jurisdiction of organization, (ii) has the power to execute and deliver, and to perform its obligations under the Credit Agreement, (iii) has duly taken or caused to be taken all necessary action to authorize the execution, delivery and performance by it of the Credit Agreement and (iv) has duly executed and delivered the Credit Agreement; (h) that the execution and delivery by the Company of, and the performance by the Company of its obligations under, the Credit Agreement do not and will not (i) breach or violate (A) its Amended and Restated Articles of Incorporation or Bylaws, (B) any agreement or instrument to which the Company or any of its affiliates is a party or by which the Company or any of its affiliates or any of their respective properties may be bound, (C) any authorization, consent, approval or license (or the like) of, or exemption (or the like) from, or any registration or filing (or the like) with, or report or notice (or the like) to, any governmental unit, agency, commission, department or other authority granted to or otherwise applicable to the Company or any of its affiliates or any of their respective properties (each a "Governmental Approval"), (D) any order, decision, judgment or decree that may be applicable to the Company or any of its affiliates or any of their respective properties or (E) any law (other than the law of the State of New York and the federal law of the United States) or (ii) require any Governmental Approval (other than the FERC Order, which we assume to have been duly granted and to remain in full force and effect); (i) that the Company is engaged only in the businesses described in its Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission; (j) that there are no agreements, understandings or negotiations between the parties not set forth in the Credit Agreement that would modify the terms thereof or the rights and obligations of the

parties thereunder; and (k) for purposes of our opinion set forth in paragraph 1 above as it relates to the choice-of-law provisions in the Credit Agreement, that the choice of law of the State of New York as the governing law of the Credit Agreement would not result in a violation of an important public policy of another state or country having greater contacts with the transactions contemplated by the agreement than the State of New York.

Our opinions set forth in this letter are subject to and limited by the effect of (a) applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, receivership, conservatorship, arrangement, moratorium and other similar laws affecting and relating to the rights of creditors generally; (b) general equitable principles; (c) requirements of reasonableness, good faith, fair dealing and materiality; (d) Article 9 of the Uniform Commercial Code regarding restrictions on assignment or transfer of rights; and (e) additionally in the case of (i) indemnities, a requirement that facts, known to the indemnitee but not the indemnitor, in existence at the time the indemnity becomes effective that would entitle the indemnitee to indemnification be disclosed to the indemnitor, and a requirement that an indemnity provision will not be read to impose obligations upon indemnitors which are neither disclosed at the time of its execution nor reasonably within the scope of its terms and overall intention of the parties at the time of its making, (ii) waivers, Sections 9-602 and 9-603 of the Uniform Commercial Code and (iii) indemnities, waivers and exculpatory provisions, public policy.

We express no opinion with respect to the following sections of the Credit Agreement: (i) Section 9.02 (cumulative remedies); (ii) provisions relating to rules of evidence or quantum of proof; (iii) Section 9.07 (submission to jurisdiction and waiver of inconvenient forum), insofar as such sections relate to federal courts (except as to the personal jurisdiction thereof), and (choice of venue, i.e., requiring actions to be commenced in a particular court in a particular jurisdiction); and (iv) Section 9.11 (waiver of jury trial), insofar as such section is sought to be enforced in a federal court.

We express no opinion as to the law of any jurisdiction other than the law of the State of New York and the federal law of the United States of America, and in each case, only such law that in our experience is normally applicable to transactions of the type contemplated by the Credit Agreement and excluding (i) any law that is part of a regulatory regime applicable to specific assets or businesses of any party other than the Company and (ii) the statutes and ordinances, the administrative decisions, and the rules and regulations of counties, towns, municipalities and special political subdivisions.

This letter speaks only as of the date hereof. We have no responsibility or obligation to update this letter or to take into account changes in law or facts or any other development of which we may later become aware.

This letter is delivered by us as special counsel for the Company solely for your benefit in connection with the transaction referred to herein and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or entity without our prior written consent. At your request, we hereby consent to reliance hereon by any future assignee of your interest in the Loans that becomes a Lender under

the Credit Agreement pursuant to an assignment that is made and consented to in accordance with the express provisions of Section 9.06 of the Credit Agreement, on the condition and the understanding that (i) any such reliance by a future Lender must be actual and reasonable under the circumstances, (ii) we have no responsibility or obligation to consider the applicability or correctness of this letter to any person or entity other than its named addressee or addressees or at any time other than as of the date hereof, and (iii) any such future Lender may rely on this letter to no greater extent than you may as of the date hereof but any such future Lender also is subject to any changes or developments up to the time it acquires its interest that may adversely affect our opinions set forth in this letter.

Very truly yours,

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

D-5

October __, 2017

To the Administrative Agent and each of the Lenders party as of the date hereof to the Credit Agreement referred to below

Re: \$200,000,000 Term Loan Credit Agreement

Ladies and Gentlemen:

I am Vice President and Deputy General Counsel, Legal and Environmental Affairs and Corporate Secretary of Louisville Gas and Electric Company (the "Borrower"), and have acted as counsel to the Borrower in connection with the \$200,000,000 Term Loan Credit Agreement, dated as of October __, 2017, among the Borrower, U.S. Bank National Association, as Administrative Agent, and the Lenders party thereto (the "Credit Agreement"). Capitalized terms used but not defined herein have the meanings assigned to such terms in the Credit Agreement.

I am familiar with the Credit Agreement and other documents executed and delivered by the Borrower in connection therewith. I, or Borrower attorneys under my supervision, also have examined such other documents and satisfied myself as to such other matters as I have deemed necessary in order to render this opinion.

In rendering this opinion, I have assumed: (a) the genuineness of the signatures on all documents and instruments (other than the signatures of officers of the Borrower), the authenticity of all documents submitted as originals, the conformity to originals of all documents submitted as photostatic or certified copies, and the accuracy and completeness of all corporate records made available to me by the Borrower; (b) the due execution and delivery of the Credit Agreement by the Administrative Agent and the Lenders party thereto; and (c) that the Credit Agreement constitutes the legal, valid and binding obligation of the Administrative Agent and the Lenders party thereto.

Based on the foregoing, I am of the opinion that:

1. The Borrower is duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Kentucky, and has the corporate power to make and perform its obligations under the Credit Agreement.

2. The execution and delivery of the Credit Agreement and performance by the Borrower of its obligations thereunder have been duly authorized by the Borrower and do not violate any provision of law or regulation, or any decree, order, writ or judgment applicable to the Borrower, or any provision of the Borrower's articles of incorporation, by-laws or board or shareholder resolutions, or result in the breach of or constitute a default under any indenture or other agreement or instrument known to me to which the Borrower is a party.

3. The Credit Agreement has been duly executed and delivered by the Borrower.

4. Except as disclosed in or contemplated by the Credit Agreement or the Borrower's Annual Report on Form 10-K for the year ended December 31, 2016, or in any subsequent report of the Borrower filed prior to the date hereof with the Securities and Exchange Commission on Form 10-Q or 8-K, or otherwise furnished in writing to the Administrative Agent and the Lenders, no litigation, arbitration or administrative proceeding or inquiry is pending, or to my knowledge, threatened, which would reasonably be expected to materially adversely affect the ability of the Borrower to perform any of its obligations under the Credit Agreement. To my knowledge, there is no litigation, arbitration or administrative proceeding pending or threatened that questions the validity of the Credit Agreement.

5. There have not been any "reportable events," as that term is defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended, which would result in a material liability of the Borrower.

6. The September 18, 2017 Order of the Federal Energy Regulatory Commission relating to the Borrower is in full force and effect, and no further authorization, consent or approval from any Governmental Authority is required for the execution and delivery of the Credit Agreement by the Borrower, the performance by the Borrower of its obligations thereunder or the borrowings by the Borrower thereunder, except such authorizations, consents and approvals as have been obtained prior to the date hereof, which authorizations, consents and approvals are in full force and effect.

In rendering its opinion to the addressee hereof, Pillsbury Winthrop Shaw Pittman LLP may rely as to matters of Kentucky law addressed herein upon this letter as if it were addressed directly to them. At the request of the Administrative Agent and the Lenders, I hereby consent to reliance hereon by any future assignee of any interest in the Loans that becomes a Lender under the Credit Agreement pursuant to an assignment that is made and consented to in accordance with the express provisions of Section 9.06 of the Credit Agreement, on the condition and the understanding that (i) any such reliance by a future Lender must be actual and reasonable under the circumstances, (ii) I have no responsibility or obligation to consider the applicability or correctness of this letter to any person or entity other than its named addressee or addressees or at any time other than as of the date hereof, and (iii) any such future Lender may rely on this letter to no greater extent than Lenders

may as of the date hereof but any such future Lender also is subject to any changes or developments up to the time it acquires its interest that may adversely affect the opinions and matters referred to in this letter. Except as aforesaid, without my prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other person or entity for any purpose.

Very truly yours,

Dorothy E. O'Brien

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BNP PARIBAS

The Directors
 Western Power Distribution (South West) PLC
 Western Power Distribution (South Wales) PLC
 Western Power Distribution (West Midlands) PLC
 Western Power Distribution (East Midlands) PLC
 Avonbank
 Feeder Road
 Bristol
 BS2 OTB

23rd January 2014

Dear Sirs

£20,000,000 uncommitted facility letter to Western Power Distribution (South West) PLC, Western Power Distribution (South Wales) PLC, Western Power Distribution (West Midlands) PLC and Western Power Distribution (East Midlands) PLC

The Facility

1.1. We, BNP Paribas, London Branch (the **Bank**), are pleased to make available to Western Power Distribution (South West) PLC (company number 02366894), Western Power Distribution (South Wales) PLC (company number 02366985), Western Power Distribution (West Midlands) PLC (company number 03600574) and Western Power Distribution (East Midlands) PLC (company number 02366923) (each a **Borrower** and together the **Borrowers**) an uncommitted Sterling revolving advances facility as described in Schedule 2 (the **Facility**) on the terms and conditions set out in this Letter.

1.2 No Borrower shall request any Utilisation until the Bank has received the documents and other evidence listed in Schedule 1 (Conditions precedent) in form and substance satisfactory to the Bank.

1. The Facility shall be available to the Borrowers for Utilisations up to the Facility 3 Limit.

1 The Bank is willing to make the Facility available to the Borrowers subject to:

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(a) the Facility Terms specific to the Facility as set out in Schedule 2 (*Facility Terms - Revolving Advances Facility*) and the general terms set out in the main body of this Letter;

(b) the Bank's Credit Terms and Conditions for on-demand facilities (June 2012 Version) (the Credit Terms and Conditions); and

(c) the Bank's General Terms of Business, as may be amended from time to time (the General Terms of Business).

BNP Paribas London Branch

10 Harewood Avenue London NW1 1AA - Tel: +44 (0)20 7595 2000 - www.bnpparibas.com

BNP Paribas London Branch is authorised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Financial Conduct Authority are available on request.

BNP Paribas London Branch is registered in England and Wales under no. FC13447

BNP Paribas SA is authorised by the Autorité de Contrôle Prudentiel and regulated by the Autorité des Marchés Financiers in France. BNP Paribas SA is incorporated in France with Limited Liability Registered Office: 16 Boulevard des Italiens, 75009 Paris, France 662 042 449 RCS Paris. ©BNP Paribas. All rights reserved.

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- 1.5 If there is any conflict between the provisions of the General Terms of Business and the terms of this Letter or the Credit Terms and Conditions, the terms of this Letter or the Credit Terms and Conditions, as applicable, shall prevail. If the terms set out in the main body of this Letter impose a stricter obligation than the Facility Terms (unless the Facility Terms expressly override the relevant provision of this Letter) the Borrowers must comply with the stricter obligation.
- 1.6 (a) If there is any conflict between the provisions of the Credit Terms and Conditions and the terms of this Letter, the terms of this Letter shall prevail.
- (b) For the avoidance of doubt Clause 10(b) of the Credit Terms and Conditions shall not apply to this Letter.
- 1.7 The Facility shall be utilised solely towards financing the working capital requirements and general corporate purposes of the Borrowers. The Bank shall not be obliged to investigate or monitor the use or application of the proceeds of Utilisations.
- 1.8 The provisions of Clauses 2 (*Definitions*) and 3 (*Interpretation*) of the Credit Terms and Conditions shall apply to this Letter as if set out in full again here, with such changes as are appropriate to fit this context.
- 1.9 The following definitions apply in this Letter:

Base Currency means sterling.

Group means in relation to Western Power Distribution (East Midlands) PLC, and Western Power Distribution (West Midlands) PLC, PPL WEM Holdings Limited (company number 04066211), and each company that is treated as its subsidiary in its consolidated financial statements, and in relation to Western Power Distribution (South Wales) PLC, and Western Power Distribution (South West) PLC, PPL WW Holdings Limited (company number 04267536), and each company that is treated as its subsidiary in its consolidated financial statements.

Optional Currency none.

Financial covenants

2 None.

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3 Additional Utilisation Conditions

There are no utilisation conditions other than the conditions set out in Clause 7 (*Utilisation*) of the Credit Terms and Conditions.

4 Fees and Default Interest

- 4.1 No separate fees are payable by the Borrowers upon its acceptance of this Letter.
- 4.2 If any Borrower fails to pay any amount on its due date, such Borrower shall pay the Bank interest on that amount (or on so much as from time to time remains unpaid) from the due date to the date of actual payment (both before and after judgment) calculated by reference to successive Interest Periods at the rate per annum that is equal to:
-



- (a) (subject to paragraph (b) below) two per cent. higher than the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Utilisation in the currency of the overdue amount; or
- (b) (if any overdue amount consists of all or part of a Utilisation which became due on a day which was not the last day of an Interest Period relating to that Utilisation):
- (i) the first Interest Period for that overdue amount shall have a duration equal to the unexpired portion of the current Interest Period relating to that Utilisation; and
 - (ii) the rate of interest applying to the overdue amount during that first Interest Period shall be two per cent. higher than the rate which would have applied if the overdue amount had not become due.

Additional Undertakings

In addition to the undertakings set out in Clause 10 (*Undertakings*) of the Credit Terms and Conditions and except where the Bank specifically agrees otherwise in writing and in advance, each Borrower undertakes that it shall until all amounts payable under the Finance Documents have been irrevocably paid and the Facility has been withdrawn deliver to the Bank its audited annual consolidated accounts within 180 days after the end of the financial year to which they relate, and that it shall promptly provide the Bank with such other information about itself as the Bank may reasonably require.

Counterparts

This Letter may be executed in any number of counterparts, each of which shall be an original and all of which shall together form one and the same agreement.

7 Governing law and jurisdiction

- 7.1 This Letter and any non-contractual obligations arising out of or in connection with it are governed by English law.
- 7.2 The Courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this Letter (including a dispute relating to any non-contractual obligation arising out of or in connection with this Letter). The Bank and the Borrowers agree that the Courts of England are the most appropriate and convenient courts to settle any such disputes and accordingly none of them will argue to the contrary. This paragraph is for the benefit of the Bank only. As a result, the Bank shall not be prevented from taking proceedings relating to any such dispute in any other courts with jurisdiction. To the extent allowed by law, the Bank may take concurrent proceedings in any number of jurisdictions.



BNP PARIBAS

Signed for and on behalf of
Western Power Distribution (South West) PLC

Signed: /s/ D.C.S. Oosthuizen /s/ Sally A Jones

Name: D.C.S. Oosthuizen Sally A Jones

Position: Director Company Secretary

Date: 18.02.2014 18.02.2014

Signed for and on behalf of
Western Power Distribution (West Midlands) PLC

Signed: /s/ D.C.S. Oosthuizen /s/ Sally A Jones

Name: D.C.S. Oosthuizen Sally A Jones

Position: Director Company Secretary

Date: 18.02.2014 18.02.2014

Signed for and on behalf of
Western Power Distribution (East Midlands) PLC

Signed: /s/ D.C.S. Oosthuizen /s/ Sally A Jones

Name: D.C.S. Oosthuizen Sally A Jones

Position: Director Company Secretary

Date: 18.02.2014 18.02.2014



BNP PARIBAS

Schedule 1 - Conditions precedent

- 1 The enclosed duplicate of this Letter, duly executed on behalf of the Borrowers.

 - 2 A certified copy of the resolutions of the Board of Directors (or equivalent executive body) of each Borrower approving the terms of the Finance Documents to which that Borrower is party and authorising specified persons to execute on behalf of that Borrower those documents and any other documents that it is necessary or desirable for that Borrower to enter into in connection with the Facility or the Finance Documents.

 - 3 A specimen of the signature of each person authorised by the resolutions referred to in paragraph 2 above.

 - 4 A copy of any other authorisation or other document, opinion or assurance that the Bank considers to be necessary or desirable in connection with the entry into and performance of, and the transactions contemplated by, any Finance Document or for the validity and enforceability of any Finance Document.
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Schedule 2 - Facility Terms - Revolving Advances Facility

Facility Limit:	£20,000,000 (twenty million pounds sterling)
Margin:	1.60% (one point six per cent) per annum.
Interest Rate Basis:	LIBOR
Interest Periods:	<p>A Borrower must select an Interest Period for a Utilisation in the Utilisation Request for that Utilisation. The Borrower may select an Interest Period of up to 7 days as agreed between that Borrower and the Bank.</p> <p>Each Interest Period for a Utilisation shall start on the Utilisation Date.</p> <p>A Utilisation has one Interest Period only.</p>
Payment of Interest:	Interest shall be payable in arrears on the last day of the relevant Interest Period, but subject always to Clauses 8.5(c) (<i>Interest, Fees and Commission</i>) and Clause 9.3 (<i>Repayment</i>) of the Credit Terms and Conditions.
Repayment:	Subject always to the Bank's right at any time to demand earlier repayment in accordance with Clause 9 (<i>Repayment</i>) of the Credit Terms and Conditions, the Borrower must repay each Utilisation on the last day of its Interest Period.



Schedule 3 - Form of Utilisation Request

From: Western Power Distribution (South West) PLC /
Western Power Distribution (South Wales) PLC /
Western Power Distribution (West Midlands) PLC /
Western Power Distribution (East Midlands) PLC (*delete as applicable*)

To: **BNP Paribas, London Branch**

Dated: [•]

Dear Sirs

Western Power Distribution (South West) PLC, Western Power Distribution (South Wales) PLC, Western Power Distribution (West Midlands) PLC and Western Power Distribution (East Midlands) PLC - £20,000,000 facility letter dated 23rd January 2014 (the Agreement)

- 1 We refer to the Agreement. This is a Utilisation Request. Terms defined in the Agreement have the same meaning in this Utilisation Request unless given a different meaning in this Utilisation Request.
- 2 We wish to make a Utilisation under the Facility on the following terms:

Proposed Utilisation Date: *Insert date (or, if that is not a Business Day, the next Business Day)*

Amount: *insert amount*

Interest Period: *confirm duration of Interest Period*

- 3 We confirm that each condition specified in Clause 5 (*Conditions precedent to all Utilisations*) and in Clause 7.2 (*Utilisation*) of the Credit Terms and Conditions is satisfied on the date of this Utilisation Request.
- 4 This Utilisation Request is irrevocable.

Yours faithfully

.....

Authorised Signatory for
Western Power Distribution (South West) PLC /
Western Power Distribution (South Wales) PLC /
Western Power Distribution (West Midlands) PLC /
Western Power Distribution (East Midlands) PLC (*delete as applicable*)