



PPL companies

Kent A. Chandler  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602-0615

February 17, 2020

**Re: *Joint Application of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of an Acquisition of Ownership and Control of Utilities***  
**Case No. 2010-00204**

Dear Mr Chandler:

Pursuant to the Commission's Order dated September 30, 2010 in the aforementioned case, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), (collectively, the "Companies") submit one copy of the Securities and Exchange Commission ("SEC") Form 10-K for PPL Corporation and its current and former subsidiaries for Period Ended December 31, 2019. This information is being made pursuant to Appendix C, Commitment No. 21.

SEC documents for PPL Corporation are also available by selecting "Filings and Forms" at <http://www.sec.gov>. Click "Search for Company Filings", select option for "Company or Fund Name" and type in "PPL Corp".

Please confirm your receipt of this filing by placing the File Stamp of your Office with date received on the additional filing letter. Should you have any questions regarding the information filed herewith, please call me or Don Harris at (502) 627-2021.

Sincerely,

A handwritten signature in blue ink that reads "Rick E. Lovekamp".

Rick E. Lovekamp

RECEIVED

FEB 17 2020

PUBLIC SERVICE  
COMMISSION

**LG&E and KU Energy LLC**  
State Regulation and Rates  
220 West Main Street  
PO Box 32010  
Louisville, Kentucky 40232  
[www.lge-ku.com](http://www.lge-ku.com)

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 for the fiscal year ended December 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

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

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

<u>Title of each class</u>	<u>Trading Symbol(s):</u>	<u>Name of each exchange on which registered</u>
Common Stock of PPL Corporation	PPL	New York Stock Exchange
Junior Subordinated Notes of PPL Capital Funding, Inc. 2007 Series A due 2067	PPL/67	New York Stock Exchange
2013 Series B due 2073	PPX	New York Stock Exchange

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

Common Stock of PPL Electric Utilities Corporation

Indicate by check mark if the registrants are a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

PPL Corporation	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
PPL Electric Utilities Corporation	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

PPL Corporation	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>

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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
PPL Electric Utilities Corporation	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
LG&E and KU Energy LLC	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
Louisville Gas and Electric Company	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
Kentucky Utilities Company	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>

Indicate by check mark whether the registrants have submitted electronically every Interactive Data File required to be submitted 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 such files).

PPL Corporation	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
PPL Electric Utilities Corporation	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
LG&E and KU Energy LLC	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
Louisville Gas and Electric Company	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
Kentucky Utilities Company	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>

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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	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>

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

PPL Corporation	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>

As of June 28, 2019, PPL Corporation had 721,840,206 shares of its \$0.01 par value Common Stock outstanding. The aggregate market value of these common shares (based upon the closing price of these shares on the New York Stock Exchange on that date) held by non-affiliates was \$22,384,264,788. As of January 31, 2020, PPL Corporation had 767,813,625 shares of its \$0.01 par value Common Stock outstanding.

As of January 31, 2020, PPL Corporation held all 66,368,056 outstanding common shares, no par value, of PPL Electric Utilities Corporation.

PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.

As of January 31, 2020, LG&E and KU Energy LLC held all 21,294,223 outstanding common shares, no par value, of Louisville Gas and Electric Company.

As of January 31, 2020, LG&E and KU Energy LLC held all 37,817,878 outstanding common shares, no par value, of Kentucky Utilities Company.

**PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format.**

Documents incorporated by reference:

PPL Corporation has incorporated herein by reference certain sections of PPL Corporation's 2020 Notice of Annual Meeting and Proxy Statement, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2019. Such Statements will provide the information required by Part III of this Report.



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

FORM 10-K ANNUAL REPORT TO  
THE SECURITIES AND EXCHANGE COMMISSION  
FOR THE YEAR ENDED DECEMBER 31, 2019

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This combined Form 10-K 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' financial statements 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**

**KU** - 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 and an indirect parent to WPD plc.

**Safari Energy** - Safari Energy, LLC, an indirect subsidiary of PPL, acquired in June 2018, that provides solar energy solutions for commercial customers in the U.S.

**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, an indirect 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.

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

**Other terms and abbreviations**

**£** - British pound sterling.

**401(h) account(s)** - a sub-account established within a qualified pension trust to provide for the payment of retiree medical costs.

**Act 11** - Act 11 of 2012 that became effective on April 16, 2012. The Pennsylvania legislation authorized 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 (AEPS).

**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.

**ADIT** - accumulated deferred income tax.

**Adjusted Gross Margins** - a non-GAAP financial measure of performance used in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

**AFUDC** - allowance for funds used during construction. The cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

**AIP** - annual iteration process.

**AOCI** - accumulated other comprehensive income or loss.

**ARO** - asset retirement obligation.

**ATM Program** - at-the-market stock offering program.

**Cane Run Unit 7** - a natural gas combined-cycle generating unit in Kentucky, jointly owned by LG&E and KU.

**CCR(s)** - coal combustion residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

**CDP** - a not-for-profit organization based in the United Kingdom formerly known as the Carbon Disclosure Project; that runs the global disclosure system that enables investors, companies, cities, states and regions to measure and manage their environmental impacts.

**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.



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**CPI** - consumer price index, a measure of inflation in the U.K. published monthly by the Office for National Statistics.

**CPIH** - Consumer Price Index including owner-occupiers' housing costs. An aggregate measure of changes in the cost of living in the U.K., including a measure of owner-occupiers' housing costs.

**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.

**DDCP** - Directors Deferred Compensation Plan.

**DNO** - Distribution Network Operator in the U.K.

**DPCR5** - Distribution Price Control Review 5, the U.K. five-year rate review period applicable to WPD that commenced April 1, 2010.

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

**DSIC** - 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.

**DSO** - Distribution System Operation in the U.K. is the effective delivery of a range of functions and services that need to happen to run a smart electricity distribution network. These functions cover long-term network planning; operations, real-time processes and planning, and markets and settlement. This does not focus on a single party as an operator; but recognizes roles for a range of parties to deliver DSO.

**DUoS** - Distribution Use of System. The charge to licensed third party energy suppliers who are WPD's customers and use WPD's networks to deliver electricity to their customers, the end-users.

**Earnings from Ongoing Operations** - a non-GAAP financial measure of earnings adjusted for the impact of special items and used in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

**EBPB** - Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

**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 by-products 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.

**Fast pot** - Under RIIO-ED1, Totex costs that are recovered in the period they are incurred.

**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.

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

**HB 487** - House Bill 487. Comprehensive Kentucky state tax legislation enacted on April 27, 2018.

**ICP** - The PPL Incentive Compensation Plan. This plan provides for incentive compensation to PPL's executive officers and certain other senior executives. New awards under the ICP were suspended in 2012 upon adoption of PPL's 2012 Stock Incentive Plan.

**ICPKE** - The PPL Incentive Compensation Plan for Key Employees. The ICPKE provides for incentive compensation to certain employees below the level of senior executive.

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

**IT** - Information Technology.

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

**KU 2010 Mortgage Indenture** - KU's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

**kVA** - kilovolt ampere.

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

**LCIDA** - Lehigh County Industrial Development Authority.

**LG&E 2010 Mortgage Indenture** - LG&E's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as supplemented.

**LIBOR** - London Interbank Offered Rate.

**Mcf** - one thousand cubic feet, a unit of measure for natural gas.

**MMBtu** - one million British Thermal Units.

**MOD** - a mechanism applied in the U.K. to adjust allowed base revenue in future periods for differences in prior periods between actual values and those in the agreed business plan.

**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.

**New Source Review** - a Clean Air Act program that requires industrial facilities to install updated pollution control equipment when they are built or when making a modification that increases emissions beyond certain allowable thresholds.

**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 gas 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 recorded at cost. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined capacities of 2,120 MW.

**PEDFA** - Pennsylvania Economic Development Financing Authority.

**Performance unit** - 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 (i) relative total shareholder return (TSR) over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index; or (ii) corporate return on equity (ROE) based on the average of the annual ROE for each year of the three-year performance period.

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

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

**PP&E** - property, plant and equipment.

**PPL EnergyPlus** - prior to the June 1, 2015 spinoff of PPL Energy Supply, LLC, PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that marketed and traded wholesale and retail electricity and gas, and supplied energy and energy services in competitive markets.

**PPL Energy Supply** - prior to the June 1, 2015 spinoff, PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL EnergyPlus and other subsidiaries.

**PPL Montana** - Prior to the June 1, 2015 spinoff of PPL Energy Supply, PPL Montana, LLC, an indirect subsidiary of PPL Energy Supply that generated electricity for wholesale sales in Montana and the Pacific Northwest.

**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 have been 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 generation of the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

**Riverstone** - Riverstone Holdings LLC, a Delaware limited liability company and, as of December 6, 2016, ultimate parent company of the entities that own the competitive power generation business contributed to Talen Energy.

**RPI** - retail price index, a measure of inflation in the U.K. published monthly by the Office for National Statistics.

**RTO** - Regional Transmission Operator, an electric power transmission system operator that coordinates, controls and monitors a multi-state electric grid.

**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.

**SIP** - PPL Corporation's Amended and Restated 2012 Stock Incentive Plan.

**Slow pot** - Under RIIO-ED1, Totex costs that are added (capitalized) to RAV and recovered through depreciation over a 20 to 45 year period.

**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.

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

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

**Talen Energy** - Talen Energy Corporation, the Delaware corporation formed to be the publicly traded company and owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone, which as of December 6, 2016, became wholly owned by Riverstone.

**Talen Energy Marketing** - Talen Energy Marketing, LLC, the new name of PPL EnergyPlus subsequent to the spinoff of PPL Energy Supply.

**TCJA** - Tax Cuts and Jobs Act. Comprehensive U.S. federal tax legislation enacted on December 22, 2017.

**Total shareowner return** - the change in market value of a share of the company's common stock plus the value of all dividends paid on a share of the common stock during the applicable performance period, divided by the price of the common stock as of the beginning of the performance period. The price used for purposes of this calculation is the average share price for the 20 trading days at the beginning and end of the applicable period.

**Totex (total expenditures)** - Totex generally consists of all the expenditures relating to WPD's regulated activities with the exception of certain specified expenditure items (Ofgem fees, National Grid transmission charges, property and corporate income taxes, pension deficit funding and cost of capital). The annual net additions to RAV are calculated as a percentage of Totex. Totex can be viewed as the aggregate net network investment, net network operating costs and indirect costs, less any cash proceeds from the sale of assets and scrap.

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**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.

**TRU** - a mechanism applied in the U.K. to true-up inflation estimates used in determining base revenue.

**U.K. Finance Act** - refers to the U.K. Finance Act of 2016, enacted in September 2016, which reduced the U.K. statutory corporate income tax rate from 19% to 17%, effective April 1, 2020.

**VEBA** - Voluntary Employee Beneficiary Association. A tax-exempt trust under the Internal Revenue Code Section 501 (c)(9) used by employees to fund and pay eligible medical, life and similar benefits.

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



## Forward-looking Information

Statements contained in this Annual Report 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 "Item 1A. Risk Factors" and in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report, the following are among the important factors that could cause actual results to differ materially and adversely from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue proceedings;
- changes in U.S. state or federal or U.K. tax laws or regulations;
- the direct or indirect effects on PPL or its subsidiaries or business systems of cyber-based intrusion or the threat of cyber attacks;
- 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;
- developments related to the U.K.'s withdrawal from the European Union and any responses thereto;
- the amount of WPD's pension deficit funding recovered in revenues after March 31, 2021, following the triennial pension review which began in March 2019 and is due to conclude at the end of 2020;
- 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 any unrecorded commitments and liabilities of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in the corporate credit ratings or securities analyst rankings of the Registrants and their securities;
- 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;
- catastrophic events such as fires, earthquakes, explosions, floods, tornadoes, hurricanes and other storms, droughts, pandemic health events or other similar occurrences;
- war, armed conflicts, terrorist attacks, or similar disruptive events;
- 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

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- the outcome of litigation against the Registrants and their subsidiaries.

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

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for 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 the statement to reflect subsequent developments or information.

**PART I**

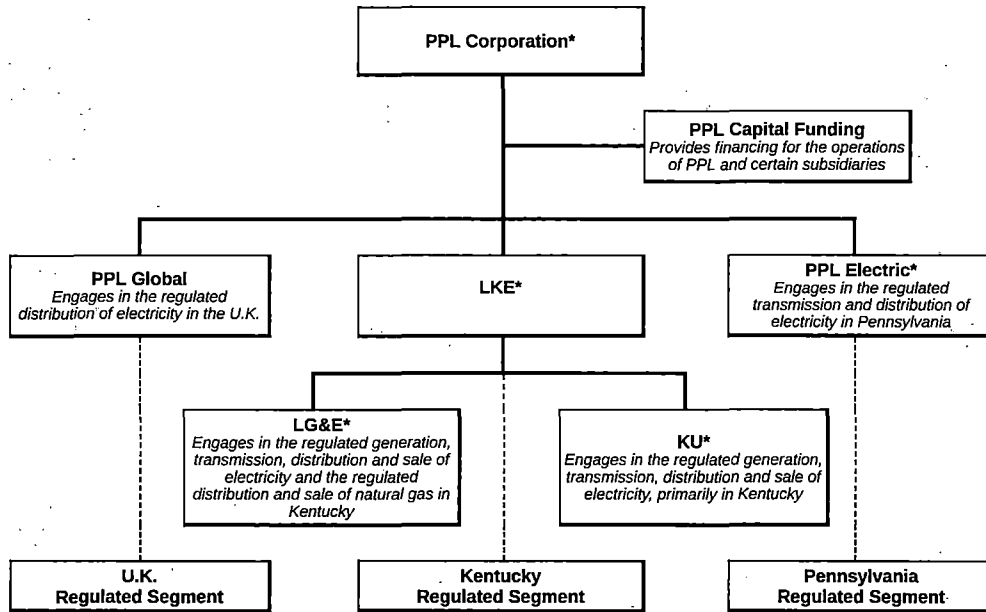
**ITEM 1. BUSINESS**

**General**

(All Registrants)

PPL Corporation, headquartered in Allentown, Pennsylvania, is a utility holding company, incorporated in 1994, in connection with the deregulation of electricity generation in Pennsylvania, to serve as the parent company to the regulated utility, PPL Electric, and to generation and other unregulated business activities. PPL Electric was founded in 1920 as Pennsylvania Power & Light Company. PPL, through its regulated utility subsidiaries, delivers electricity to customers in the U.K., Pennsylvania, Kentucky and Virginia; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky.

PPL's principal subsidiaries at December 31, 2019 are shown below (\* denotes a Registrant).



PPL Global is not a registrant. Unaudited annual consolidated financial statements for the U.K. Regulated Segment are furnished contemporaneously with this report on a Form 8-K with the SEC.

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

PPL Electric Utilities Corporation, headquartered in Allentown, Pennsylvania, is a wholly owned subsidiary of PPL organized in Pennsylvania in 1920 and a regulated public utility that is 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.

LG&E and KU Energy LLC, acquired in 2010 and 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. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

*Louisville Gas and Electric Company*, 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. LG&E was incorporated in 1913.

*Kentucky Utilities Company*, 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 and Virginia. KU is subject to regulation as a public utility by the KPSC and the VSCC, 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 Kentucky customers under the KU name and its Virginia customers under the Old Dominion Power name. KU was incorporated in Kentucky in 1912 and in Virginia in 1991.

## Segment Information

(PPL)

PPL is organized into three reportable segments as depicted in the chart above: U.K. Regulated, Kentucky Regulated, and Pennsylvania Regulated. The U.K. Regulated segment has no related subsidiary Registrants. PPL's other reportable segments' results primarily represent the results of its related subsidiary Registrants, except that the reportable segments are also allocated certain corporate level financing costs that are not included in the results of the applicable subsidiary Registrants. PPL also has corporate and other costs, primarily including financing costs incurred at the corporate level that have not been allocated or assigned to the segments, as well as certain other unallocated costs. The financial results of Safari Energy are also reported within Corporate and Other.

A comparison of PPL's three regulated segments is shown below.

	<u>U.K. Regulated</u>	<u>Kentucky Regulated</u>	<u>Pennsylvania Regulated</u>
For the year ended December 31, 2019:			
Operating Revenues (in billions)	\$ 2.2	\$ 3.2	\$ 2.4
Net Income (in millions)	\$ 977	\$ 436	\$ 458
Electricity delivered (GWh)	72,061	31,368	37,024
At December 31, 2019:			
Regulatory Asset Base (in billions) (a)	\$ 10.3	\$ 10.4	\$ 7.6
Service area (in square miles)	21,600	9,400	10,000
End-users (in millions)	7.9	1.3	1.4

(a) Represents RAV for U.K. Regulated, capitalization for Kentucky Regulated and rate base for Pennsylvania Regulated.

See Note 2 to the Financial Statements for additional financial information by segment.

(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.

### **U.K. Regulated Segment (PPL)**

*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 British pound sterling into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and acquisition-related financing costs.*

WPD operates four of the 14 Ofgem regulated DNOs providing electricity service in the U.K. through indirect wholly owned subsidiaries: WPD (South West), WPD (South Wales), WPD (East Midlands) and WPD (West Midlands). The number of network customers (end-users) served by WPD totals 7.9 million across 21,600 square miles in south Wales and southwest and central England. See Note 3 to the Financial Statements for revenue information. WPD's operating revenues are translated from GBP to U.S. dollars using the average exchange rates in effect each month. The annual weighted average of the monthly GBP

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to U.S. dollar exchange rates used for the years ended December 2019, 2018 and 2017 were \$1.28 per GBP, \$1.34 per GBP, and \$1.28 per GBP.

### Franchise and Licenses

WPD's operations are regulated by Ofgem under the direction of the Gas and Electricity Markets Authority. Ofgem is a non-ministerial government department and an independent National Regulatory Authority responsible for protecting the interests of existing and future electricity and natural gas consumers. The Electricity Act 1989 provides the fundamental framework for electricity companies and established licenses that require each DNO to develop, maintain and operate efficient distribution networks. WPD's operations are regulated under these licenses which set the outputs WPD needs to deliver to customers and associated revenues WPD is allowed to earn. WPD operates under a regulatory year that begins April 1 and ends March 31 of each year.

Ofgem has the formal power to propose modifications to each distribution license; however, licensees can appeal such changes to the U.K.'s Competition and Markets Authority. Generally, any potential changes to these licenses are reviewed with stakeholders in a formal regulatory consultation process prior to a formal change proposal.

### Competition

Although WPD operates in non-exclusive concession areas in the U.K., it currently faces little competition with respect to end-users connected to its network. WPD's four DNOs are, therefore, regulated monopolies, operating under regulatory price controls.

### Customers

WPD provides regulated electricity distribution services to licensed third-party energy suppliers who use WPD's networks to transfer electricity to their customers, the end-users. WPD bills energy suppliers for this service and the supplier is responsible for billing its end-users. Ofgem requires that all licensed electricity distributors and suppliers become parties to the Distribution Connection and Use of System Agreement. This agreement specifies how creditworthiness will be determined and, as a result, whether a supplier needs to collateralize its payment obligations.

WPD's costs make up approximately 17% of a U.K. residential end-user's electricity bill.

### U.K. Regulation and Rates

#### *Overview*

Ofgem has adopted a price control regulatory framework with a balanced objective of enhancing and developing future electricity networks, controlling costs to customers and allowing DNOs, such as WPD's DNOs, to earn a fair return on their investments. This regulatory structure is focused on outputs and performance in contrast to traditional U.S. utility ratemaking that operates under a cost recovery model. Price controls are established based on long-term business plans developed by each DNO with substantial input from its stakeholders. To measure the outputs and performance, each DNO business plan includes incentive targets that allow for increases and/or reductions in revenues based on operational performance, which are intended to align returns with quality of service, innovation and customer satisfaction.

For comparative purposes, amounts listed below are in British pounds sterling, nominal prices and in calendar years unless otherwise noted.

#### *Key Ratemaking Mechanisms*

PPL believes the U.K. electricity utility model is a premium jurisdiction in which to do business due to its significant stakeholder engagement, incentive-based structure and high-quality ratemaking mechanisms.

#### *Current Price Control: RIIO-ED1*

WPD currently operates under an eight-year price control called RIIO-ED1, which commenced for electricity distribution companies on April 1, 2015. The regulatory framework is based on an updated approach for sustainable network regulation known as the "RIIO" model where Revenue = Incentives + Innovation + Outputs.



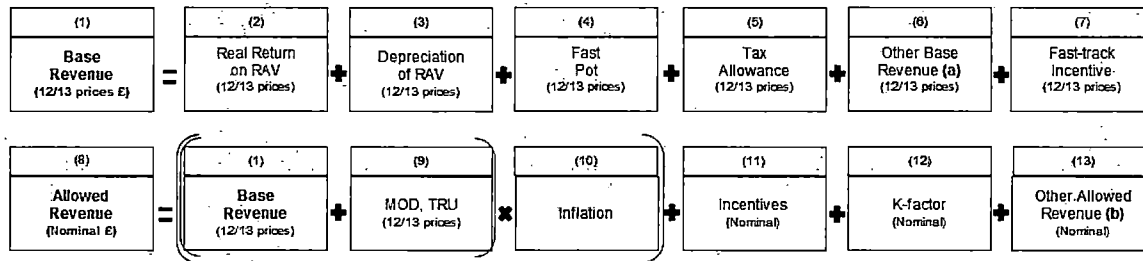
In coordination with numerous stakeholders, WPD developed its business plans for RIIO-ED1 building off its historical track record and long-term strategy of delivering industry-leading levels of performance at an efficient level of cost. As a result, all four of WPD's DNOs' business plans were accepted by Ofgem as "well justified" and were "fast-tracked" ahead of all other DNOs. WPD's DNOs were rewarded for being fast-tracked with preferential financial incentives, a higher return on equity and higher cost savings retention under their business plans as discussed further below. However, an unintended consequence of being fast-tracked resulted in WPD being disadvantaged from a cost of debt recovery standpoint, as further discussed within "(2) Real Return on capital from RAV" below.

WPD's combined RIIO-ED1 business plans as accepted by Ofgem included funding for total expenditures of approximately £12.8 billion (nominal) over the eight-year period, as follows:

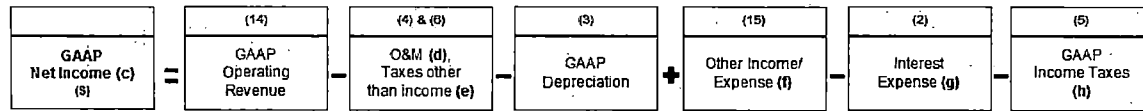
- Totex - £8.5 billion (£6.8 billion recovered as additions to RAV over time ("Slow pot"); £1.7 billion recovered in the year spent in the plan ("Fast pot"));
- Pension deficit funding - £1.2 billion;
- Cost of debt recovery - £1.0 billion;
- Pass Through Charges - £1.6 billion (Property taxes, Ofgem fees and National Grid transmissions charges); and
- Corporate income taxes recovery - £0.5 billion.

The chart below illustrates the building blocks of allowed revenue and GAAP net income for the U.K. Regulated Segment. The revenue components are shown in either 2012/13 prices or nominal prices, consistent with the formulas Ofgem established for RIIO-ED1. The reference numbers shaded in each block correspond with the descriptions that follow.

Regulatory - year ending March 31



GAAP - calendar year converted to U.S. dollars



- (a) Primarily pension deficit funding, pass through costs, profiling adjustments and legacy price control adjustments.
- (b) Primarily pass through true-ups and £5 per residential customer reduction completed in the regulatory year ended March 31, 2017.
- (c) Reference Form 8-K filed February 14, 2020 for U.K. Regulated Segment GAAP Statement of Income component values.
- (d) Includes the service cost component of GAAP pension costs/income. See "Defined Benefits, Net periodic defined benefit costs (credits)" in Note 11 to the Financial Statements.
- (e) Primarily property taxes.
- (f) Primarily includes the non-service cost (credit) components of GAAP pension costs/income and gains and losses on foreign currency hedges.
- (g) Includes WPD interest and \$32 million of allocated interest expense to finance the acquisition of WPD Midlands.
- (h) GAAP income taxes represent an effective tax rate of 16% for 2019, 17% for 2018, 19% for 2017 and approximately 17% going forward.

**(1) Base Revenue**

The base revenue a DNO can collect in each year of the current price control period is the sum of the following, discussed further below:

- a return on capital from RAV;
- a return of capital from RAV (i.e., depreciation);
- the Fast pot recovery, see discussion "(4) Expenditure efficiency mechanisms" below;

- an allowance for cash taxes paid less a potential reduction for tax benefits from excess leverage if a DNO is levered more than 65% Debt/RAV;
- pension deficit funding;
- certain pass-through costs over which the DNO has no control;
- profiling adjustments, see discussion "(6) Other revenue included in base revenue" below;
- certain legacy price control adjustments from preceding price control periods, including the information quality incentive (also known as the rolling RAV incentive); and
- fast-track incentive - because WPD's four DNOs were fast-tracked through the price control review process for RIIO-ED1, their base revenue also includes the fast-track incentive.

## **(2) Real Return on capital from RAV**

**Real-time returns on cost of regulated equity (real)** - Ofgem establishes an allowed return on regulated equity that DNOs earn in their base business plan revenues as a consideration of the financial parameters for each RIIO-ED1 business plan. For WPD, the base cost of equity collected in revenues was set at 6.4% (real). Base equity returns exclude inflation adjustments, allowances for incentive rewards/penalties and over/under collections driven by cost efficiencies. WPD's DNO base equity returns are calculated using an equity ratio of 35% of RAV. The equity ratio was reviewed and set during the RIIO-ED1 business plan process taking various stakeholder impacts into consideration such as costs to consumers, credit ratings and investor needs. The amounts of base real equity return for 2019, 2018 and 2017 were £168 million, £160 million and £151 million.

**Indexed cost of debt recovery (real)** - As part of WPD's fast-track agreement with Ofgem for RIIO-ED1, WPD collects in revenues an assumed real cost of debt that is derived from a historical 10-year bond index (iBoxx) and adjusted annually for inflation. This calculated real cost of debt is then applied to 65% of RAV at the DNOs to determine the cost of debt revenue recovery. The cost of debt was set at 2.55% in the original "well justified" business plans. The recovery amounts are trued up annually as a component of the MOD true-up mechanism described within "(9) MOD and Inflation True-Up (TRU)" below.

As discussed above, WPD's cost of debt revenue allowances are derived from using a rolling 10-year trailing average of historical 10-year bond index (iBoxx); however, the cost of debt revenue allowances for all slow track companies are derived using an extending trailing average of the index. Under this approach, the trailing average period used is progressively extended from 10 to 20 years and consequently short-term fluctuations in the interest rate have a less pronounced effect on the regulatory cost of debt applied. Therefore, WPD's cost of debt recovery is significantly lower than it would have been had it been derived under the approach used for the slow-track companies.

Over the 8-year RIIO-ED1 period WPD is expected to under-recover its cost of debt at the four DNOs, based upon the latest inflation assumptions and projected 10-year iBoxx bond indices rates, by approximately £231 million primarily driven by the previously discussed differing cost of debt recovery calculations. Under the terms of the fast track process, fast tracked companies were not supposed to be disadvantaged financially to slow track companies. It is currently uncertain, however, if WPD will be able to recover any of this under-recovery in the next price control period, RIIO-ED2, beginning April 1, 2023.

Interest costs relating to long-term debt issued at WPD's holding companies are not recovered in revenues and for 2019, 2018 and 2017 were approximately £57 million, £46 million and £49 million.

**(3) Recovery of depreciation in revenues** - Recovery of depreciation in regulatory revenues is one of the key mechanisms Ofgem uses to support financeable business plans that provide incentives to attract the continued substantial investment required in the U.K. Differences between GAAP and regulatory depreciation exist primarily due to differing assumptions on asset lives and because RAV is adjusted for inflation using RPI.

Compared to asset lives established for GAAP, asset lives established for ratemaking are set by Ofgem based on economic lives which results in improved DNO near-term revenues and cash flows during investment cycles. Under U.K. regulation prior to RIIO-ED1, electric distribution assets were depreciated on a 20-year asset life for the purpose of setting revenues. After review and consultation, Ofgem decided to use 45-year asset lives for RAV additions after April 1, 2015, with transitional arrangements available for DNOs fully demonstrating a need to ensure financeable plans. WPD adopted a transition that has a linear increase in asset lives from 20 to 45 years for additions to RAV in each year of RIIO-ED1 (with additions averaging a life of approximately 35 years over this period), which adds support to its credit metrics. RAV additions prior to March 31, 2015 continue to be recovered in revenues over 20 years.

The asset lives used to determine depreciation expense for GAAP purposes are not the same as those used for the depreciation of the RAV in setting revenues and, as such, vary by asset type and are based on the expected useful lives of the assets.

Effective January 1, 2015, after completing a review of the useful lives of its distribution network assets, WPD set the weighted average useful lives to 69 years for GAAP depreciation expense.

Because Ofgem uses a real cost of capital, the RAV and recovery of depreciation are adjusted for inflation using RPI. The inflation revenues collected in this line item help recover the cost of equity and debt returns on a "nominal" basis, compared to the "real" rates used to set the return component of base revenues.

This regulatory construct, in combination with the different assets lives used for ratemaking and GAAP, results in amounts collected by WPD as recovery of depreciation in revenues being significantly higher than the amounts WPD recorded for depreciation expense under GAAP. For 2019, 2018 and 2017, this difference was £450 million, £444 million and £424 million (pre-tax) and positively impacted net income. The difference is expected to continue in the £400 million to £450 million (pre-tax) range at least through 2022 (the last full calendar year of RIIO-ED1), assuming RPI of approximately 3.0% per year from 2020 through 2022 and based on expected RAV additions of approximately £800 million per year to prepare the distribution system for future U.K. energy objectives while maintaining premier levels of reliability and customer service.

**(4) Expenditure efficiency mechanisms** - Ofgem introduced the concept of Totex in RIIO to ensure all DNOs face equal incentives in choosing between operating and capital solutions. Totex is split between immediate recovery (called "Fast pot") and deferred recovery as an addition to RAV (called "Slow pot"). The ratio of Slow pot to Fast pot was determined by each DNO in its business plan development. WPD established a Totex split of 80% Slow pot and 20% Fast pot for RIIO-ED1 to balance maximizing RAV growth with immediate cost recovery to support investment grade credit ratings. Comparatively, other DNOs on average used a ratio of approximately 70% Slow pot and 30% Fast pot for RIIO-ED1.

Ofgem also allows a Totex Incentive Mechanism that is intended to reward DNOs for cost efficiency. WPD's DNOs are able to retain 70% of any amounts not spent against their RIIO-ED1 plan and bear 70% of any over-spends. Any amounts to be returned to customers are trued up in the AIP discussed below.

Because Fast pot cost recovery represents 20% of Totex expenditures and certain other costs are recovered in other components of revenue, Fast pot will not equal operation and maintenance expenses recorded for GAAP purposes.

**(5) Income Tax Allowance** - For price control purposes, WPD collects income tax based on Ofgem's notional tax charge, which will not equal the amount of income tax expense recorded for GAAP purposes. The following table shows the amount of taxes collected in revenues and recorded under GAAP.

	2019	2018	2017
Taxes collected in revenues	£ 56	£ 58	£ 57
Taxes recorded under GAAP	167	156	139

**(6) Other revenue included in base revenue** - Other revenue included in base revenue primarily consists of pension deficit funding, pass through costs, profiling adjustments and legacy price control adjustments.

**Recovery of annual (normal) pension cost and pension deficit funding** - Ofgem allows DNOs to recover annual (normal) pension costs through the Totex allocation, split between the previously described Fast pot (immediate recovery) and Slow pot recovery (as an addition to RAV). The amount of normal pension cost is computed by the pension trustees, using assumptions that differ from those used in calculating pension costs/income under GAAP. In addition, the timing of the revenue collection may not match the actual pension payment schedule, resulting in a timing difference of cash flows.

In addition, WPD recovers approximately 80% of pension deficit funding for certain of WPD's defined benefit pension plans in conjunction with actual costs similar to the Fast pot mechanism. The pension deficit is determined by the pension trustees on a triennial basis in accordance with their funding requirements. Pension deficit funding recovered in revenues was £151 million, £147 million and £142 million in 2019, 2018 and 2017. WPD expects similar amounts to be collected in revenues through March 31, 2021, but cannot predict amounts that will be collected in revenues beyond then as the plans are approaching a fully funded status. The current triennial pension review commenced in March 2019 and is expected to conclude by the end of 2020.

See Note 11 to the Financial Statements for additional information on pension costs/income recognized under GAAP.

**Recovery of pass through costs** - WPD recovers certain pass-through costs over which the DNO has no control such as property taxes, National Grid transmission charges and Ofgem fees. Although these items are intended to be pass-through charges there could be timing differences, primarily related to property taxes, as to when amounts are collected in revenues and when amounts are expensed in the Statements of Income. WPD over-collected property taxes by £37 million, £38 million and £19

million in 2019, 2018 and 2017. WPD expects to continue to over-recover property taxes until the end of RIIO-ED1. Amounts under-or over-recovered in revenues in a regulatory year are trued up through revenues two regulatory years later.

**Profiling adjustments** - Ofgem permitted DNOs the flexibility to make profiling adjustments to their base revenues within their business plans. These adjustments do not affect the total base revenue in real terms over the eight-year price control period, but change the year in which the revenue is collected. In the first year of RIIO-ED1, WPD's base revenue decreased by 11.8% compared to the final year of the prior price control period (DPCR5), primarily due to a change in profiling methodology and a lower weighted-average cost of capital. Base revenue then increased by approximately 2.5% per annum before inflation for regulatory years up to March 31, 2019 and will increase by approximately 1% per annum before inflation for each regulatory year thereafter for the remainder of RIIO-ED1.

**(7) Incentives for developing high-quality business plans (known as fast-tracking)** - For RIIO-ED1, Ofgem incentivized DNOs with certain financial rewards to develop "well justified" business plans that drive value to customers. WPD was awarded the following fast-track incentives:

- an annual fast-track revenue incentive worth 2.5% of Totex (approximately £25 million annually for WPD);
- a real cost of equity rate of 6.4% compared to 6.0% for slow-tracked DNOs; and,
- cost savings retention was established at 70% for WPD compared to approximately 55% for slow-tracked DNOs.

**(8) Allowed Revenue** - Allowed revenue is the amount that a DNO can collect from its customers in order to fund its investment requirements.

Base revenues are adjusted annually during RIIO-ED1 to arrive at allowed revenues. These adjustments are discussed in sections (9) through (13) below.

**(9) MOD and Inflation True-Up (TRU)**

**MOD** - RIIO-ED1 includes an AIP that allows future base revenues, agreed with the regulator as part of the price control review, to be updated during the price control period for financial adjustments including taxes, pensions, cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). The AIP calculates an incremental change to base revenue, known as the "MOD" adjustment.

- The MOD provided by Ofgem in November 2016 included the TIM for the 2015/16 regulatory year, as well as the cost of debt calculation based on the 10-year trailing average to October 2016. This MOD of £12 million reduced base revenue in calendar years 2017 and 2018 by £8 million and £4 million.
- The MOD provided by Ofgem in November 2017 for the 2016/17 regulatory year was a £39 million reduction to revenue that reduced base revenue in calendar years 2018 and 2019 by £26 million and £13 million.
- The MOD provided by Ofgem in November 2018 for the 2017/18 regulatory year was a £42 million reduction to revenue that reduced base revenue in calendar year 2019 by £28 million and will reduce base revenue in calendar year 2020 by £14 million.
- The MOD provided by Ofgem in November 2019 for the 2018/19 regulatory year was an £81 million reduction to revenue that will reduce base revenue in calendar years 2020 and 2021 by £54 million and £27 million.
- The projected MOD for the 2019/20 regulatory year is a £128 million reduction to revenue that is expected to reduce base revenue in calendar years 2021 and 2022 by £85 million and £43 million.

**TRU** - As discussed below in "(10) Inflation adjusted, multi-year rate cycle," the base revenue for the RIIO-ED1 period was set based on 2012/13 prices. Therefore, an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base revenue. Forecasted RPI is trued up to actuals and affects future base revenue two regulatory years later. This revenue change is called the "TRU" adjustment.

- The TRU for the 2015/16 regulatory year was a £31 million reduction to revenue that reduced base revenue in calendar years 2017 and 2018 by £21 million and £10 million.
- The TRU for the 2016/17 regulatory year was a £6 million reduction to revenue that reduced base revenue in calendar years 2018 and 2019 by £4 million and £2 million.



- The TRU for the 2017/18 regulatory year was a £4 million increase to revenue that increased base revenue in calendar year 2019 by £3 million and will increase base revenue in calendar year 2020 by £1 million.
- The TRU for the 2018/19 regulatory year was a £2 million reduction to revenue that will reduce base revenue in calendar years 2020 and 2021 by £1 million.
- The projected TRU for the 2019/20 regulatory year is a £13 million reduction to revenue that is expected to reduce base revenue in calendar years 2021 and 2022 by £9 million and £4 million.

As both MOD and TRU are changes to future base revenues as determined by Ofgem, these adjustments are recognized as a component of revenues in future years in which service is provided and revenues are collected or returned to customers.

**(10) Inflation adjusted, multi-year rate cycle** - Ofgem built its price control framework to better coincide with the long-term nature of electricity distribution investments. The current price control for electricity distribution is for the eight-year period from April 1, 2015 through March 31, 2023. This both required and enabled WPD to design a base business plan with predictable revenues and expenses over the long-term to drive value for its customers through predetermined outputs and for its investors through preset base returns. A key aspect to the multi-year cycle is an annual inflation adjustment for revenue and cost components, which are inflated using RPI from the base 2012/13 prices used to establish the business plans. Consistent with Ofgem's formulas, the inflation adjustment is applied to base revenue, MOD and TRU when determining allowed revenue. This inflation adjustment also has the effect of inflating RAV, and real returns are earned on the inflated RAV.

**(11) Incentive revenues for strong operational performance and innovation** - Ofgem has established incentives to provide opportunities for DNOs to enhance overall returns by improving network efficiency, reliability and customer service. These incentives can result in an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets based on past performance. Some of the more significant incentives that may affect allowed revenue include the Interruptions Incentive Scheme (IIS), the broad measure of customer service (BMCS) and the time to connect (TTC) incentive:

- The IIS has two major components: (1) Customer interruptions (CIs) and (2) Customer minutes lost (CMLs), and both are designed to incentivize the DNOs to invest in and operate their networks to manage and reduce both the frequency and duration of power outages.
- The BMCS encompasses customer satisfaction in supply interruptions, connections and general inquiries, complaints, stakeholder engagement and delivery of social obligations.
- The TTC incentive rewards DNOs for reducing connection times for minor connections against an Ofgem set target.

The annual incentives and penalties are reflected in customer rates on a two-year lag from the time they are earned and/or assessed. Based on applicable GAAP, incentive revenues and penalties are recorded in revenues when they are billed to customers. The following table shows the amount of incentive revenues (in total), primarily from IIS, BMCS and TTC that WPD has received and is projected to receive on a calendar year basis:

Calendar Year Ended Incentive Earned	Incentive Received (in millions)	Calendar Year Ended Incentive Included in Revenue
2015	£ 79	2017
2016	76	2018
2017	72	2019
2018	78	2020
2019 (a)	75-85	2021
2020 (a)	75-85	2022

(a) Reflects projected incentive revenues.

**(12) Correction Factor (K-factor)** - During the price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a particular period. Conversely, WPD could over-recover revenue. Over- and under-recoveries are subtracted from or added to allowed revenue in future years, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts during RIIO-ED1 will be refunded/recovered two regulatory years later.

- The K-factor for the 2015/16 regulatory year was a £4 million under-recovery that increased allowed revenue in calendar years 2017 and 2018 by £3 million and £1 million.
- The K-factor for the 2016/17 regulatory year was a £23 million over-recovery that reduced allowed revenue in calendar years 2018 and 2019 by £15 million and £8 million.



- The K-factor for the 2017/18 regulatory year was a £3 million over-recovery that reduced allowed revenue in calendar year 2019 by £2 million and will reduce allowed revenue in calendar year 2020 by £1 million.
- The K-factor for the 2018/19 regulatory year was a £16 million over-recovery that will reduce allowed revenue in calendar years 2020 and 2021 by £11 million and £5 million.
- The projected K-factor for the 2019/20 regulatory year is a £20 million under-recovery that is expected to increase allowed revenue in calendar years 2021 and 2022 by £13 million and £7 million.

Historically, tariffs have been set a minimum of three months prior to the beginning of the regulatory year (April 1). In 2015, Ofgem determined that, beginning with the 2017/18 regulatory year, tariffs would be established a minimum of fifteen months in advance. This change will potentially increase volatility in future revenue forecasts due to the need to forecast components of allowed revenue including MOD, TRU, K-factor and incentive revenues.

**(13) Other Allowed Revenue** - Other Allowed Revenue primarily consists of pass through true-ups and a £5 per residential customer reduction completed in the regulatory year ended March 31, 2017. For a discussion on property tax true-ups, see recovery of pass through costs in "(6) Other revenue included in base revenue" above.

In the 2016/17 regulatory year, WPD recovered a £5 per residential network customer reduction given through reduced tariffs in 2014/15. As a result, revenues were positively affected in calendar year 2017 by £13 million.

**(14) GAAP Operating Revenue** - Operating revenue under GAAP primarily consists of allowed revenue, which has been converted to rates and earned as electricity was delivered in the calendar year, converted to U.S. dollars. It also includes miscellaneous revenue primarily from engineering recharge work and ancillary activity revenue. Engineering recharge is work performed for a third party by WPD which is not for general network maintenance or to increase reliability. Examples are diversions and running new lines and equipment for a new housing complex. Ancillary activity revenue includes revenue primarily from WPD's Telecoms and Property companies. The amounts of miscellaneous revenue for 2019, 2018 and 2017 were £115 million, £115 million and £90 million. The margin or profit on these activities, however, was not significant.

**(15) Currency Hedging** - Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Due to the significant earnings contributed from WPD, 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. See "Overview - Financial and Operational Developments - U.K. Membership in European Union" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of U.K. earnings hedging activity.

#### **GAAP Accounting implications**

As the regulatory model in the U.K. is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment for the differences in the amounts collected in revenues and the amounts recorded for expenses related to depreciation, pensions, cost of debt and income taxes, and the adjustments to base revenue and/or allowed revenue are evaluated primarily based on revenue recognition guidance.

See "Revenue Recognition" in Note 1 to the Financial Statements for additional information.

See "Overview - Financial and Operational Developments - RIIO-2 Framework" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on the RIIO-2 Framework which will commence on April 1, 2023.

#### **Kentucky Regulated Segment (PPL)**

*The Kentucky Regulated segment consists of the operations of LKE, which owns and operates regulated public utilities engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas, representing primarily the activities of LG&E and KU. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment.*

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

LG&E and KU, direct subsidiaries of LKE, are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, also Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electricity service to approximately 418,000 customers in Louisville and adjacent areas in Kentucky,

covering approximately 700 square miles in nine counties and provides natural gas service to approximately 329,000 customers in its electricity service area and eight additional counties in Kentucky. KU provides electric service to approximately 530,000 customers in 77 counties in central, southeastern and western Kentucky and approximately 28,000 customers in five counties in southwestern Virginia, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to two municipalities in Kentucky under load following contracts. See Note 3 to the Financial Statements for revenue information.

**Franchises and Licenses**

LG&E and KU provide electricity delivery service, and LG&E provides natural gas distribution service, in their respective service territories pursuant to certain franchises, licenses, statutory service areas, easements and other rights or permissions granted by state legislatures, cities or municipalities or other entities.

**Competition**

There are currently no other electric public utilities operating within the electricity service areas of LKE. From time to time, bills are introduced into the Kentucky General Assembly which seek to authorize, promote or mandate increased distributed generation, customer choice or other developments. Neither the Kentucky General Assembly nor the KPSC has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of legislative or regulatory actions, if any, regarding industry restructuring and their impact on LKE, which may be significant, cannot currently be predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation that implemented a hybrid model of cost-based regulation. KU's operations in Virginia have been and remain regulated.

Alternative energy sources such as electricity, oil, propane and other fuels indirectly impact LG&E's natural gas revenues. Marketers may also compete to sell natural gas to certain large end-users. LG&E's natural gas tariffs include gas price pass-through mechanisms relating to its sale of natural gas as a commodity. Therefore, customer natural gas purchases from alternative suppliers do not generally impact LG&E's profitability. Some large industrial and commercial customers, however, may physically bypass LG&E's facilities and seek delivery service directly from interstate pipelines or other natural gas distribution systems.

**Power Supply**

At December 31, 2019, LKE owned generating capacity of 7,561 MW, of which 2,786 MW related to LG&E and 4,775 MW related to KU. See "Item 2. Properties - Kentucky Regulated Segment" for a complete list of LKE's generating facilities.

The system capacity of LKE's owned or controlled generation is based upon a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changes in circumstances.

During 2019, LKE's power plants generated the following amounts of electricity:

<b><u>Fuel Source</u></b>	<b>GWh</b>		
	<b>LKE</b>	<b>LG&amp;E</b>	<b>KU</b>
Coal	25,348	11,336	14,012
Gas	6,558	1,608	4,950
Hydro	357	251	106
Solar	18	7	11
<b>Total (a)</b>	<b>32,281</b>	<b>13,202</b>	<b>19,079</b>

(a) This generation represents decreases for LKE, LG&E and KU of 6.6%, 3.2% and 8.8% from 2018 output.

The majority of LG&E's and KU's generated electricity was used to supply their retail customer bases.

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their customers. When LG&E has excess generation capacity after serving its own customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E and vice versa.

As a result of environmental requirements and energy efficiency measures, KU retired two older coal-fired electricity generating units at the E.W. Brown plant in February 2019 with a combined summer rating capacity of 272 MW.

LG&E and KU received approval from the KPSC to develop a 4 MW Solar Share facility to service a Solar Share program. The Solar Share program is a voluntary program that allows customers to subscribe capacity in the Solar Share facility. Construction commences, in 500-kilowatt phases, when subscription is complete. The first 500-kilowatt phase was constructed in 2019. The subscription for the second 500-kilowatt phase was completed in 2019, with expected construction to be completed in 2020. LG&E and KU continue to market the program and have started receiving subscriptions for the third 500-kilowatt phase.

On January 23, 2020, LG&E and KU applied to the KPSC for approval of arrangements relating to the purchase of 100 MW of solar power in connection with the Green Tariff option established in the most recent Kentucky base rate cases. Pursuant to the agreements, LG&E and KU would purchase the initial 20 years of output of a proposed third-party solar generation facility and resell the bulk of the power as renewable energy to two large industrial customers and use the remaining power for other customers. The transactions are subject to KPSC approval and other standard conditions. PPL, LKE, LG&E and KU do not anticipate that these arrangements will have a significant impact on their results of operations or financial condition.

#### Fuel Supply

Coal and natural gas will continue to be the predominant fuels used by LG&E and KU for generation for the foreseeable future. Natural gas used for generation is primarily purchased using contractual arrangements separate from LG&E's natural gas distribution operations. Natural gas and oil are also used for intermediate and peaking capacity and flame stabilization in coal-fired boilers.

Fuel inventory is maintained at levels estimated to be necessary to avoid operational disruptions at coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties.

LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2024 and augment their coal supply agreements with spot market purchases, as needed.

For their existing units, LG&E and KU expect, for the foreseeable future, to purchase most of their coal from western Kentucky, southern Indiana and southern Illinois. LG&E and KU continue to purchase certain quantities of ultra-low sulfur content coal from Wyoming for blending at Trimble County Unit 2. Coal is delivered to the generating plants primarily by barge and rail.

To enhance the reliability of natural gas supply, LG&E and KU have secured firm long-term pipeline transport capacity with contracts of various durations from 2020 to 2024 on the interstate pipeline serving Cane Run Unit 7. This pipeline also serves the six simple cycle combustion turbine units located at the Trimble County site as well as three other simple cycle units at the Paddy's Run site. For the seven simple cycle combustion turbines at the E.W. Brown facility, no firm long-term pipeline transport capacity has been purchased due to the facility being interconnected to two pipelines and some of the units having dual fuel capability.

LG&E and KU have firm contracts for a portion of the natural gas fuel for Cane Run Unit 7 through February 2022. The bulk of the natural gas fuel remains purchased on the spot market.

*(PPL, LKE and LG&E)*

#### Natural Gas Distribution Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 billion cubic feet (Bcf), are used to provide natural gas service to LG&E's firm sales customers. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would need to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services are expected to be higher. At December 31, 2019, LG&E had 12 Bcf of natural gas stored underground with a carrying value of \$35 million.

LG&E has a portfolio of supply arrangements of varying durations and terms that provide competitively priced natural gas designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. In tandem with pipeline transportation services, these natural gas supplies provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

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LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2021 and 2025. Total winter season capacity under these contracts is 184,900 MMBtu/day and summer season capacity is 60,000 MMBtu/day. With this same pipeline, LG&E also has another contract for pipeline capacity through 2026 for 60,000 MMBtu/day during both the winter and summer seasons. LG&E has a single contract with a second pipeline with a total capacity of 20,000 MMBtu/day during both the winter and summer seasons that expires in 2023.

LG&E expects to purchase natural gas supplies for its gas distribution operations from onshore producing regions in South Texas, East Texas, North Louisiana and Arkansas, as well as gas originating in the Marcellus and Utica production areas.

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

### Transmission

LG&E and KU contract with the Tennessee Valley Authority to act as their transmission reliability coordinator and contract with TranServ International, Inc. to act as their independent transmission organization.

### Rates

LG&E is subject to the jurisdiction of the KPSC and the FERC, and KU is subject to the jurisdiction of the KPSC, the FERC and the VSCC. LG&E and KU operate under a FERC-approved open access transmission tariff.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including adjustments for certain net investments and costs recovered separately through other means. As such, LG&E and KU generally earn a return on regulatory assets in Kentucky.

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except the levelized fuel factor and regulatory assets or liabilities recorded for pension and postretirement benefits and AROs related to certain CCR impoundments, are excluded from the return on rate base utilized in the calculation of Virginia base rates, no return is earned on the related assets.

KU's rates to municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets. In April 2014, certain municipalities submitted notices of termination to cease taking power under the wholesale requirements contracts. KU's service to eight municipalities terminated effective April 30, 2019. KU continues to provide service to two municipalities.

See "Financial and Operational Developments" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 7 to the Financial Statements for additional information on current rate proceedings and rate mechanisms.

### **Pennsylvania Regulated Segment (PPL)**

*The Pennsylvania Regulated segment consists of PPL Electric, a regulated public utility engaged in the distribution and transmission of electricity.*

*(PPL and PPL Electric)*

PPL Electric delivers electricity to approximately 1.4 million customers in a 10,000-square mile territory in 29 counties within eastern and central Pennsylvania. PPL Electric also provides electricity to retail customers in this territory as a PLR under the Customer Choice Act. See Note 3 to the Financial Statements for revenue information.

### **Franchise, Licenses and Other Regulations**

PPL Electric is authorized to provide electric public utility service throughout its service area as a result of grants by the Commonwealth of Pennsylvania in corporate charters to PPL Electric and companies which it has succeeded, and as a result of certification by the PUC. PPL Electric is granted the right to enter the streets and highways by the Commonwealth subject to

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certain conditions. In general, such conditions have been met by ordinance, resolution, permit, acquiescence or other action by an appropriate local political subdivision or agency of the Commonwealth.

### Competition

Pursuant to authorizations from the Commonwealth of Pennsylvania and the PUC, PPL Electric operates a regulated distribution monopoly in its service area. Accordingly, PPL Electric does not face competition in its electricity distribution business. Pursuant to the Customer Choice Act, generation of electricity is a competitive business in Pennsylvania, and PPL Electric does not own or operate any generation facilities.

The PPL Electric transmission business, operating under a FERC-approved PJM Open Access Transmission Tariff, is subject to competition pursuant to FERC Order 1000 from entities that are not incumbent PJM transmission owners with respect to the construction and ownership of transmission facilities within PJM.

### Rates and Regulation

#### *Transmission*

PPL Electric's transmission facilities are within PJM, which operates the electricity transmission network and electric energy market in the Mid-Atlantic and Midwest regions of the U.S.

PJM serves as a FERC-approved Regional Transmission Operator (RTO) to promote greater participation and competition in the region it serves. In addition to operating the electricity transmission network, PJM also administers regional markets for energy, capacity and ancillary services. A primary objective of any RTO is to separate the operation of, and access to, the transmission grid from market participants that buy or sell electricity in the same markets. Electric utilities continue to own the transmission assets and to receive their share of transmission revenues, but the RTO directs the control and operation of the transmission facilities. Certain types of transmission investments are subject to competitive processes outlined in the PJM tariff.

As a transmission owner, PPL Electric's transmission revenues are recovered through PJM and billed in accordance with a FERC-approved Open Access Transmission Tariff that allows recovery of incurred transmission costs, a return on transmission-related plant and an automatic annual update based on a formula-based rate recovery mechanism. Under this formula, rates are put into effect in June of each year based upon prior year actual expenditures and current year forecasted capital additions. Rates are then adjusted the following year to reflect actual annual expenses and capital additions, as reported in PPL Electric's annual FERC Form 1, filed under the FERC's Uniform System of Accounts. Any difference between the revenue requirement in effect for the prior year and actual expenditures incurred for that year is recorded as a regulatory asset or regulatory liability. Any change in the prior year PPL zonal peak load billing factor applied on January 1 of each year will result in an increase or decrease in revenue until the next annual rate update is effective on June 1 of that same year.

As a PLR, PPL Electric also purchases transmission services from PJM. See "PLR" below.

See Note 7 to the Financial Statements for additional information on rate mechanisms.

#### *Distribution*

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). All regulatory assets and liabilities are excluded from the return on rate base. Therefore, no return is earned on the related assets unless specifically provided for by the PUC. Currently, PPL Electric's Smart Meter rider and the DSIC are the only riders authorized to earn a return. Certain operating expenses are also included in PPL Electric's distribution base rates including wages and benefits, other operation and maintenance expenses, depreciation and taxes.

Pennsylvania's Alternative Energy Portfolio Standard (AEPS) requires electricity distribution companies and electricity generation suppliers to obtain from alternative energy resources a portion of the electricity sold to retail customers in Pennsylvania. Under the default service procurement plans approved by the PUC, PPL Electric purchases all of the alternative energy generation supply it needs to comply with the AEPS.

Act 129 created an energy efficiency and conservation program, a demand side management program, smart metering technology requirements, new PLR generation supply procurement rules, remedies for market misconduct and changes to the existing AEPS.

Act 11 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, the use of a DSIC. Such alternative ratemaking procedures and mechanisms provide opportunity for accelerated cost-recovery and, therefore, are important to PPL Electric as it is in a period of significant capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging assets. PPL Electric utilized the fully projected future test year mechanism in its 2015 base rate proceeding. PPL has had the ability to utilize the DSIC recovery mechanism since July 2013.

See "Financial and Operational Developments" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 7 to the Financial Statements for additional information on legislative and regulatory matters.

#### *PLR*

The Customer Choice Act requires electric distribution companies, including PPL Electric, or an alternative supplier approved by the PUC, to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to PUC regulations. In 2019, the following average percentages of PPL Electric's customer load were provided by competitive suppliers: 43% of residential, 82% of small commercial and industrial and 96% of large commercial and industrial customers. The PUC continues to favor expanding the competitive market for electricity.

PPL Electric's cost of electricity generation is based on a competitive solicitation process. The PUC approved PPL Electric's default service plan for the period June 2015 through May 2017, which included four solicitations for electricity supply held semiannually in April and October. The PUC approved PPL Electric's default service plan for the period June 2017 through May 2021, which includes a total of eight solicitations for electricity supply held semiannually in April and October. Pursuant to the plans, PPL Electric contracts for all of the electricity supply for residential customers and commercial and industrial customers who elect to take that service from PPL Electric. These solicitations include a mix of 6- and 12-month fixed-price load-following contracts for residential and small commercial and industrial customers, and 12-month real-time pricing contracts for large commercial and industrial customers to fulfill PPL Electric's obligation to provide customer electricity supply as a PLR.

Numerous alternative suppliers have offered to provide generation supply in PPL Electric's service area. As the cost of generation supply is a pass-through cost for PPL Electric, its financial results are not impacted if its customers purchase electricity supply from these alternative suppliers.

#### ***Corporate and Other (PPL)***

PPL Services provides PPL subsidiaries with administrative, management and support services. The costs of these services are charged directly to the respective recipients for the services provided or indirectly charged to applicable recipients based on an average of the recipients' relative invested capital, operation and maintenance expenses and number of employees or a ratio of overall direct and indirect costs.

PPL Capital Funding, PPL's financing subsidiary, provides financing for the operations of PPL and certain subsidiaries. PPL's growth in rate-regulated businesses provides the organization with an enhanced corporate level financing alternative, through PPL Capital Funding, that enables PPL to cost effectively support targeted credit profiles across all of PPL's rated companies. As a result, PPL plans to utilize PPL Capital Funding as a source of capital in future financings, in addition to continued direct financing by the operating companies.

Unlike PPL Services, PPL Capital Funding's costs are not generally charged to PPL subsidiaries. Costs are charged directly to PPL. However, PPL Capital Funding participated significantly in the financing for the acquisitions of LKE and WPD Midlands and certain associated financing costs were allocated to the Kentucky Regulated and U.K. Regulated segments. The associated financing costs, as well as the financing costs associated with prior issuances of certain other PPL Capital Funding securities, have been assigned to the appropriate segments for purposes of PPL management's assessment of segment performance. The financing costs associated primarily with PPL Capital Funding's securities issuances beginning in 2013, with certain exceptions, have not been directly assigned or allocated to any segment.

During the second quarter of 2018, PPL completed the acquisition of all the outstanding membership interests of Safari Energy, a privately held provider of solar energy solutions for commercial customers in the U.S. The acquisition is not material to PPL and the financial results of Safari Energy are reported within Corporate and Other.

## ENVIRONMENTAL MATTERS

*(All Registrants)*

The Registrants are subject to certain existing and developing federal, regional, state and local laws and regulations with respect to air and water quality, land use and other environmental matters. The EPA has issued numerous environmental regulations relating to air, water and waste that directly affect the electric power industry. Due to these environmental issues, it may be necessary for the Registrants to modify or cease certain operations or operation of certain facilities to comply with statutes, regulations and other requirements of regulatory bodies or courts. In addition, legal challenges to new environmental permits or rules add uncertainty to estimating future costs of complying with such permits and rules.

See "Legal Matters" in Note 13 to the Financial Statements for a discussion of environmental commitments and contingencies. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2020 through 2024.

LG&E and KU are entitled to recover, through the ECR mechanism, certain costs of complying with the Clean Air Act, as amended, and other federal, state and local environmental requirements applicable to coal combustion wastes and by-products from coal-fired generating facilities upon KPSC review. Costs not covered by the ECR mechanism for LG&E and KU and all such costs for PPL Electric are subject to rate recovery at the discretion of the companies' respective state regulatory authorities, or the FERC, if applicable. 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 may be recoverable through rates subject to Ofgem approval. Because neither WPD nor PPL Electric own 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 proceedings before regulatory authorities.

### Air

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

#### NAAQS

The Clean Air Act has a significant impact on the operation of fossil fuel generation plants. The Clean Air Act requires the EPA periodically to establish and review National Ambient Air Quality Standards, known as NAAQS, for six pollutants: carbon monoxide, lead, nitrogen dioxide, ozone (contributed to by nitrogen oxide emissions), particulate matter and sulfur dioxide. The EPA is scheduled to evaluate the current NAAQS for particulate matter in 2020. PPL, LKE, LG&E, and KU are unable to predict the outcome of future evaluations by the EPA and the states with respect to the NAAQS for particulate matter.

Applicable regulations require each state to identify areas within its boundaries that fail to meet the NAAQS, (known as nonattainment areas), and develop a state implementation plan to achieve and maintain compliance. In addition, for attainment of ozone and fine particulates standards, certain states, including Kentucky, are subject to a regional EPA program known as the Cross-State Air Pollution Rule (CSAPR). In January 2018, the EPA designated Jefferson County, Kentucky (Louisville) as being in nonattainment with the existing 2015 ozone standard. In December 2018, the EPA finalized the CSAPR "Close-Out Rule," determining that the existing CSAPR "Update Rule" for the 2008 ozone NAAQS fully addresses applicable states' interstate pollution transport obligations. Various states and others challenged the rule in the U.S. Court of Appeals for the D.C. Circuit (D.C. Circuit). In September 2019, the D.C. Circuit granted these petitions and remanded a portion of the CSAPR Update Rule to the EPA. Compliance with the NAAQS and related requirements may require installation of additional pollution controls, the costs of which PPL, LKE, LG&E and KU believe are subject to rate recovery.

States that are found to contribute significantly to another state's nonattainment with ozone standards are required to establish "good neighbor" state implementation plans. In October 2019, New York and other interested parties filed a petition for review in the D.C. Circuit of Appeals challenging the EPA's determination that no additional reductions beyond existing and planned controls are necessary to prevent significant interstate impacts. In 2018 and 2019, the EPA denied petitions filed by Maryland, Delaware, and New York alleging that states including Kentucky contribute to nonattainment in the petitioning states.



### *Climate Change*

There is continuing world-wide attention focused on issues related to climate change. In 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, establishing non-binding targets to reduce GHG emissions from both developed and developing nations. In 2017, the President announced a U.S. withdrawal from the Paris Agreement, which withdrawal would not be complete until November 2020. The President also issued an Executive Order directing rescission of certain guidance, directives, and prior Presidential actions regarding climate change. At present, there are ongoing efforts by various U.S. federal, state, and local governments to assess potential changes to legislation, rules, policies, directives, and other requirements applicable to greenhouse gas emissions. PPL, LKE, LG&E and KU cannot predict the outcome of such assessments.

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 Affordable Clean Energy Rule*

In July 2019, the EPA repealed the Clean Power Plan and finalized the Affordable Clean Energy (ACE) Rule which gives states broad latitude to establish emission guidelines providing for plant-specific efficiency upgrades or "heat-rate improvements" to reduce GHG emissions per unit of electricity generated. States are generally allowed three years to submit plans establishing standards of performance, while the EPA anticipates that most facilities will be required to demonstrate compliance within two years of plan approval. The EPA intends to take additional action to finalize new criteria for determining whether efficiency projects will trigger New Source Review and thus be subject to more stringent emission controls. Various entities have filed petitions for review and petitions for reconsideration. PPL, LKE, LG&E, and KU cannot predict the outcome of the pending litigation and regulatory proceedings, but believe that the costs would be subject to rate recovery.

### Water/Waste

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

#### *Clean Water Act*

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects that impact "Waters of the United States." Many other requirements relate to power plant operations, including 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, and standards intended to protect aquatic organisms that become trapped at or pulled through cooling water intake structures at generating facilities. These requirements could impose significant costs for LG&E and KU, which are expected to be subject to rate recovery.

#### *Clean Water Act Jurisdiction*

Environmental groups and others have claimed that discharges to groundwater from leaking CCR impoundments at power plants are subject to Clean Water Act permitting. A citizen suit raising such claims has been filed against KU with respect to the E.W. Brown plant, as discussed under "Legal Matters" - "E.W. Brown Environmental Claims" in Note 13 to the Financial Statements. On April 12, 2019, the EPA released regulatory clarification finding that Clean Water Act jurisdiction does not cover such discharges to groundwater. On January 23, 2020, the EPA announced a final rule modifying the jurisdictional scope of the Clean Water Act. The announced rule revises the definition of the "Waters of the United States," including a revision to exclude groundwater from the definition. Additionally, a ruling from the U.S. Supreme Court in a pending case, likely in the first half of 2020, is expected to provide additional clarification on the scope of Clean Water Act jurisdiction. Extending Clean Water Act jurisdiction to discharges to groundwater could potentially subject certain releases from CCR impoundments to additional permitting and remediation requirements, which could impose substantial costs. PPL, LKE, LG&E and KU are unable to predict the outcome or financial impact of current regulatory proceedings and litigation.

#### *Seepages and Groundwater Infiltration*

In addition to the actions described above, 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. Depending on the circumstances in each case, certain costs, which may be subject to rate recovery, could be significant.



## Superfund and Other Remediation

*(All Registrants)*

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary to comply 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 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 available to cover certain of the costs or other obligations related to these matters, but the amount of insurance coverage or reimbursement cannot be estimated or assured.

See "Legal Matters" in Note 13 to the Financial Statements for additional information.

*(All Registrants)*

## **SEASONALITY**

The demand for and market prices of electricity and natural gas are affected by weather. As a result, the Registrants' operating results in the future may fluctuate substantially on a seasonal basis, especially when unpredictable weather conditions make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities owned. See "Item 1. Business - Environmental Matters - Air" for additional information regarding climate change.

## **FINANCIAL CONDITION**

See "Financial Condition" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for this information.

## **CAPITAL EXPENDITURE REQUIREMENTS**

See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information concerning projected capital expenditure requirements for 2020 through 2024. See "Item 1. Business - Environmental Matters" for additional information concerning the potential impact on capital expenditures from environmental matters.

## **EMPLOYEE RELATIONS**

At December 31, 2019, PPL and its subsidiaries had the following full-time employees and employees represented by labor unions:

	<u>Total Full-Time Employees</u>	<u>Number of Union Employees</u>	<u>Percentage of Total Workforce</u>
PPL	12,280	5,787	47%
PPL Electric	1,562	918	59%
LKE	3,480	786	23%
LG&E	1,039	668	64%
KU	890	118	13%

PPL's domestic workforce has 1,862 employees, or 33%, that are members of labor unions.

WPD has 3,925 employees who are members of labor unions (or 60% of PPL's U.K. workforce). WPD recognizes four unions, the largest of which represent 41% of its union workforce. WPD's Electricity Business Agreement, which covers 3,868 union employees, may be amended by agreement between WPD and the unions and can be terminated with 12 months' notice by either side.

## **CYBERSECURITY MANAGEMENT**

The Registrants and their subsidiaries are subject to risks from cyber-attacks that have the potential to cause significant interruptions to the operation of their businesses. The frequency of these attempted intrusions has increased in recent years and the sources, motivations and techniques of attack continue to evolve and change rapidly. PPL has adopted a variety of measures to monitor and address cyber-related risks. Cybersecurity and the effectiveness of PPL's cybersecurity strategy are regular topics of discussion at Board meetings. PPL's strategy for managing cyber-related risks is risk-based and, where appropriate, integrated within PPL's enterprise risk management processes. PPL's Chief Information Security Officer (CISO), who reports directly to the Chief Executive Officer, leads a dedicated cybersecurity team and is responsible for the design, implementation, and execution of cyber-risk management strategy. Among other things, the CISO and the cybersecurity team actively monitor the Registrants' systems, regularly review policies, compliance, regulations and best practices, perform penetration testing, lead response exercises and internal campaigns, and provide training and communication across the organization to strengthen secure behavior. The cybersecurity team also routinely participates in industry-wide programs to further information sharing, intelligence gathering, and unity of effort in responding to potential or actual attacks. In addition, in 2018, PPL revised and formalized its internal policy and procedures for communicating cybersecurity incidents on an enterprise-wide basis.

In addition to these enterprise-wide initiatives, PPL's Kentucky and Pennsylvania operations are subject to extensive and rigorous mandatory cybersecurity requirements that are developed and enforced by NERC and approved by FERC to protect grid security and reliability. Finally, PPL purchases insurance to protect against a wide range of costs that could be incurred in connection with cyber-related incidents. There can be no assurance, however, that these efforts will be effective to prevent interruption of services or other damage to the Registrants' businesses or operations or that PPL's insurance coverage will cover all costs incurred in connection with any cyber-related incident.

## **AVAILABLE INFORMATION**

PPL's Internet website is [www.pplweb.com](http://www.pplweb.com). Under the Investors heading of that website, PPL provides access to SEC filings of the Registrants (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d)) free of charge, as soon as reasonably practicable after filing with the SEC. Additionally, the Registrants' filings are available at the SEC's website ([www.sec.gov](http://www.sec.gov)).

## ITEM 1A. RISK FACTORS

The Registrants face various risks associated with their businesses. Our businesses, financial condition, cash flows or results of operations could be materially adversely affected by any of these risks. In addition, this report also contains forward-looking and other statements about our businesses that are subject to numerous risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 13 to the Financial Statements for more information concerning the risks described below and for other risks, uncertainties and factors that could impact our businesses and financial results.

As used in this Item 1A., the terms "we," "our" and "us" generally refer to PPL and its consolidated subsidiaries taken as a whole, or PPL Electric and its consolidated subsidiaries taken as a whole within the Pennsylvania Regulated segment discussion, or LKE and its consolidated subsidiaries taken as a whole within the Kentucky Regulated segment discussion.

### Order of Subsection Presentation

- A. Risks Related to Our U.K. Regulated Segment
- B. Risks Related to Registrant Holding Companies
- C. Risks Related to Domestic Regulated Utility Operations
- D. Risks Specific to Kentucky Regulated Segment
- E. Risks Specific to Pennsylvania Regulated Segment
- F. Risks Related to All Segments

(PPL)

### **A. Risks Related to Our U.K. Regulated Segment**

***Our U.K. distribution business contributes a significant amount of PPL's earnings and exposes us to the following additional risks related to operating outside the U.S., including risks associated with changes in U.K. laws and regulations, taxes, economic conditions and political conditions and policies of the U.K. government and the European Union. These risks may adversely impact the results of operations of our U.K. distribution business or affect our ability to access U.K. revenues for payment of distributions or for other corporate purposes in the U.S.***

- changes in laws or regulations relating to U.K. operations, including rate regulations beginning in April 2023 under RIIO-ED2, operational performance and tax laws and regulations;
- changes in government policies, personnel or approval requirements;
- changes in general economic conditions affecting the U.K.;
- regulatory reviews of tariffs for DNOs;
- changes in labor relations;
- limitations on foreign investment or ownership of projects and returns or distributions to foreign investors;
- limitations on the ability of foreign companies to borrow money from foreign lenders and lack of local capital or loans;
- changes in U.S. tax law applicable to taxation of foreign earnings;
- compliance with U.S. foreign corrupt practices laws; and
- prolonged periods of low inflation or deflation.

***PPL's earnings may be adversely affected by the U.K. withdrawal from the European Union.***

In 2019, approximately 56% of PPL's net income was generated from its U.K. businesses. Significant uncertainty continues to exist concerning the financial, foreign currency exchange rate and other consequences of the U.K. withdrawal from the European Union, including the outcome of negotiations between the U.K. and European Union as to the terms to be negotiated by December 31, 2020 concerning trade, security and certain other matters. PPL cannot predict the impact on PPL's U.K. operations that may be experienced as a result of these negotiations, although such impacts could be material.

***We are subject to foreign currency exchange rate risks because a significant portion of our cash flows and reported earnings are currently generated by our U.K. business operations.***

These risks relate primarily to changes in the relative value of the British pound sterling and the U.S. dollar between the time we initially invest U.S. dollars in our U.K. businesses, and our strategy to hedge against such changes, and the time that cash is repatriated to the U.S. from the U.K.; including cash flows from our U.K. businesses that may be distributed to PPL or used for repayments of intercompany loans or other general corporate purposes. In addition, PPL's consolidated reported earnings on a

GAAP basis may be subject to earnings translation risk, which results from the conversion of earnings as reported in our U.K. businesses on a British pound sterling basis to a U.S. dollar basis in accordance with GAAP requirements.

***Our U.K. segment's earnings are subject to variability based on fluctuations in RPI, which is a measure of inflation.***

In RIIO-ED1, WPD's base revenue was established by Ofgem based on 2012/13 prices. Base revenue is subsequently adjusted to reflect any increase or decrease in RPI for each year to determine the amount of revenue WPD can collect in tariffs. The RPI is forecasted annually by HM Treasury and subject to true-up in subsequent years. Consequently, fluctuations between forecasted and actual RPI can result in variances in base revenue. Although WPD also has debt indexed to RPI and certain components of operations and maintenance expense are affected by inflation, these may not offset changes in base revenue and timing of such offsets would likely not be correlated precisely with the calendar year in which the variance in demand revenue was initially incurred. Further, as RAV is indexed to RPI under U.K. rate regulations, a reduction in RPI could adversely affect a borrower's debt-to-RAV ratio, potentially limiting future borrowings at WPD's holding company.

***Our U.K. delivery business is subject to revenue variability based on operational performance.***

Our U.K. delivery businesses operate under an incentive-based regulatory framework. Managing operational risk and delivering agreed-upon performance are critical to the U.K. Regulated segment's financial performance. Disruption to these distribution networks could reduce profitability both directly by incurring costs for network restoration and also through the system of penalties and rewards that Ofgem administers relating to customer service levels.

***Our ability to collect current levels of pension deficit funding for certain WPD pension plans after March 2021 is uncertain.***

WPD recovers approximately 80% of pension deficit funding for certain of WPD's defined benefit pension plans in conjunction with actual costs under the RIIO-ED1 price control. The pension deficit is determined by the pension trustees on a triennial basis in accordance with their funding requirements. Pension deficit funding recovered in revenues was £151 million, £147 million and £142 million in 2019, 2018 and 2017. WPD expects similar amounts to be collected in revenues through March 31, 2021, but cannot predict amounts that will be collected in revenues beyond then as the plans are approaching a fully funded status. The current triennial pension review commenced in March 2019 and is expected to conclude by the end of 2020.

***A failure by any of our U.K. regulated businesses to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem that could have an adverse impact on PPL.***

Ofgem has powers to levy fines of up to ten percent of revenue for any breach of a distribution license or, in certain circumstances, such as insolvency, the distribution license itself may be revoked. Ofgem also has formal powers to propose modifications to each distribution license and there can be no assurance that a restrictive modification will not be introduced in the future, which could have an adverse effect on the operations and financial condition of the U.K. regulated businesses and PPL.

*(PPL and LKE)*

**B. Risk Related to Registrant Holding Companies**

***PPL and LKE are holding companies and their cash flows and ability to meet their obligations with respect to indebtedness and under guarantees, and PPL's ability to pay dividends, largely depends on the financial performance of their respective subsidiaries and, as a result, is effectively subordinated to all existing and future liabilities of those subsidiaries.***

PPL and LKE are holding companies and conduct their operations primarily through subsidiaries. Substantially all of the consolidated assets of these Registrants are held by their subsidiaries. Accordingly, these Registrants' cash flows and ability to meet debt and guaranty obligations, as well as PPL's ability to pay dividends, are largely dependent upon the earnings of those subsidiaries and the distribution or other payment of such earnings in the form of dividends, distributions, loans, advances or repayment of loans and advances. The subsidiaries are separate legal entities and have no obligation to pay dividends or distributions to their parents or to make funds available for such a payment. The ability of the Registrants' subsidiaries to pay dividends or distributions in the future will depend on the subsidiaries' future earnings and cash flows and the needs of their businesses, and may be restricted by their obligations to holders of their outstanding debt and other creditors, as well as any contractual or legal restrictions in effect at such time, including the requirements of state corporate law applicable to payment of dividends and distributions, and regulatory requirements, including restrictions on the ability of PPL Electric, LG&E and KU to pay dividends under Section 305(a) of the Federal Power Act.

Because PPL and LKE are holding companies, their debt and guaranty obligations are effectively subordinated to all existing and future liabilities of their subsidiaries. Although certain agreements to which certain subsidiaries are parties limit their ability to incur additional indebtedness, PPL and LKE and their subsidiaries retain the ability to incur substantial additional indebtedness and other liabilities. Therefore, PPL's and LKE's rights and the rights of their creditors, including rights of debt holders, to participate in the assets of any of their subsidiaries, in the event that such a subsidiary is liquidated or reorganized, will be subject to the prior claims of such subsidiary's creditors.

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

### **C. Risks Related to Domestic Regulated Utility Operations**

Our domestic regulated utility businesses face many of the same risks, in addition to those risks that are unique to each of the Kentucky Regulated and Pennsylvania Regulated segments. Set forth below are risk factors common to both domestic regulated segments, followed by sections identifying separately the risks specific to each of these segments.

***Our profitability is highly dependent on our ability to recover the costs of providing energy and utility services to our customers and earn an adequate return on our capital investments. Regulators may not approve the rates we request and existing rates may be challenged.***

The rates we charge our utility customers must be approved by one or more federal or state regulatory commissions, including the FERC, KPSC, VSCC and PUC. Although rate regulation is generally premised on the recovery of prudently incurred costs and a reasonable rate of return on invested capital, there can be no assurance that regulatory authorities will consider all of our costs to have been prudently incurred or that the regulatory process by which rates are determined will always result in rates that achieve full or timely recovery of our costs or an adequate return on our capital investments. Federal or state agencies, intervenors and other permitted parties may challenge our current or future rate requests, structures or mechanisms, and ultimately reduce, alter or limit the rates we receive. Although our rates are generally regulated based on an analysis of our costs incurred in a base year or on future projected costs, the rates we are allowed to charge may or may not match our costs at any given time. Our domestic regulated utility businesses are subject to substantial capital expenditure requirements over the next several years, which will likely require rate increase requests to the regulators. If our costs are not adequately recovered through rates, it could have an adverse effect on our business, results of operations, cash flows and financial condition.

***Our domestic utility businesses are subject to significant and complex governmental regulation.***

In addition to regulating the rates we charge, various federal and state regulatory authorities regulate many aspects of our domestic utility operations, including:

- the terms and conditions of our service and operations;
- financial and capital structure matters;
- siting, construction and operation of facilities;
- mandatory reliability and safety standards under the Energy Policy Act of 2005 and other standards of conduct;
- accounting, depreciation and cost allocation methodologies;
- tax matters;
- affiliate transactions;
- acquisition and disposal of utility assets and issuance of securities; and
- various other matters, including energy efficiency.

Such regulations or changes thereto may subject us to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties which may not be recoverable from customers.

***Our domestic regulated businesses undertake significant capital projects and these activities are subject to unforeseen costs, delays or failures, as well as risk of inadequate recovery of resulting costs.***

The domestic regulated utility businesses are capital intensive and require significant investments in energy generation (in the case of LG&E and KU) and transmission, distribution and other infrastructure projects, such as projects for environmental compliance and system reliability. The completion of these projects without delays or cost overruns is subject to risks in many areas, including:

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;

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- skilled labor or equipment shortages;
- construction problems or delays, including disputes with third-party intervenors;
- increases in commodity prices or labor rates; and
- contractor performance.

Failure to complete our capital projects on schedule or on budget, or at all, could adversely affect our financial performance, operations and future growth if such expenditures are not granted rate recovery by our regulators.

### ***We are or may be subject to costs of remediation of environmental contamination at facilities owned or operated by our former subsidiaries.***

We may be subject to liability for the costs of environmental remediation of property now or formerly owned by us with respect to substances that we may have generated regardless of whether the liabilities arose before, during or after the time we owned or operated the facilities. We also have current or previous ownership interests in sites associated with the production of manufactured gas for which we may be liable for additional costs related to investigation, remediation and monitoring of these sites. Remediation activities associated with our former manufactured gas plant operations are one source of such costs. Citizen groups or others may bring litigation regarding environmental issues including claims of various types, such as property damage, personal injury and citizen challenges to compliance decisions on the enforcement of environmental requirements, which could subject us to penalties, injunctive relief and the cost of litigation. We cannot predict the amount and timing of all future expenditures (including the potential or magnitude of fines or penalties) related to such environmental matters, although they could be material.

### **D. Risks Specific to Kentucky Regulated Segment**

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

### ***We are subject to financial, operational, regulatory and other risks related to requirements, developments and uncertainties in environmental regulation, including those affecting coal-fired generation facilities.***

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's generation supply, including its air emissions, water discharges (ELGs) and the management of hazardous and solid wastes (CCRs), among other business-related activities, and the costs of compliance or alleged non-compliance cannot be predicted but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws, regulations or similar rules are expanded or changed as the environmental standards governing LG&E's and KU's businesses, particularly as applicable to coal-fired generation and related activities; continue to be subject to uncertainties due to rulemaking and other regulatory developments, legislative activities and litigation, administrative or permit challenges. Depending on the extent, frequency and timing of such changes, the companies may face higher risks of unsuccessful implementation of environmental-related business plans, noncompliance with applicable environmental rules, delayed or incomplete rate recovery or increased costs of implementation. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or forfeitures, operational changes, permit limitations or other restrictions. At some of our older generating facilities it may be uneconomic for us to install necessary pollution control equipment, which could cause us to retire those units. Market prices for energy and capacity also affect this cost-effectiveness analysis. Many of these environmental law considerations are also applicable to the operations of our key suppliers or customers, such as coal producers, power producers and industrial power users, and may impact the costs of their products and demand for our services.

*(PPL, LKE and LG&E)*

### ***We are subject to operational, regulatory and other risks regarding natural gas supply infrastructure.***

A natural gas pipeline explosion or associated incident could have a significant impact on LG&E's natural gas operations or result in significant damages and penalties that could have an adverse impact on LG&E's financial position and results of operations. The Pipeline and Hazardous Materials Safety Administration enforces regulations that govern the design, construction, operation and maintenance of pipeline facilities. Failure to comply with these regulations could result in the assessment of fines or penalties against LG&E. These regulations require, among other things, that pipeline operators engage in a pipeline integrity program. Depending on the results of these integrity tests and other integrity program activities, we could incur significant and unexpected costs to perform remedial activities on our natural gas infrastructure to ensure our continued safe and reliable operation. Recent pipeline incidents in the U.S. have also led to the introduction of proposed rules and possible federal legislative actions which could impose restrictions on LG&E's operations or require more stringent testing to

ensure pipeline integrity. Implementation of these regulations could increase our costs to comply with pipeline integrity and safety regulations.

#### **E. Risks Specific to Pennsylvania Regulated Segment**

*(PPL and PPL Electric)*

***We face competition for transmission projects, which could adversely affect our rate base growth.***

FERC Order 1000, issued in July 2011, establishes certain procedural and substantive requirements relating to participation, cost allocation and non-incumbent developer aspects of regional and inter-regional electricity transmission planning activities. The PPL Electric transmission business, operating under a FERC-approved PJM Open Access Transmission Tariff, is subject to competition pursuant to FERC Order 1000 from entities that are not incumbent PJM transmission owners with respect to the construction and ownership of transmission facilities within PJM. Increased competition can result in lower rate base growth.

***We could be subject to higher costs and/or penalties related to Pennsylvania Conservation and Energy Efficiency Programs.***

PPL Electric is subject to Act 129, which contains requirements for energy efficiency and conservation programs and for the use of smart metering technology, imposes PLR electricity supply procurement rules, provides remedies for market misconduct, and made changes to the existing Alternative Energy Portfolio Standard. The law also requires electric utilities to meet specified goals for reduction in customer electricity usage and peak demand. Utilities not meeting these Act 129 requirements are subject to significant penalties that cannot be recovered in rates. Numerous factors outside of our control could prevent compliance with these requirements and result in penalties to us.

#### **F. Risks Related to All Segments**

*(All Registrants)*

***The operation of our businesses is subject to cyber-based security and data integrity risks.***

Numerous functions affecting the efficient operation of our businesses are dependent on the secure and reliable storage, processing and communication of electronic data and the use of sophisticated computer hardware and software systems. The operation of our transmission and distribution systems, as well as our generation plants, are all reliant on cyber-based technologies and, therefore, subject to the risk that these systems could be the target of disruptive actions by terrorists or criminals or otherwise be compromised by unintentional events. As a result, operations could be interrupted, property could be damaged and sensitive customer information lost or stolen, causing us to incur significant losses of revenues, other substantial liabilities and damages, costs to replace or repair damaged equipment and damage to our reputation. In addition, under the Energy Policy Act of 2005, users, owners and operators of the bulk power transmission system, including PPL Electric, LG&E and KU, are subject to mandatory reliability standards promulgated by NERC and enforced by FERC. As an operator of natural gas distribution systems, LG&E is also subject to mandatory reliability standards of the U.S. Department of Transportation. Failure to comply with these standards could result in the imposition of fines or civil penalties, and potential exposure to third party claims for alleged violations of the standards.

***We are subject to risks associated with federal and state tax laws and regulations.***

Changes in tax law as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact our results of operations and cash flows. We are required to make judgments in order to estimate our obligations to taxing authorities. These tax obligations include income, property, gross receipts, franchise, sales and use, employment-related and other taxes. We also estimate our ability to utilize deferred tax assets and tax credits. Dependent upon the revenue needs of the jurisdictions in which our businesses operate, various tax and fee increases may be proposed or considered. We cannot predict changes in tax law or regulation or the effect of any such changes on our businesses. Any such changes could increase tax expense and could have a significant negative impact on our results of operations and cash flows. We have completed or made reasonable estimates of the effects of the TCJA reflected in our December 31, 2018 financial statements, and we continue to evaluate the application of the law in calculating income tax expense.

***Increases in electricity prices and/or a weak economy, can lead to changes in legislative and regulatory policy, including the promotion of energy efficiency, conservation and distributed generation or self-generation, which may adversely impact our business.***

Energy consumption is significantly impacted by overall levels of economic activity and costs of energy supplies. Economic downturns or periods of high energy supply costs can lead to changes in or the development of legislative and regulatory policy designed to promote reductions in energy consumption and increased energy efficiency, alternative and renewable energy sources, and distributed or self-generation by customers. This focus on conservation, energy efficiency and self-generation may result in a decline in electricity demand, which could adversely affect our business.

***We could be negatively affected by rising interest rates, downgrades to our credit ratings, adverse credit market conditions or other negative developments in our ability to access capital markets.***

Our businesses are capital-intensive and, in the ordinary course of business, we are reliant upon adequate long-term and short-term financing to fund our significant capital expenditures, debt service and operating needs. As a result, we are sensitive to developments in interest rates, credit rating considerations, insurance, security or collateral requirements, market liquidity and credit availability and refinancing opportunities necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased availability of credit. In addition, certain sources of debt and equity capital have expressed reservations about investing in companies that rely on fossil fuels. If sources of our capital are reduced, capital costs could increase materially.

***A downgrade in our credit ratings could negatively affect our ability to access capital and increase the cost of maintaining our credit facilities and any new debt.***

Credit ratings assigned by Moody's and S&P to our businesses and their financial obligations have a significant impact on the cost of capital incurred by our businesses. A ratings downgrade could increase our short-term borrowing costs and negatively affect our ability to fund liquidity needs and access new long-term debt at acceptable interest rates. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Ratings Triggers" for additional information on the financial impact of a downgrade in our credit ratings.

***Our operating revenues could fluctuate on a seasonal basis, especially as a result of extreme weather conditions.***

Our businesses are subject to seasonal demand cycles. For example, in some markets demand for, and market prices of, electricity peak during hot summer months, while in other markets such peaks occur in cold winter months. As a result, our overall operating results may fluctuate substantially on a seasonal basis if weather conditions diverge adversely from seasonal norms.

***Operating expenses could be affected by weather conditions, including storms, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters.***

Weather and other factors can significantly affect our profitability or operations by causing outages, damaging infrastructure and requiring significant repair costs. Storm outages and damage often directly decrease revenues and increase expenses, due to reduced usage and restoration costs.

***Our businesses are subject to physical, market and economic risks relating to potential effects of climate change.***

Climate change may produce changes in weather or other environmental conditions, including temperature or precipitation levels, and thus may impact consumer demand for electricity. In addition, the potential physical effects of climate change, such as increased frequency and severity of storms, floods, and other climatic events, could disrupt our operations and cause us to incur significant costs to prepare for or respond to these effects. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs. Greenhouse gas regulation could increase the cost of electricity, particularly power generated by fossil fuels, and such increases could have a depressive effect on regional economies. Reduced economic and consumer activity in our service areas -- both generally and specific to certain industries and consumers accustomed to previously lower cost power -- could reduce demand for the power we generate, market and deliver. Also, demand for our energy-related services could be similarly lowered by consumers' preferences or market factors favoring energy efficiency, low-carbon power sources or reduced electricity usage.

***We cannot predict the outcome of legal proceedings or investigations related to our businesses in which we are periodically involved. An unfavorable outcome or determination in any of these matters could have a material adverse effect on our financial condition, results of operations or cash flows.***

We are involved in legal proceedings, claims and litigation and periodically are subject to state and federal investigations arising out of our business operations, the most significant of which are summarized in Item 1. Business and "Regulatory



Matters" in Note 7 to the Financial Statements and in "Legal Matters" and "Regulatory Issues" in Note 13 to the Financial Statements. We cannot predict the ultimate outcome of these matters, nor can we reasonably estimate the costs or liabilities that could potentially result from a negative outcome in each case.

***Significant increases in our operation and maintenance expenses, including health care and pension costs, could adversely affect our future earnings and liquidity.***

We continually focus on limiting and reducing our operation and maintenance expenses. However, we expect to continue to face increased cost pressures in our operations. Increased costs of materials and labor may result from general inflation, increased regulatory requirements (especially in respect of environmental regulations), the need for higher-cost expertise in the workforce or other factors. In addition, pursuant to collective bargaining agreements, we are contractually committed to provide specified levels of health care and pension benefits to certain current employees and retirees. These benefits give rise to significant expenses. Due to general inflation with respect to such costs, the aging demographics of our workforce and other factors, we have experienced significant health care cost inflation in recent years, and we expect our health care costs, including prescription drug coverage, to continue to increase despite measures that we have taken and expect to take to require employees and retirees to bear a higher portion of the costs of their health care benefits. In addition, we expect to continue to incur significant costs with respect to the defined benefit pension plans for our employees and retirees. The measurement of our expected future health care and pension obligations, costs and liabilities is highly dependent on a variety of assumptions, most of which relate to factors beyond our control. These assumptions include investment returns, interest rates, health care cost trends, inflation rates, benefit improvements, salary increases and the demographics of plan participants. If our assumptions prove to be inaccurate, our future costs and cash contribution requirements to fund these benefits could increase significantly.

***We may incur liabilities in connection with discontinued operations.***

In connection with various divestitures, and certain other transactions, we have indemnified or guaranteed parties against certain liabilities. These indemnities and guarantees relate, among other things, to liabilities which may arise with respect to the period during which we or our subsidiaries operated a divested business, and to certain ongoing contractual relationships and entitlements with respect to which we or our subsidiaries made commitments in connection with the divestiture. See "Guarantees and Other Assurances" in Note 13 to the Financial Statements.

***We are subject to liability risks relating to our generation, transmission and distribution operations.***

The conduct of our physical and commercial operations subjects us to many risks, including risks of potential physical injury, property damage or other financial liability, caused to or by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

***Our facilities may not operate as planned, which may increase our expenses and decrease our revenues and have an adverse effect on our financial performance.***

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects us to a variety of risks, including the breakdown or failure of equipment, accidents, security breaches, viruses or outages affecting information technology systems, labor disputes, obsolescence, delivery/transportation problems and disruptions of fuel supply and performance below expected levels. These events may impact our ability to conduct our businesses efficiently and lead to increased costs, expenses or losses. Operation of our delivery systems below our expectations may result in lost revenue and increased expense, including higher maintenance costs, which may not be recoverable from customers. Planned and unplanned outages at our power plants may require us to purchase power at then-current market prices to satisfy our commitments or, in the alternative, pay penalties and damages for failure to satisfy them.

Although we maintain insurance coverage for certain of these risks, we do not carry insurance for all of these risks and no assurance can be given that such insurance coverage will be sufficient to compensate us in the event losses occur.

***We are required to obtain, and to comply with, government permits and approvals.***

We are required to obtain, and to comply with, numerous permits, approvals, licenses and certificates from governmental agencies. The process of obtaining and renewing necessary permits can be lengthy and complex and sometimes result in the establishment of permit conditions that make the project or activity for which a permit was sought unprofitable or otherwise unattractive. In addition, such permits or approvals may be subject to denial, revocation or modification under circumstances. Failure to obtain or comply with the conditions of permits or approvals, or failure to comply with any applicable laws or regulations, may result in delay or temporary suspension of our operations and electricity sales or the curtailment of our power delivery and may subject us to penalties and other sanctions. Although various regulators routinely renew existing licenses, renewal could be denied or jeopardized by various factors, including failure to provide adequate financial assurance for closure; failure to comply with environmental, health and safety laws and regulations or permit conditions; local community, political or other opposition; and executive, legislative or regulatory action.

Our cost or inability to obtain and comply with the permits and approvals required for our operations could have a material adverse effect on our operations and cash flows. In addition, new environmental legislation or regulations, if enacted, or changed interpretations of existing laws may elicit claims that historical routine modification activities at our facilities violated applicable laws and regulations. In addition to the possible imposition of fines in such cases, we may be required to undertake significant capital investments in pollution control technology and obtain additional operating permits or approvals, which could have an adverse impact on our business, results of operations, cash flows and financial condition.

***War, other armed conflicts or terrorist attacks could have a material adverse effect on our business.***

War, terrorist attacks and unrest have caused and may continue to cause instability in the world's financial and commercial markets and have contributed to high levels of volatility in prices for oil and gas. In addition, unrest in the Middle East could lead to acts of terrorism in the United States, the United Kingdom or elsewhere, and acts of terrorism could be directed against companies such as ours. Armed conflicts and terrorism and their effects on us or our markets may significantly affect our business and results of operations in the future. In addition, we may incur increased costs for security, including additional physical plant security and security personnel or additional capability following a terrorist incident.

***We are subject to counterparty performance, credit or other risk in the provision of goods or services to us, which could adversely affect our ability to operate our facilities or conduct business activities.***

We purchase from a variety of suppliers energy, capacity, fuel, natural gas, transmission service and certain commodities used in the physical operation of our businesses, as well as goods or services, including information technology rights and services, used in the administration of our businesses. Delivery of these goods and services is dependent on the continuing operational performance and financial viability of our contractual counterparties and also the markets, infrastructure or third parties they use to provide such goods and services to us. As a result, we are subject to risks of disruptions, curtailments or increased costs in the operation of our businesses if such goods or services are unavailable or become subject to price spikes or if a counterparty fails to perform. Such disruptions could adversely affect our ability to operate our facilities or deliver services and collect revenues, which could result in lower sales and/or higher costs and thereby adversely affect our results of operations. The performance of coal markets and producers may be the subject of increased counterparty risk to LKE, LG&E and KU currently due to weaknesses in such markets and suppliers. The coal industry is subject to increasing competitive pressures from natural gas markets, political pressures and new or more stringent environmental regulation, including regulation of combustion byproducts and water inputs or discharges.

***We are subject to the risk that our workforce and its knowledge base may become depleted in coming years.***

We are experiencing an increase in attrition due primarily to the number of retiring employees, with the risk that critical knowledge will be lost and that it may be difficult to replace departed personnel, and to attract and retain new personnel, with appropriate skills and experience, due to an increase in competition for such workers.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

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

None.

## ITEM 2. PROPERTIES

### U.K. Regulated Segment (PPL)

For a description of WPD's service territory, see "Item 1. Business - General - Segment Information - U.K. Regulated Segment." WPD has electric distribution lines in public streets and highways pursuant to legislation and rights-of-way secured from property owners. At December 31, 2019, WPD's distribution system in the U.K. includes 1,882 substations with a total capacity of 74 million kVA, 55,757 circuit miles of overhead lines and 84,977 underground cable miles.

### Kentucky Regulated Segment (PPL, LKE, LG&E and KU)

LG&E's and KU's properties consist primarily of regulated generation facilities, electricity transmission and distribution assets and natural gas transmission and distribution assets in Kentucky. The capacity of generation units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances. The electricity generating capacity at December 31, 2019 was:

Primary Fuel/Plant	Total MW Capacity Summer	LKE	LG&E		KU	
		Ownership or Other Interest in MW	% Ownership or Other Interest	Ownership or Other Interest in MW	% Ownership or Other Interest	Ownership or Other Interest in MW
<b>Coal</b>						
Ghent - Units 1- 4	1,919	1,919			100.00	1,919
Mill Creek - Units 1- 4	1,465	1,465	100.00	1,465		
E.W. Brown - Unit 3	412	412			100.00	412
Trimble County - Unit 1 (a)	493	370	75.00	370		
Trimble County - Unit 2 (a)	732	549	14.25	104	60.75	445
	<u>5,021</u>	<u>4,715</u>		<u>1,939</u>		<u>2,776</u>
<b>Natural Gas/Oil</b>						
E.W. Brown Unit 5 (b)	130	130	53.00	69	47.00	61
E.W. Brown Units 6 - 7	292	292	38.00	111	62.00	181
E.W. Brown Units 8 - 11 (b)	484	484			100.00	484
Trimble County Units 5 - 6	318	318	29.00	92	71.00	226
Trimble County Units 7 - 10	636	636	37.00	235	63.00	401
Paddy's Run Units 11 - 12	35	35	100.00	35		
Paddy's Run Unit 13	147	147	53.00	78	47.00	69
Haefling - Units 1 - 2	24	24			100.00	24
Zorn Unit	14	14	100.00	14		
Cane Run Unit 7	662	662	22.00	146	78.00	516
	<u>2,742</u>	<u>2,742</u>		<u>780</u>		<u>1,962</u>
<b>Hydro</b>						
Ohio Falls - Units 1-8	64	64	100.00	64		
Dix Dam - Units 1-3	32	32			100.00	32
	<u>96</u>	<u>96</u>		<u>64</u>		<u>32</u>
<b>Solar</b>						
E.W. Brown Solar (c)	8	8	39.00	3	61.00	5
<b>Total</b>	<u>7,867</u>	<u>7,561</u>		<u>2,786</u>		<u>4,775</u>

- (a) Trimble County Unit 1 and Trimble County Unit 2 are jointly owned with Illinois Municipal Electric Agency and Indiana Municipal Power Agency. Each owner is entitled to its proportionate share of the units' total output and funds its proportionate share of capital, fuel and other operating costs. See Note 12 to the Financial Statements for additional information.
- (b) There is an inlet air cooling system attributable to these units. This inlet air cooling system is not jointly owned; however, it is used to increase production on the units to which it relates, resulting in an additional 12 MW of capacity for LG&E and an additional 86 MW of capacity for KU.
- (c) This unit is a 10 MW facility and achieves such production. The 8 MW solar facility summer capacity rating is reflective of an average expected output across the peak hours during the summer period based on average weather conditions at the solar facility.

For a description of LG&E's and KU's service areas, see "Item 1. Business - General - Segment Information - Kentucky Regulated Segment." At December 31, 2019, LG&E's transmission system included, in the aggregate, 45 substations (31 of which are shared with the distribution system) with a total capacity of 8 million kVA and 669 pole miles of lines. LG&E's distribution system included 96 substations (31 of which are shared with the transmission system) with a total capacity of 5

million kVA, 3,884 circuit miles of overhead lines and 2,660 underground cable miles. KU's transmission system included 141 substations (61 of which are shared with the distribution system) with a total capacity of 14 million kVA and 4,062 pole miles of lines. KU's distribution system included 469 substations (61 of which are shared with the transmission system) with a total capacity of 8 million kVA, 14,020 circuit miles of overhead lines and 2,593 underground cable miles.

LG&E's natural gas transmission system includes 4,384 miles of gas distribution mains and 371 miles of gas transmission mains, consisting of 234 miles of gas transmission pipeline, 117 miles of gas transmission storage lines, 20 miles of gas combustion turbine lines and one mile of gas transmission pipeline in regulator facilities. Five underground natural gas storage fields, with a total working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to ultimate consumers. KU's service area includes an additional 11 miles of gas transmission pipeline providing gas supply to natural gas combustion turbine electricity generating units.

Substantially all of LG&E's and KU's respective real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and, in the case of LG&E, the storage and distribution of natural gas, is subject to the lien of either the LG&E 2010 Mortgage Indenture or the KU 2010 Mortgage Indenture. See Note 8 to the Financial Statements for additional information.

LG&E and KU continuously reexamine development projects based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them or pursue other options. See Item 1. Business for a discussion related to LG&E's and KU's Solar Share program.

Pennsylvania Regulated Segment (PPL and PPL Electric)

For a description of PPL Electric's service area, see "Item 1. Business - General - Segment Information - Pennsylvania Regulated Segment." PPL Electric has electric transmission and distribution lines in public streets and highways pursuant to franchises and rights-of-way secured from property owners. At December 31, 2019, PPL Electric's transmission system includes 51 substations with a total capacity of 31 million kVA and 5,439 circuit miles in service. PPL Electric's distribution system includes 353 substations with a total capacity of 14 million kVA, 36,385 circuit miles of overhead lines and 8,517 underground circuit miles. All of PPL Electric's facilities are located in Pennsylvania. Substantially all of PPL Electric's distribution properties and certain transmission properties are subject to the lien of the PPL Electric 2001 Mortgage Indenture. See Note 8 to the Financial Statements for additional information.

**ITEM 3. LEGAL PROCEEDINGS**

See Notes 6, 7 and 13 to the Financial Statements for information regarding legal, tax and regulatory matters and proceedings.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY,  
RELATED STOCKHOLDER MATTERS AND  
ISSUER PURCHASES OF EQUITY SECURITIES**

See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash" for information regarding certain restrictions on the ability to pay dividends for all Registrants.

**PPL Corporation**

Additional information for this item is set forth in the sections entitled "Quarterly Financial and Dividend Data," "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" and "Shareowner and Investor Information" of this report. At January 31, 2020, there were 51,702 common stock shareowners of record.

There were no purchases by PPL of its common stock during the fourth quarter of 2019.

**PPL Electric Utilities Corporation**

There is no established public trading market for PPL Electric's common stock, as PPL owns 100% of the outstanding common shares. Dividends paid to PPL on those common shares are determined by PPL Electric's Board of Directors. PPL Electric paid common stock dividends to PPL of \$486 million in 2019 and \$390 million in 2018.

**LG&E and KU Energy LLC**

There is no established public trading market for LKE's membership interests. PPL owns all of LKE's outstanding membership interests. Distributions on the membership interests are paid as determined by LKE's Board of Directors. LKE made cash distributions to PPL of \$308 million in 2019 and \$302 million in 2018.

**Louisville Gas and Electric Company**

There is no established public trading market for LG&E's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by LG&E's Board of Directors. LG&E paid common stock dividends to LKE of \$182 million in 2019 and \$156 million in 2018.

**Kentucky Utilities Company**

There is no established public trading market for KU's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by KU's Board of Directors. KU paid common stock dividends to LKE of \$229 million in 2019 and \$246 million in 2018.



**ITEM 6. SELECTED FINANCIAL AND OPERATING DATA**

<b>PPL Corporation (a) (b)</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Income Items (in millions)</b>					
Operating revenues	\$ 7,769	\$ 7,785	\$ 7,447	\$ 7,517	\$ 7,669
Operating income (c)	2,840	2,852	2,901	2,936	2,802
Income from continuing operations after income taxes attributable to PPL shareowners	1,746	1,827	1,128	1,902	1,603
Loss from discontinued operations (net of income taxes) (f)	—	—	—	—	(921)
Net income attributable to PPL shareowners (f)	1,746	1,827	1,128	1,902	682
<b>Balance Sheet Items (in millions)</b>					
Total assets (d)	45,680	43,396	41,479	38,315	39,301
Short-term debt (d)	1,151	1,430	1,080	923	916
Long-term debt (d)	21,893	20,599	20,195	18,326	19,048
Common equity (d)	12,991	11,657	10,761	9,899	9,919
Total capitalization (d)	36,035	33,686	32,036	29,148	29,883
<b>Financial Ratios</b>					
Return on common equity - % (d)(f)	14.3	16.1	10.9	19.2	5.8
<b>Common Stock Data</b>					
Number of shares outstanding - Basic (in thousands)					
Year-end	767,233	720,323	693,398	679,731	673,857
Weighted-average	728,512	704,439	685,240	677,592	669,814
Income from continuing operations after income taxes available to PPL common shareowners - Basic EPS	\$ 2.39	\$ 2.59	\$ 1.64	\$ 2.80	\$ 2.38
Income from continuing operations after income taxes available to PPL common shareowners - Diluted EPS	\$ 2.37	\$ 2.58	\$ 1.64	\$ 2.79	\$ 2.37
Net income available to PPL common shareowners - Basic EPS	\$ 2.39	\$ 2.59	\$ 1.64	\$ 2.80	\$ 1.01
Net income available to PPL common shareowners - Diluted EPS	\$ 2.37	\$ 2.58	\$ 1.64	\$ 2.79	\$ 1.01
Dividends declared per share of common stock	\$ 1.65	\$ 1.64	\$ 1.58	\$ 1.52	\$ 1.50
Book value per share (d)	\$ 16.93	\$ 16.18	\$ 15.52	\$ 14.56	\$ 14.72
Market price per share	\$ 35.88	\$ 28.33	\$ 30.95	\$ 34.05	\$ 34.13
Dividend payout ratio - % (e)(f)	70	64	96	55	149
Dividend yield - % (g)	4.6	5.8	5.1	4.5	4.4
Price earnings ratio (e)(f)(g)	15.1	11.0	18.9	12.2	33.8
<b>Sales Data - GWh</b>					
Domestic - Electric energy supplied - wholesale	1,154	2,461	2,084	2,177	2,241
Domestic - Electric energy delivered - retail	67,238	68,686	65,751	67,474	67,798
U.K. - Electric energy delivered	72,061	74,181	74,317	74,728	75,907

- (a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Earnings" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2019 and 2018. The earnings for 2015 were also affected by the spinoff of PPL Energy Supply and the sale of the Montana hydroelectric generating facilities.
- (b) See "Item 1A. Risk Factors" and Notes 1, 7 and 13 to the Financial Statements for a discussion of uncertainties that could affect PPL's future financial condition.
- (c) 2015 through 2017 reflect the retrospective application of new accounting guidance related to the income statement presentation of net periodic benefit costs adopted by PPL in January 2018.
- (d) 2015 reflects the impact of the spinoff of PPL Energy Supply and a \$3.2 billion related dividend.
- (e) Based on diluted EPS.
- (f) 2015 includes an \$879 million loss on the spinoff of PPL Energy Supply, reflecting the difference between PPL's recorded value for the Supply segment and the estimated fair value determined in accordance with GAAP. 2015 also includes five months of Supply segment earnings.
- (g) Based on year-end market prices.

**ITEM 6. SELECTED FINANCIAL AND OPERATING DATA**

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

Item 6 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

## **Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations**

*(All Registrants)*

This "Item 7. 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' Consolidated Financial Statements and the accompanying Notes. 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 2019 with 2018. For PPL, "Results of Operations" also includes "Segment Earnings" and "Adjusted Gross Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross 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 "2020 Outlook" discussion identifies key factors expected to impact 2020 earnings.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of the Registrants and that require their management to make significant estimates, assumptions and other judgments of inherently uncertain matters.

For comparison of the Registrants' results of operations and cash flows for the years ended December 31, 2018 to December 31, 2017, refer to "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2018 Form 10-K, filed with the SEC on February 14, 2019.

### **Overview**

For a description of the Registrants and their businesses, see "Item 1. Business."

#### **Business Strategy**

*(All Registrants)*

PPL operates seven fully regulated high-performing utilities. These utilities are located in the U.K., Pennsylvania and Kentucky, constructive regulatory jurisdictions with distinct regulatory structures and customer classes. PPL believes this business portfolio positions the company well for continued success and provides earnings and dividend growth potential.

PPL's strategy, and that of the other Registrants, is to deliver best-in-sector operational performance, invest in a sustainable energy future, maintain a strong financial foundation, and engage and develop its people. PPL's business plan is designed 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 in the U.S. and RAV in the U.K. Rate base growth is being 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.

For the U.S. businesses, central to PPL's strategy is recovering 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 and 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 expenditures 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.

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. See "Financial and Operational Developments - U.K. Membership in European Union" for additional discussion of the U.K. earnings hedging activity.

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 the Registrants operate (U.K., U.S. federal and state). This is supported by a strong culture of integrity and delivering on commitments to customers, regulators and shareowners, and a commitment to continue to improve customer service, reliability and operational efficiency.

## **Financial and Operational Developments**

### *U.S. Tax Reform (All Registrants)*

The IRS issued proposed regulations for certain provisions of the TCJA in 2018, including interest deductibility and Global Intangible Low-Taxed Income (GILTI). In 2019, final and new proposed regulations were issued relating to the GILTI provisions. PPL has determined that neither the final or new proposed regulations materially change PPL's conclusion that currently no incremental tax arises under these rules. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be in 2020. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant. PPL expressed its views on these proposed regulations in a comment letter addressed to the IRS on February 26, 2019.

### *U.K. Membership in European Union (PPL)*

Following the June 2016 referendum, on March 29, 2017, the U.K. Government invoked Article 50 (Article 50) of the Lisbon Treaty, formally beginning the two-year period provided by Article 50 for the U.K. to negotiate an agreement specifying the

terms of its withdrawal from the European Union (EU), popularly referred to as Brexit. After repeated extensions, on October 28, 2019, the EU agreed to extend the Article 50 process until January 31, 2020. The U.K. Parliament subsequently approved an early general election for December 12, 2019, which resulted in a substantial Conservative Party Parliamentary majority and subsequent U.K. and EU Parliamentary votes to approve the EU withdrawal agreement negotiated by Prime Minister Boris Johnson.

The U.K. formally left the EU on January 31, 2020 with agreed upon withdrawal terms, entering a transition period that is scheduled to end on December 31, 2020. During the transition period, the U.K. will seek to negotiate a free trade arrangement with the EU and also negotiate new trade terms with countries outside of the EU. Significant uncertainty continues to surround the outcome of the transition period. PPL believes that its greatest risk related to the remaining Brexit uncertainties is an extended period of depressed value of the GBP or the potential further decline in the value of the GBP compared to the U.S. dollar. A decline in the value of the GBP compared to the U.S. dollar will reduce the value of WPD's earnings to PPL.

PPL has executed hedges to mitigate the foreign exchange risk to its U.K. earnings. As of January 31, 2020, PPL's foreign exchange exposure related to budgeted earnings is 90% hedged for 2020 at an average rate of \$1.48 per GBP and 5% hedged for 2021 at an average rate of \$1.33 per GBP.

PPL cannot predict the impact, in either the short-term or long-term, on foreign exchange rates or 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 material.

PPL does not expect the financial condition and results of operations of WPD, itself, to change significantly as a result of Brexit. The regulatory environment and operation of WPD's businesses are not expected to change. RIIO-ED1, the current price control, with allowed revenues agreed with Ofgem runs through March 2023. The impact of a slower economy or recession on WPD would be mitigated in part because U.K. regulation provides that any reduction in the volume of electricity delivered will be recovered in allowed revenues in future periods through the K-factor adjustment. See "Item 1. Business - Segment Information - U.K. Regulated Segment" for additional information on the current price control and K-factor adjustment. In addition, an increase in inflation would have a positive effect on revenues and RAV as annual inflation adjustments are applied to both revenues and RAV (and real returns are earned on inflated RAV). This impact, however, would be partially offset by higher operation and maintenance and interest expense on index-linked debt. With respect to access to financing, WPD has substantial borrowing capacity under existing credit facilities and expects to continue to have access to all major financial markets. With respect to access to and cost of equipment and other materials, WPD management continues to review U.K. government issued advice on preparations for Brexit and has taken actions to mitigate potential increasing costs and disruption to its critical sources of supply. Additionally, less than 1% of WPD's employees are non-U.K. EU nationals and no change in their domicile is expected.

#### *Regulatory Requirements*

##### *(All Registrants)*

The Registrants cannot predict the impact that future regulatory requirements may have on their 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, GHG, and ELGs. See "Item 1. Business" and Notes 7, 13 and 19 to the Financial Statements for a discussion of these significant environmental matters. These and other environmental requirements led PPL, LKE, LG&E and KU to retire approximately 1,000 MW of coal-fired generating plants in Kentucky since 2015.

##### *TCJA Impact on FERC Rates (All Registrants)*

In November 2019, the FERC published Final Rules providing that public utility transmission providers include mechanisms in their formula rates to deduct excess ADIT from, or add deficient ADIT to, rate base and adjust their income tax allowances by amortized excess or deficient ADIT, and to make a related compliance filing.

In February 2019, PPL Electric filed with the FERC proposed revisions to its transmission formula rate template pursuant to Section 205 of the Federal Power Act and Section 35.13 of the FERC Rules and Regulations. Specifically, PPL Electric proposed to modify its formula rate to permit the return or recovery of excess or deficient ADIT resulting from the TCJA and



permit PPL Electric to prospectively account for the income tax expense associated with the depreciation of the equity component of the AFUDC. In April 2019, the FERC accepted the proposed revisions to the formula rate template, which were effective June 1, 2019, as well as the proposed adjustments to ADIT, effective January 1, 2018.

In February 2019, in connection with the requirements of the TCJA and Kentucky HB 487, LG&E and KU filed a request with the FERC to amend their transmission formula rates resulting from the laws' reductions to corporate income tax rates. The FERC approved this request effective June 1, 2019. LG&E and KU are currently reviewing the Final Rule and will submit a compliance filing addressing excess ADIT by June 1, 2020. LG&E and KU do not anticipate the impact of the TCJA and Kentucky HB 487 related to their FERC-jurisdictional rates to be significant.

*Pennsylvania Alternative Ratemaking (PPL and PPL Electric)*

In June 2018, Governor Tom Wolf signed into law Act 58 of 2018 (codified at 66 Pa. C.S. § 1330) authorizing public utilities to implement alternative rates and rate mechanisms in base rate proceedings before the PUC. The effective date of Act 58 was August 27, 2018. Under the new law, a public utility may file an application to establish alternative rates and rate mechanisms in a base rate proceeding. These alternative rates and rate mechanisms include, but are not limited to, decoupling mechanisms, performance-based rates, formula rates, multi-year rate plans, or a combination of those or other mechanisms.

On April 25, 2019, the PUC issued an Implementation Order adopting its interpretation and implementation of Act 58 and establishing the procedures through which utilities may seek PUC approval of alternative rates and rate mechanisms.

*RIIO-2 Framework (PPL)*

In 2018, Ofgem issued its consultation document on the RIIO-2 framework, covering all U.K. gas and electricity transmission and distribution price controls. The current electricity distribution price control, RIIO-ED1, continues through March 31, 2023 and will not be impacted by the RIIO-2 consultation process. Later in 2018, Ofgem published its decision following its RIIO-2 framework consultation after consideration of comments received including those from WPD and PPL.

In August 2019, Ofgem published an open letter seeking views on its proposed sector specific approach on the RIIO-ED2 framework. WPD and PPL provided responses to this open letter. In December 2019, Ofgem published its decision on the RIIO-ED2 framework, thus confirming the following points in its RIIO-2 and RIIO-ED2 framework decision documents:

- RIIO-ED2 will be a five-year price control period, compared to eight years in the current RIIO-ED1 price control.
- CPI or CPIH will be used for inflation measurement in calculating both RAV and allowed returns rather than RPI.
- The baseline allowed return on equity will be set using the same methodology in all RIIO-2 sectors. The new methodology includes; (a) an equity indexation, whereby the allowed return on equity is updated to reflect changes in the risk-free rate, and (b) potentially setting the allowed return 0.5% below the expected return.
- Full debt indexation will be retained.
- The early settlement process (fast tracking) will be removed and replaced with an alternative mechanism to incentivize high-quality, rigorous and ambitious business plans.
- The Totex incentive rate will be based on a confidence level for setting baseline cost allowances.
- A new enhanced engagement model will be introduced requiring distribution companies to set up a customer engagement group to provide Ofgem with a public report of local stakeholders' views on the companies' business plans. Ofgem will also establish an independent RIIO-2 challenge group comprised of consumer experts to provide Ofgem with a public report on companies' business plans.
- There will be no change to the existing depreciation policy of using economic asset lives as the basis for depreciating RAV as part of base revenue calculations. WPD is currently transitioning to 45-year asset lives for new additions in RIIO-ED1 based on Ofgem's extensive review of asset lives in RIIO-ED1.
- A focus of RIIO-2 will be on whole-system outcomes. Ofgem intends network companies and system operators working together to ensure the energy system as a whole is efficient and delivers the best value to consumers. Ofgem is undertaking further work to clarify the definition of whole-system and the appropriate roles of the network companies in supporting this objective. Ofgem is still undecided on how DSO functions are to be treated. Ofgem will include a DSO reopener to reassess progress made in the establishment of DSO activities.

Ofgem will now shift focus to the development of the RIIO-ED2 price control methodology, with the consultation expected to be published by the third quarter of 2020. WPD and PPL continue to be fully engaged in the RIIO-ED2 process. PPL cannot predict the outcome of this process or the long-term impact the final RIIO-ED2 price control will have on its financial condition or results of operations. Any decision for RIIO-ED2 will not be finalized until November 2022. The RIIO-ED2 price control will come into effect on April 1, 2023.

*FERC Transmission Rate Filing*

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

In 2018, LG&E and KU applied to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. (MISO), a regional transmission operator and energy market. The application seeks termination of LG&E's and KU's commitment to provide certain Kentucky municipalities mitigation for certain horizontal market power concerns arising out of the 1998 LG&E and KU merger and 2006 MISO withdrawal. The amounts at issue are generally waivers or credits granted to a limited number of Kentucky Municipalities for either certain LG&E and KU or MISO transmission charges incurred for transmission service received. Due to the development of robust, accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. In March 2019, the FERC granted LG&E's and KU's request to remove the on-going credits, conditioned upon the implementation by LG&E and KU of a transition mechanism for certain existing power supply arrangements, subject to FERC review and approval. In July 2019, LG&E and KU proposed their transition mechanism to the FERC and in September 2019, the FERC rejected the proposed transition mechanism and issued a separate order providing clarifications of certain aspects of the March order. In October 2019, LG&E and KU filed requests for rehearing and clarification on the two September orders. These rehearing requests are currently pending before FERC. Additionally, certain petitions for review of FERC's orders have been filed by multiple parties, including LG&E and KU, at the D.C. Circuit Court of Appeals. LG&E and KU cannot predict the outcome of the proceedings. LG&E and KU currently receive recovery of waivers and credits provided through other rate mechanisms.

*(PPL and PPL Electric)*

In April 2019, PPL Electric filed its annual transmission formula rate update with the FERC, reflecting a revised revenue requirement, which includes the impact of the TCJA. The filing established the revenue requirement used to set rates that took effect in June 2019.

*Rate Case Proceedings*

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

In September 2018, LG&E and KU filed requests with the KPSC for an increase in annual base electricity rates and gas rates and the elimination of the TCJA bill credit mechanism. In April 2019, the KPSC issued orders eliminating the TCJA bill credit mechanism and increasing annual base electricity and gas rates providing for an annual revenue increase of \$187 million (\$114 million at KU and \$73 million at LG&E), based on a 9.725% return-on-equity. The new base rates and all elements of the orders became effective May 1, 2019. See Note 7 to the Financial Statements for additional information.

*(KU)*

In July 2019, KU filed a request with the VSCC for an increase in annual Virginia base electricity revenues of approximately \$13 million, representing an increase of 18.2%. In January 2020, KU reached a partial settlement agreement including an increase in annual Virginia base electricity revenues of \$9 million effective May 1, 2020, representing an increase of 12.9%. A hearing on the settlement of remaining issues was held in January 2020. A VSCC ruling in the proceeding is expected in April 2020.

*Distribution of TCJA Savings*

*(PPL and PPL Electric)*

In November 2019, the PUC approved PPL Electric's October 2019 petition to distribute the \$43 million of TCJA tax savings for the period between January 1, 2018 and June 30, 2018 over the period January 1, 2020 through December 31, 2020.

## 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 2019 with 2018. The "Segment Earnings" and "Adjusted Gross 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 "Adjusted Gross Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure. The "2020 Outlook" discussion identifies key factors expected to impact 2020 earnings.

Tables analyzing changes in amounts between periods within "Statement of Income Analysis," "Segment Earnings" and "Adjusted Gross 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" 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 2019 with 2018. The results of operations section for PPL Electric, LKE, LG&E and KU is presented in a reduced disclosure format in accordance with General Instructions (I)(2)(a) of Form 10-K.

### **PPL: Statement of Income Analysis, Segment Earnings and Adjusted Gross Margins**

#### Statement of Income Analysis

Net income for the years ended December 31 includes the following results:

	2019	2018	Change 2019 vs. 2018
Operating Revenues	\$ 7,769	\$ 7,785	\$ (16)
Operating Expenses			
Operation			
Fuel	709	799	(90)
Energy purchases	723	745	(22)
Other operation and maintenance	1,985	1,983	2
Depreciation	1,199	1,094	105
Taxes, other than income	313	312	1
Total Operating Expenses	4,929	4,933	(4)
Other Income (Expense) - net	309	396	(87)
Interest Expense	994	963	31
Income Taxes	409	458	(49)
Net Income	\$ 1,746	\$ 1,827	\$ (81)

## Operating Revenues

The increase (decrease) in operating revenues was due to:

	<u>2019 vs. 2018</u>
Domestic:	
PPL Electric Distribution price (a)	\$ 42
PPL Electric Distribution volume	(8)
PPL Electric PLR	8
PPL Electric Transmission Formula Rate (b)	51
PPL Electric TCJA refund (c)	(12)
LKE Retail rates (d)	123
LKE ECR (e)	60
LKE Volumes (f)	(91)
LKE Municipal supply (g)	(56)
LKE Fuel and other energy prices (h)	(48)
Other	16
Total Domestic	<u>85</u>
U.K.:	
Price	83
Volume	(64)
Foreign currency exchange rates	(116)
Other	(4)
Total U.K.	<u>(101)</u>
Total	<u>\$ (16)</u>

- (a) The increase was primarily due to reconcilable cost recovery mechanisms approved by the PUC.
- (b) The increase was primarily due to \$77 million from returns on additional transmission capital investments partially offset by a \$27 million unfavorable impact of the TCJA, which reduced the new revenue requirement that went into effect June 1, 2018.
- (c) The decrease was due to the estimated income tax savings owed to or already returned to distribution customers related to the reduced U.S federal corporate income taxes as a result of the TCJA. See Note 7 to the Financial Statements for additional information.
- (d) The increase was primarily due to higher base rates, inclusive of the termination of the TCJA bill credit mechanism, effective May 1, 2019.
- (e) The increase was primarily due to higher returns on additional environmental capital investments and higher recoverable depreciation expense as a result of higher depreciation rates effective May 1, 2019.
- (f) The decrease was primarily due to weather.
- (g) The decrease was primarily due to the termination of eight supply contracts with Kentucky municipalities on April 30, 2019.
- (h) The decrease was primarily due to lower recoveries of fuel and energy purchases due to lower commodity costs.

## Fuel

Fuel decreased \$90 million in 2019 compared with 2018 at LKE, primarily due to a \$42 million decrease in commodity costs, a \$33 million decrease in volumes driven by weather and a \$20 million decrease in volumes driven by the termination of eight supply contracts with Kentucky municipalities on April 30, 2019.

## Energy Purchases

Energy purchases decreased \$22 million in 2019 compared with 2018, primarily due to a \$27 million decrease at LKE (primarily due to a \$14 million decrease in commodity costs and a \$7 million decrease in gas volumes driven by weather in 2019), partially offset by a \$5 million increase at PPL Electric (primarily due to higher PLR volumes of \$33 million, partially offset by lower PLR prices of \$25 million).

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	<u>2019 vs. 2018</u>
Domestic:	
PPL Electric project cancellation costs	\$ (12)
Stock compensation expense	10
Other operation and maintenance of Safari Energy (a)	20
Other	14
U.K.:	
Foreign currency exchange rates	(23)
Third-party engineering	(4)
Other	(3)
Total	<u>\$ 2</u>

(a) The increase is primarily due to 2019 including a full year of other operation and maintenance expense of Safari Energy, which was acquired on June 1, 2018.

## Depreciation

The increase (decrease) in depreciation was due to:

	<u>2019 vs. 2018</u>
Additions to PP&E, net	\$ 66
Foreign currency exchange rates	(13)
Depreciation rates (a)	52
Total	<u>\$ 105</u>

(a) Higher depreciation rates were effective May 1, 2019 at LG&E and KU.

## Other Income (Expense) - net

The increase (decrease) in other income (expense) - net was due to:

	<u>2019 vs. 2018</u>
Economic foreign currency exchange contracts (Note 17)	\$ (164)
Defined benefit plans - non-service credits (Note 11)	59
Charitable contributions	7
Other	11
Total	<u>\$ (87)</u>

## Interest Expense

The increase (decrease) in interest expense was due to:

	<u>2019 vs. 2018</u>
Long-term debt interest	\$ 38
Short-term debt interest	7
Foreign currency exchange rates	(20)
Other	6
Total	<u>\$ 31</u>



## Income Taxes

The increase (decrease) in income taxes was due to:

	<b>2019 vs. 2018</b>
Change in pre-tax income	\$ (24)
Deferred tax impact of Kentucky state tax reform (a)	(9)
Kentucky recycling credit, net of federal income tax expense (b)	(18)
Other	2
<b>Total</b>	<b>\$ (49)</b>

- (a) In 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.
- (b) In 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky.

See Note 6 to the Financial Statements for additional information on income taxes.

## Segment Earnings

PPL's net income by reportable segments were as follows:

	<b>2019</b>	<b>2018</b>	<b>Change 2019 vs. 2018</b>
U.K. Regulated	\$ 977	\$ 1,114	\$ (137)
Kentucky Regulated	436	411	25
Pennsylvania Regulated	458	431	27
Corporate and Other (a)	(125)	(129)	4
<b>Net Income</b>	<b>\$ 1,746</b>	<b>\$ 1,827</b>	<b>\$ (81)</b>

- (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.

## 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 statutory tax rate of the entity where the activity is recorded. Special items may include items such as:

- 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 17 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 were as follows:

	Change		
	2019	2018	2019 vs. 2018
U.K. Regulated	\$ 1,032	\$ 968	\$ 64
Kentucky Regulated	436	418	18
Pennsylvania Regulated	458	436	22
Corporate and Other	(120)	(117)	(3)
<b>Earnings from Ongoing Operations</b>	<b>\$ 1,806</b>	<b>\$ 1,705</b>	<b>\$ 101</b>

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 56% of PPL's Net Income for 2019 and 39% of PPL's assets at December 31, 2019.

Net Income and Earnings from Ongoing Operations include the following results:

	Change		
	2019	2018	2019 vs. 2018
Operating revenues	\$ 2,167	\$ 2,268	\$ (101)
Other operation and maintenance	510	538	(28)
Depreciation	250	247	3
Taxes, other than income	127	134	(7)
<b>Total operating expenses</b>	<b>887</b>	<b>919</b>	<b>(32)</b>
Other Income (Expense) - net	294	403	(109)
Interest Expense	405	413	(8)
Income Taxes	192	225	(33)
<b>Net Income</b>	<b>977</b>	<b>1,114</b>	<b>(137)</b>
Less: Special Items	(55)	146	(201)
<b>Earnings from Ongoing Operations</b>	<b>\$ 1,032</b>	<b>\$ 968</b>	<b>\$ 64</b>

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:

	Income Statement Line Item	2019	2018
Foreign currency economic hedges, net of tax of \$13, (\$39) (a)	Other Income (Expense) - net	\$ (51)	\$ 148
Other, net of tax of \$1, \$0 (b)	Other operation and maintenance	(4)	—
U.S. tax reform (c)	Income Taxes	—	3
Death benefit, net of tax of \$0, \$1 (d)	Other operation and maintenance	—	(5)
<b>Total</b>		<b>\$ (55)</b>	<b>\$ 146</b>

- (a) Unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.
- (b) Settlement of a contractual dispute.
- (c) Adjustments to certain provisional amounts recognized in the December 31, 2017 Statement of Income related to the enactment of the TCJA.
- (d) Primarily a payment related to the death of the WPD Chief Executive.

The changes in the components of the U.K. Regulated segment's results between these periods were due to the factors set forth below, which reflect amounts classified as U.K. Adjusted 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.

	2019 vs. 2018
U.K.	
U.K. Adjusted Gross Margins	\$ 16
Other operation and maintenance	3
Depreciation	(16)
Other Income (Expense) - net	74
Interest expense	(12)
Income taxes	(15)
U.S.	
Income taxes	6
Other	(4)
Foreign currency exchange, after-tax	12
Earnings from Ongoing Operations	64
Special items, after-tax	(201)
Net Income	\$ (137)

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of U.K. Adjusted Gross Margins.
- Higher other income (expense) - net in 2019 compared with 2018 primarily due to higher pension income.

### 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 25% of PPL's Net Income for 2019 and 34% of PPL's assets at December 31, 2019.

Net Income and Earnings from Ongoing Operations include the following results:

	2019	2018	Change 2019 vs. 2018
Operating revenues	\$ 3,206	\$ 3,214	\$ (8)
Fuel	709	799	(90)
Energy purchases	174	201	(27)
Other operation and maintenance	861	848	13
Depreciation	547	475	72
Taxes, other than income	74	70	4
Total operating expenses	2,365	2,393	(28)
Other Income (Expense) - net	(13)	(16)	3
Interest Expense	298	274	24
Income Taxes	94	120	(26)
Net Income	436	411	25
Less: Special Items	—	(7)	7
Earnings from Ongoing Operations	\$ 436	\$ 418	\$ 18

The following after-tax gains (losses), which management considers special items, impacted the Kentucky Regulated segment's results and are excluded from Earnings from Ongoing Operations:

	Income Statement Line Item	2019	2018
U.S. tax reform (a)	Income Taxes	\$ —	\$ 2
Kentucky state tax reform (b)	Income Taxes	—	(9)
Total		\$ —	\$ (7)

(a) Adjustments to certain provisional amounts recognized in the December 31, 2017 Statement of Income related to the enactment of the TCJA.

(b) In 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.



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

	<b>2019 vs. 2018</b>
Kentucky Adjusted Gross Margins	\$ 70
Other operation and maintenance	(19)
Depreciation	(26)
Taxes, other than income	(5)
Other Income (Expense) - net	3
Interest Expense	(24)
Income Taxes	19
Earnings from Ongoing Operations	18
Special Items, after-tax	7
Net Income	\$ 25

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Kentucky Adjusted Gross Margins.
- Higher depreciation expense in 2019 compared with 2018 primarily due to a \$15 million increase related to higher depreciation rates effective May 1, 2019 and an \$11 million increase related to additional assets placed into service, net of retirements.
- Higher interest expense in 2019 compared with 2018 primarily due to increased borrowings and higher interest rates.
- Lower income taxes in 2019 compared with 2018 primarily due to the recording of a deferred income tax benefit related to a Kentucky recycling credit.

### 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 26% of PPL's Net Income for 2019 and 26% of PPL's assets at December 31, 2019.

Net Income and Earnings from Ongoing Operations include the following results:

	<b>2019</b>	<b>2018</b>	<b>Change 2019 vs. 2018</b>
Operating revenues	\$ 2,358	\$ 2,277	\$ 81
Energy purchases	549	544	5
Other operation and maintenance	566	578	(12)
Depreciation	386	352	34
Taxes, other than income	112	109	3
Total operating expenses	1,613	1,583	30
Other Income (Expense) - net	31	32	(1)
Interest Expense	169	159	10
Income Taxes	149	136	13
Net Income	458	431	27
Less: Special Items	—	(5)	5
Earnings from Ongoing Operations	\$ 458	\$ 436	\$ 22

The following after-tax gains (losses), which management considers special items, impacted the Pennsylvania Regulated segment's results and are excluded from Earnings from Ongoing Operations:

	Income Statement Line Item	2019	2018
IT transformation, net of tax of \$0, \$2 (a)	Other operation and maintenance	\$ —	\$ (5)
Total		<u>\$ —</u>	<u>\$ (5)</u>

(a) In June 2018, PPL EU Services' IT department announced an internal reorganization, which was substantially completed in the third quarter of 2018. As a result, \$5 million of after-tax costs, which includes separation benefits as well as outside services for strategic consulting to establish the new IT organization, were incurred.

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

	2019 vs. 2018
Pennsylvania Adjusted Gross Margins	\$ 54
Other operation and maintenance	9
Depreciation	(19)
Other Income (Expense) - net	(1)
Interest Expense	(10)
Income Taxes	(11)
Earnings from Ongoing Operations	<u>22</u>
Special Items, after-tax	<u>5</u>
Net Income	<u>\$ 27</u>

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Pennsylvania Adjusted Gross Margins.
- Higher depreciation expense in 2019 compared with 2018 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, net of retirements.

**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 years ended December 31:

	2019				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
<b>Net Income</b>	\$ 977	\$ 436	\$ 458	\$ (125)	\$ 1,746
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$13	(51)	—	—	—	(51)
Talen litigation costs, net of tax of \$1 (a)	—	—	—	(5)	(5)
Other, net of tax of \$1	(4)	—	—	—	(4)
<b>Total Special Items</b>	<u>(55)</u>	<u>—</u>	<u>—</u>	<u>(5)</u>	<u>(60)</u>
<b>Earnings from Ongoing Operations</b>	<u>\$ 1,032</u>	<u>\$ 436</u>	<u>\$ 458</u>	<u>\$ (120)</u>	<u>\$ 1,806</u>



	2018				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
<b>Net Income</b>	\$ 1,114	\$ 411	\$ 431	\$ (129)	\$ 1,827
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of (\$39)	148	—	—	—	148
U.S. tax reform (b)	3	2	—	(5)	—
Kentucky state tax reform	—	(9)	—	—	(9)
IT transformation, net of tax of \$2	—	—	(5)	—	(5)
Talen litigation costs, net of tax of \$2 (a)	—	—	—	(7)	(7)
Death benefit, net of tax of \$1	(5)	—	—	—	(5)
<b>Total Special Items</b>	<u>146</u>	<u>(7)</u>	<u>(5)</u>	<u>(12)</u>	<u>122</u>
<b>Earnings from Ongoing Operations</b>	<u>\$ 968</u>	<u>\$ 418</u>	<u>\$ 436</u>	<u>\$ (117)</u>	<u>\$ 1,705</u>

- (a) PPL incurred legal expenses related to litigation with its former affiliate, Talen Montana. See Note 13 to the Financial Statements for additional information.  
(b) PPL recorded adjustments to certain provisional amounts recognized in the December 31, 2017 Statement of Income relating to the enactment of the TCJA. See Note 6 to the Financial Statements for additional information.

### **Adjusted Gross Margins**

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

- "U.K. Adjusted 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 Adjusted Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, as well as the Kentucky Regulated segment'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 Adjusted Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment. 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, Storm Damage 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 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 Adjusted Gross Margins**

The following table shows Adjusted Gross Margins by PPL's reportable segments and by component, as applicable, for the year ended December 31 as well as the changes between periods. The factors that gave rise to the changes are described following the table:

	<u>2019</u>	<u>2018</u>	<u>Change</u> <u>2019 vs. 2018</u>
<b>U.K. Regulated</b>			
U.K. Adjusted Gross Margins	\$ 1,998	\$ 2,089	\$ (91)
Impact of changes in foreign currency exchange rates			(107)
U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates			<u>\$ 16</u>
<b>Kentucky Regulated</b>			
Kentucky Adjusted Gross Margins	\$ 2,111	\$ 2,041	\$ 70
<b>Pennsylvania Regulated</b>			
Pennsylvania Adjusted Gross Margins			
Distribution	\$ 927	\$ 924	\$ 3
Transmission	600	549	51
Total Pennsylvania Adjusted Gross Margins	<u>\$ 1,527</u>	<u>\$ 1,473</u>	<u>\$ 54</u>

*U.K. Adjusted Gross Margins*

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased in 2019 compared with 2018 primarily due to \$83 million from the April 1, 2018 and 2019 price increases, partially offset by \$64 million of lower volumes.

*Kentucky Adjusted Gross Margins*

Kentucky Adjusted Gross Margins increased in 2019 compared with 2018 primarily due to higher retail rates approved by the KPSC of \$123 million, inclusive of the termination of the TCJA bill credit mechanism, and higher returns on additional environmental capital investments of \$21 million. These increases were partially offset by \$37 million of decreased sales volumes primarily due to weather and a \$32 million decrease due to the termination of eight supply contracts with Kentucky municipalities on April 30, 2019.

*Pennsylvania Adjusted Gross Margins*

Distribution

Distribution Adjusted Gross Margins increased in 2019 compared with 2018 primarily due to returns on additional distribution system improvement capital investments of \$10 million and returns on additional Smart Meter capital investments of \$5 million, partially offset by a \$12 million net of gross receipts tax impact of the estimated income tax savings owed to customers as a result of the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% as enacted by the TCJA.

Transmission

Transmission Adjusted Gross Margins increased in 2019 compared with 2018 primarily due to an increase of \$77 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by \$27 million from the impact of the reduced U.S. federal corporate income taxes as a result of the TCJA in the first five months of 2019.

**Reconciliation of Adjusted Gross 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 years ended December 31:



	2019				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 2,129 (c)	\$ 3,206	\$ 2,358	\$ 76	\$ 7,769
<b>Operating Expenses</b>					
Fuel	—	709	—	—	709
Energy purchases	—	174	549	—	723
Other operation and maintenance	131	92	125	1,637	1,985
Depreciation	—	116	50	1,033	1,199
Taxes, other than income	—	4	107	202	313
Total Operating Expenses	131	1,095	831	2,872	4,929
<b>Total</b>	<b>\$ 1,998</b>	<b>\$ 2,111</b>	<b>\$ 1,527</b>	<b>\$ (2,796)</b>	<b>\$ 2,840</b>
	2018				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 2,230 (c)	\$ 3,214	\$ 2,277	\$ 64	\$ 7,785
<b>Operating Expenses</b>					
Fuel	—	799	—	—	799
Energy purchases	—	201	544	—	745
Other operation and maintenance	141	98	121	1,623	1,983
Depreciation	—	70	35	989	1,094
Taxes, other than income	—	5	104	203	312
Total Operating Expenses	141	1,173	804	2,815	4,933
<b>Total</b>	<b>\$ 2,089</b>	<b>\$ 2,041</b>	<b>\$ 1,473</b>	<b>\$ (2,751)</b>	<b>\$ 2,852</b>

- (a) Represents amounts excluded from Adjusted Gross Margins.  
(b) As reported on the Statements of Income.  
(c) 2019 and 2018 exclude \$38 million of ancillary revenues.

## **2020 Outlook**

### *(PPL)*

Higher net income is projected in 2020 compared with 2019. 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)*

Higher net income is projected in 2020 compared with 2019. Excluding 2019 special items, the increase is driven primarily by higher base demand revenues and higher assumed GBP exchange rates, partially offset by lower true-up mechanisms, lower pension income and higher interest expense.

#### *(PPL's Kentucky Regulated Segment and LKE)*

Higher net income is projected in 2020 compared with 2019, driven primarily by higher retail rates, partially offset by higher depreciation expense and higher income tax expense.

### *(LG&E)*

Higher net income is projected in 2020 compared with 2019, driven primarily by higher retail rates, partially offset by higher depreciation expense.

(KU)

Net income is projected in 2020 to be comparable with 2019, driven primarily by higher retail rates, offset by higher depreciation expense.

(PPL's Pennsylvania Regulated Segment and PPL Electric)

Higher net income is projected in 2020 compared with 2019, driven primarily by higher returns on transmission investments and lower operation and maintenance expense, partially offset by higher depreciation expense.

(PPL's Corporate and Other Category)

Lower costs are projected in 2020 compared with 2019, driven primarily by lower expenses and other factors.

(All Registrants)

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7, and Notes 1, 7 and 13 to the Financial Statements (as applicable) for a discussion of the risks, uncertainties and factors that may impact future earnings.

### PPL Electric: Statement of Income Analysis

Net income for the years ended December 31 includes the following results:

	2019	2018	Change 2019 vs. 2018
Operating Revenues	\$ 2,358	\$ 2,277	\$ 81
Operating Expenses			
Operation			
Energy purchases	549	544	5
Other operation and maintenance	566	578	(12)
Depreciation	386	352	34
Taxes, other than income	112	109	3
Total Operating Expenses	1,613	1,583	30
Other Income (Expense) - net	25	23	2
Interest Income from Affiliate	6	8	(2)
Interest Expense	170	159	11
Income Taxes	149	136	13
Net Income	\$ 457	\$ 430	\$ 27

#### Operating Revenues

The increase (decrease) in operating revenues was due to:

	2019 vs. 2018
Distribution Price (a)	\$ 42
Distribution volume	(8)
PLR	8
Transmission Formula Rate (b)	51
TCJA Refund (c)	(12)
Total	\$ 81

(a) Distribution price variances were primarily due to reconcilable cost recovery mechanisms approved by the PUC.

(b) Transmission Formula Rate revenues increased primarily due to \$77 million from returns on additional transmission capital investments partially offset by a \$27 million unfavorable impact of the TCJA, which reduced the new revenue requirement that went into effect June 1, 2018.

(c) Represents the estimated income tax savings owed to or already returned to distribution customers related to the reduced U.S federal corporate income taxes as a result of the TCJA. See Note 7 to the Financial Statements for additional information.

## Energy Purchases

Energy purchases increased \$5 million in 2019 compared with 2018. This increase was primarily due to higher PLR volumes of \$33 million, partially offset by lower PLR prices of \$25 million and lower transmission enhancement expenses of \$3 million.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance was due to:

	<b>2019 vs. 2018</b>
Project cancellations	\$ (12)
Storm costs	(4)
Bad debts	(3)
Contractor-related expenses	3
Vegetation management	2
Support costs	1
Other	1
Total	<u>\$ (12)</u>

## Depreciation

Depreciation increased by \$34 million in 2019 compared with 2018. This increase was 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 \$11 million in 2019 compared with 2018, primarily due to the June 2018 issuance of \$400 million of 4.15% First Mortgage Bonds due 2048 and the September 2019 issuance of \$400 million of 3.00% First Mortgage Bonds due 2049.

## Income Taxes

Income taxes increased \$13 million in 2019 compared with 2018. The increase was primarily due to a change in pre-tax income. See Note 6 to the Financial Statements for additional information on income taxes.

## LKE: Statement of Income Analysis

Net income for the years ended December 31 includes the following results:

	<b>2019</b>	<b>2018</b>	<b>Change 2019 vs. 2018</b>
Operating Revenues	<u>\$ 3,206</u>	<u>\$ 3,214</u>	<u>\$ (8)</u>
Operating Expenses			
Operation			
Fuel	709	799	(90)
Energy purchases	174	201	(27)
Other operation and maintenance	861	848	13
Depreciation	547	475	72
Taxes, other than income	74	70	4
Total Operating Expenses	<u>2,365</u>	<u>2,393</u>	<u>(28)</u>
Other Income (Expense) - net	(13)	(16)	3
Interest Expense	226	206	20
Interest Expense with Affiliate	31	25	6
Income Taxes	103	129	(26)
Net Income	<u>\$ 468</u>	<u>\$ 445</u>	<u>\$ 23</u>



## Operating Revenues

The increase (decrease) in operating revenues was due to:

	<b>2019 vs. 2018</b>
Volumes (a)	\$ (91)
Municipal supply (b)	(56)
Fuel and other energy prices (c)	(48)
Retail rates (d)	123
ECR (e)	60
Other	4
Total	<u>\$ (8)</u>

- (a) The decrease was primarily due to weather.  
 (b) The decrease was primarily due to the termination of eight supply contracts with Kentucky municipalities on April 30, 2019.  
 (c) The decrease was primarily due to lower recoveries of fuel and energy purchases due to lower commodity costs.  
 (d) The increase was primarily due to higher base rates, inclusive of the termination of the TCJA bill credit mechanism, effective May 1, 2019.  
 (e) The increase was primarily due to higher returns on additional environmental capital investments and higher recoverable depreciation expense as a result of higher depreciation rates effective May 1, 2019.

## Fuel

Fuel decreased \$90 million in 2019 compared with 2018, primarily due to a \$42 million decrease in commodity costs, a \$33 million decrease in volumes driven by weather and a \$20 million decrease in volumes driven by the termination of eight supply contracts with Kentucky municipalities on April 30, 2019.

## Energy Purchases

Energy purchases decreased \$27 million in 2019 compared with 2018, primarily due to a \$14 million decrease in commodity costs and a \$7 million decrease in gas volumes driven by weather in 2019.

## Depreciation

Depreciation increased \$72 million in 2019 compared with 2018, primarily due to a \$52 million increase related to higher depreciation rates effective May 1, 2019 and a \$15 million increase related to additional assets placed into service, net of retirements.

## Income Taxes

The increase (decrease) in income taxes was due to:

	<b>2019 vs. 2018</b>
Kentucky recycling credit, net of federal income tax expense (a)	\$ (18)
Kentucky state tax reform (b)	(9)
Other	1
Total	<u>\$ (26)</u>

- (a) In 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky.  
 (b) In 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

See Note 6 to the Financial Statements for additional information on income taxes.

## LG&E: Statement of Income Analysis

Net income for the years ended December 31 includes the following results:

	2019	2018	Change 2019 vs. 2018
<b>Operating Revenues</b>			
Retail and wholesale	\$ 1,473	\$ 1,467	\$ 6
Electric revenue from affiliate	27	29	(2)
<b>Total Operating Revenues</b>	<b>1,500</b>	<b>1,496</b>	<b>4</b>
<b>Operating Expenses</b>			
<b>Operation</b>			
Fuel	289	308	(19)
Energy purchases	154	183	(29)
Energy purchases from affiliates	7	13	(6)
Other operation and maintenance	387	376	11
Depreciation	231	195	36
Taxes, other than income	39	36	3
<b>Total Operating Expenses</b>	<b>1,107</b>	<b>1,111</b>	<b>(4)</b>
Other Income (Expense) - net	(11)	(12)	1
Interest Expense	87	76	11
Income Taxes	63	64	(1)
<b>Net Income</b>	<b>\$ 232</b>	<b>\$ 233</b>	<b>\$ (1)</b>

### Operating Revenues

The increase (decrease) in operating revenues was due to:

	2019 vs. 2018
Retail rates (a)	\$ 46
ECR (b)	26
Volumes (c)	(53)
Fuel and other energy prices (d)	(20)
Other	5
<b>Total</b>	<b>\$ 4</b>

(a) The increase was due to higher base rates, inclusive of the termination of the TCJA bill credit mechanism, effective May 1, 2019.

(b) The increase was primarily due to higher returns on additional environmental capital investments and higher recoverable depreciation expense as a result of higher depreciation rates effective May 1, 2019.

(c) The decrease was primarily due to weather.

(d) The decrease was primarily due to lower recoveries of fuel and energy purchases due to lower commodity costs.

### Fuel

Fuel decreased \$19 million in 2019 compared with 2018, primarily due to a \$10 million decrease in commodity costs and a \$10 million decrease in volumes driven by weather.

### Energy Purchases

Energy purchases decreased \$29 million in 2019 compared with 2018, primarily due to a \$14 million decrease in commodity costs and a \$7 million decrease in gas volumes driven by weather in 2019.

### Depreciation

Depreciation increased \$36 million in 2019 compared with 2018, primarily due to a \$26 million increase related to higher depreciation rates effective May 1, 2019 and a \$9 million increase related to additional assets placed into service, net of retirements.

## KU: Statement of Income Analysis

Net income for the years ended December 31 includes the following results:

	2019	2018	Change 2019 vs. 2018
<b>Operating Revenues</b>			
Retail and wholesale	\$ 1,733	\$ 1,747	\$ (14)
Electric revenue from affiliate	7	13	(6)
<b>Total Operating Revenues</b>	<b>1,740</b>	<b>1,760</b>	<b>(20)</b>
<b>Operating Expenses</b>			
<b>Operation</b>			
Fuel	420	491	(71)
Energy purchases	20	18	2
Energy purchases from affiliates	27	29	(2)
Other operation and maintenance	438	441	(3)
Depreciation	315	279	36
Taxes, other than income	35	34	1
<b>Total Operating Expenses</b>	<b>1,255</b>	<b>1,292</b>	<b>(37)</b>
Other Income (Expense) - net	(4)	(6)	2
Interest Expense	109	100	9
Income Taxes	79	76	3
<b>Net Income</b>	<b>\$ 293</b>	<b>\$ 286</b>	<b>\$ 7</b>

### Operating Revenue

The increase (decrease) in operating revenue was due to:

	2019 vs. 2018
Municipal supply (a)	\$ (56)
Volumes (b)	(43)
Fuel and other energy prices (c)	(30)
Retail rates (d)	77
ECR (e)	34
Other	(2)
<b>Total</b>	<b>\$ (20)</b>

(a) The decrease was primarily due to the termination of eight supply contracts with Kentucky municipalities on April 30, 2019.

(b) The decrease was primarily due to weather.

(c) The decrease was primarily due to lower recoveries of fuel due to lower commodity costs.

(d) The increase was due to higher base rates, inclusive of the termination of the TCJA bill credit mechanism, effective May 1, 2019.

(e) The increase was primarily due to higher returns on additional environmental capital investments and higher recoverable depreciation expense as a result of higher depreciation rates effective May 1, 2019.

### Fuel

Fuel decreased \$71 million in 2019 compared with 2018, primarily due to a \$32 million decrease in commodity costs, a \$23 million decrease in volumes driven by weather and a \$20 million decrease in volumes driven by the termination of eight supply contracts with Kentucky municipalities on April 30, 2019.

### Depreciation

Depreciation increased \$36 million in 2019 compared with 2018, primarily due to a \$26 million increase related to higher depreciation rates effective May 1, 2019 and a \$6 million increase related to additional assets placed into service, net of retirements.



**Financial Condition**

The remainder of this Item 7 in this Form 10-K is presented on a combined basis, providing information, as applicable, for all Registrants.

**Liquidity and Capital Resources**

*(All Registrants)*

The Registrants' cash flows from operations and access to cost effective bank and capital markets are subject to risks and uncertainties. See "Item 1A. Risk Factors" for a discussion of risks and uncertainties that could affect the Registrants' cash flows.

The Registrants had the following at:

	<u>PPL (a)</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&amp;E</u>	<u>KU</u>
<b>December 31, 2019</b>					
Cash and cash equivalents	\$ 815	\$ 262	\$ 27	\$ 15	\$ 12
Short-term debt	1,151	—	388	238	150
Long-term debt due within one year	1,172	—	975	—	500
Notes payable with affiliates		—	150	—	—
<b>December 31, 2018</b>					
Cash and cash equivalents	\$ 621	\$ 267	\$ 24	\$ 10	\$ 14
Short-term debt	1,430	—	514	279	235
Long-term debt due within one year	530	—	530	434	96
Notes payable with affiliates		—	113	—	—

(a) At December 31, 2019, \$155 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate an incremental U.S. tax cost. See Note 6 to the Financial Statements for additional information on undistributed earnings of WPD.

*(All Registrants)*

Net cash provided by (used in) operating, investing and financing activities for the years ended December 31 and the changes between periods were as follows:

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&amp;E</u>	<u>KU</u>
<b>2019</b>					
Operating activities	\$ 2,427	\$ 913	\$ 938	\$ 492	\$ 553
Investing activities	(3,080)	(1,117)	(1,094)	(482)	(610)
Financing activities	836	199	159	(5)	55
<b>2018</b>					
Operating activities	\$ 2,821	\$ 978	\$ 915	\$ 443	\$ 581
Investing activities	(3,361)	(1,193)	(1,116)	(554)	(561)
Financing activities	690	433	195	106	(21)
<b>2019 vs. 2018 Change</b>					
Operating activities	\$ (394)	\$ (65)	\$ 23	\$ 49	\$ (28)
Investing activities	281	76	22	72	(49)
Financing activities	146	(234)	(36)	(111)	76

**Operating Activities**

The components of the change in cash provided by (used in) operating activities were as follows:

	PPL	PPL Electric	LKE	LG&E	KU
<b>2019 vs. 2018</b>					
<b>Change - Cash Provided (Used):</b>					
Net income	\$ (81)	\$ 27	\$ 23	\$ (1)	\$ 7
Non-cash components	241	(17)	64	33	34
Working capital	(451)	(90)	(181)	(48)	(126)
Defined benefit plan funding	11	7	97	55	51
Other operating activities	(114)	8	20	10	6
Total	<u>\$ (394)</u>	<u>\$ (65)</u>	<u>\$ 23</u>	<u>\$ 49</u>	<u>\$ (28)</u>

*(PPL)*

PPL cash provided by operating activities in 2019 decreased \$394 million compared with 2018.

- Net income decreased \$81 million between periods and included an increase in net non-cash charges of \$241 million. The increase in net non-cash charges was primarily due to an increase in depreciation expense (primarily due to additional assets placed into service, related to the ongoing efforts to ensure reliability of the delivery system and the replacement of aging infrastructure, net of retirements and higher depreciation rates) and unrealized losses on hedging activities partially offset by an increase in the U.K. net periodic defined benefit credits (primarily due to lower levels of unrecognized losses being amortized) and a decrease in deferred income taxes (primarily due to book versus tax plant timing differences).
- The \$451 million decrease in cash from changes in working capital was primarily due to a decrease in accounts payable (primarily due to timing of payments), an increase in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of recovery rate mechanisms), an increase in other current liabilities (primarily due to timing of payments and operating lease liability), an increase in unbilled revenue (primarily due to weather, higher retail rates effective May 1, 2019 and a change in pricing method in the model), an increase in fuel, materials and supplies (primarily due to inventory management) and an increase in other (primarily due to a decrease in taxes payable and a decrease in counter-party collateral partially offset by an increase in customer deposits).
- The \$114 million decrease in cash provided by other operating activities was primarily due to the \$65 million transfer of excess benefit funds, in 2018, related to the favorable private letter ruling received by PPL from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new sub-account within the VEBA, to be used to pay for medical claims of active bargaining unit employees, decrease in non-current regulatory liabilities (due to timing of rate recovery mechanisms) and an increase in other assets (primarily due to settlement of interest rate swaps and purchase of solar panels).

*(PPL Electric)*

PPL Electric's cash provided by operating activities in 2019 decreased \$65 million compared with 2018.

- Net income increased \$27 million between the periods and included a decrease in non-cash components of \$17 million. The decrease in non-cash components was primarily due to a \$35 million decrease in deferred income tax expense (due to book versus tax plant timing differences and Federal net operating losses, partially offset by a book to tax timing difference related to the TCJA regulatory liability) and a \$15 million decrease in Other (primarily due to an increase in AFUDC and a decrease in canceled projects), partially offset by a \$34 million increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, 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).
- The \$90 million decrease in cash from changes in working capital was primarily due to an increase in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), an increase in unbilled revenue (primarily due to a change in pricing method in the model), an increase in other net current assets and current liabilities (primarily due to an increase in 2019 material and supplies) and an increase in accounts receivable (primarily due to timing of receipts).
- The \$8 million increase in cash provided by other operating activities was primarily due to a decrease in non-current regulatory assets (due to timing of rate recovery mechanisms, amortization of storm costs incurred in the prior year and \$22 million of storm costs incurred in 2018), partially offset by a decrease in non-current liabilities (primarily due to a \$41 million TCJA liability in 2018).

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### *(LKE)*

LKE had a \$23 million increase in cash provided by operating activities in 2019 compared with 2018.

- Net income increased \$23 million between the periods and included an increase in non-cash components of \$64 million. The increase in non-cash components was primarily driven by an increase in depreciation expense (primarily due to higher depreciation rates and additional assets placed into service, net of retirements).
- The decrease in cash from changes in working capital was primarily driven by an increase in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), a decrease in accounts payable (primarily due to timing of payments) and an increase in unbilled revenues (primarily due to weather).
- Defined benefit plan funding was \$97 million lower in 2019.
- The increase in cash provided by other operating activities was driven primarily by a decrease in other assets (primarily due to non-current regulatory asset increases as a result of significant storm activity in 2018).

### *(LG&E)*

LG&E had a \$49 million increase in cash provided by operating activities in 2019 compared with 2018.

- Net income decreased \$1 million between the periods and included an increase in non-cash components of \$33 million. The increase in non-cash components was primarily driven by an increase in depreciation expense (primarily due to higher depreciation rates and additional assets placed into service, net of retirements).
- The decrease in cash from changes in working capital was primarily driven by an increase in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), a decrease in accounts payable (primarily due to timing of payments) and an increase in accounts receivable and unbilled revenues (primarily due to weather).
- Defined benefit plan funding was \$55 million lower in 2019.
- The increase in cash provided by other operating activities was driven primarily by a decrease in other assets (primarily due to non-current regulatory asset increases as a result of significant storm activity in 2018).

### *(KU)*

KU had a \$28 million decrease in cash provided by operating activities in 2019 compared with 2018.

- Net income increased \$7 million between the periods and included an increase in non-cash components of \$34 million. The increase in non-cash components was primarily driven by an increase in depreciation expense (primarily due to higher depreciation rates and additional assets placed into service, net of retirements).
- The decrease in cash from changes in working capital was primarily driven by an increase in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), a decrease in accounts payable (primarily due to timing of payments) and an increase in unbilled revenues (primarily due to weather).
- Defined benefit plan funding was \$51 million lower in 2019.

## Investing Activities

### *(All Registrants)*

The components of the change in cash provided by (used in) investing activities were as follows:



	PPL	PPL Electric	LKE	LG&E	KU
<b>2019 vs. 2018</b>					
<b>Change - Cash Provided (Used):</b>					
Expenditures for PP&E	\$ 155	\$ 78	\$ 23	\$ 72	\$ (48)
Purchase of investments	10	—	—	—	—
Proceeds from sale of investments	63	—	—	—	—
Other investing activities	53	(2)	(1)	—	(1)
<b>Total</b>	<b>\$ 281</b>	<b>\$ 76</b>	<b>\$ 22</b>	<b>\$ 72</b>	<b>\$ (49)</b>

For PPL, in 2019 compared with 2018, the decrease in expenditures was due to lower project expenditures at WPD, PPL Electric, LKE and LG&E, partially offset by higher project expenditures at KU. The decrease in expenditures at WPD was primarily due to a decrease in expenditures to enhance system reliability and a decrease in foreign currency exchange rates. The decrease in expenditures for PPL Electric was primarily due to timing differences on capital spending projects related to ongoing efforts to improve reliability and replace aging infrastructure. The decrease in expenditures at LKE was primarily due to decreased spending for environmental water projects at LG&E and KU's Trimble County plant, LG&E's Mill Creek plant and KU's Ghent plant, partially offset by spending on various other projects at KU that are not individually significant.

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2020 through 2024.

### Financing Activities

*(All Registrants)*

The components of the change in cash provided by (used in) financing activities were as follows:

	PPL	PPL Electric	LKE	LG&E	KU
<b>2019 vs. 2018</b>					
<b>Change - Cash Provided (Used):</b>					
Debt issuance/retirement, net	\$ 383	\$ (105)	\$ 414	\$ 99	\$ 315
Debt issuance/retirement, affiliate	—	—	(250)	—	—
Stock issuances/redemptions, net	469	—	—	—	—
Dividends	(59)	(96)	—	(26)	17
Capital contributions/distributions, net	—	(29)	57	(58)	23
Changes in net short-term debt	(641)	—	(396)	(121)	(275)
Note payable with affiliate	—	—	149	—	—
Other financing activities	(6)	(4)	(10)	(5)	(4)
<b>Total</b>	<b>\$ 146</b>	<b>\$ (234)</b>	<b>\$ (36)</b>	<b>\$ (111)</b>	<b>\$ 76</b>

*(PPL)*

For PPL, in 2019 compared with 2018, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general corporate expenditures to offset a decrease in cash from operations of \$394 million.

*(PPL Electric)*

For PPL Electric, in 2019 compared with 2018, cash provided by financing activities decreased primarily as a result of a decrease in cash required to fund capital and general expenditures.

*(LKE, LG&E and KU)*

For LKE and LG&E, in 2019 compared with 2018, cash provided by financing activities decreased primarily as a result of a decrease in cash required to fund capital and general expenditures. For KU, in 2019 compared with 2018, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general expenditures.

(All Registrants)

See "Long-term Debt and Equity Securities" below for additional information on current year activity. See "Forecasted Sources of Cash" for a discussion of the Registrants' plans to issue debt and equity securities, as well as a discussion of credit facility capacity available to the Registrants. Also see "Forecasted Uses of Cash" for a discussion of PPL's plans to pay dividends on common securities in the future, as well as the Registrants' maturities of long-term debt.

*Long-term Debt and Equity Securities*

Long-term debt and equity securities activity for 2019 included:

	Debt		Net Stock
	Issuances (a)	Retirements	Issuances
<b>Cash Flow Impact:</b>			
PPL	\$ 1,465	\$ 300	\$ 1,167
PPL Electric	393	100	
LKE	705	200	
LG&E	399	200	
KU	306	—	

(a) Issuances are net of pricing discounts, where applicable, and exclude the impact of debt issuance costs. Includes debt issuances with affiliates.

See Note 8 to the Financial Statements for additional long-term debt information.

(PPL)

Equity Securities Activities

*Equity Forward Contracts*

In May 2018, PPL completed a registered underwritten public offering of 55 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 8.25 million additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the total 63.25 million shares of PPL common stock. Under the forward sale agreements, PPL was obligated to settle these forward sale agreements no later than November 2019. The forward sale agreements were classified as equity transactions.

In September 2018, PPL settled a portion of the initial forward sale agreements by issuing 20 million shares of PPL common stock, resulting in net cash proceeds of \$520 million. In November 2019, PPL settled the remaining 43.25 million shares of PPL common stock, resulting in net cash proceeds of \$1.1 billion. The net proceeds received will be used for general corporate purposes. See Note 5 for information on the forward sale agreements impact on the calculation of diluted EPS.

See Note 8 to the Financial Statements for additional information.

*ATM Program*

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of \$1.0 billion of its common stock through an at-the-market offering program, including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. There were no issuances under the ATM program for the twelve months ended December 31, 2019. PPL issued 42 million shares of common stock and received proceeds of \$119 million for the year ended December 31, 2018.

Forecasted Sources of Cash

(All Registrants)

The Registrants expect to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their



subsidiaries may access the capital markets, and PPL Electric, LG&E and KU anticipate receiving equity contributions from their parent or member in 2020.

**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 December 31, 2019, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

**External**

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,550	\$ —	\$ 465	\$ 1,085
PPL Electric Credit Facility	650	—	1	649
LG&E Credit Facilities	500	—	238	262
KU Credit Facilities	400	—	150	250
Total LKE Consolidated	900	—	388	512
Total U.S. Credit Facilities (a) (b)	\$ 3,100	\$ —	\$ 854	\$ 2,246
Total U.K. Credit Facilities (b) (c)	£ 1,055	£ 243	£ —	£ 812

(a) The syndicated credit facilities, KU's letter of credit facility and PPL Capital Funding's bilateral facility, each contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facility, and other customary covenants.

The commitments under the domestic 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 - 8%, PPL Electric - 6%, LKE - 6%, LG&E - 6% and KU - 6%.

(b) Each company pays customary fees under its respective syndicated credit facility. Borrowings generally bear interest at LIBOR-based rates plus an applicable margin.

(c) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.

The amounts borrowed at December 31, 2019, include a USD-denominated borrowing of \$200 million and GBP-denominated borrowings of £88 million, which equated to \$113 million. At December 31, 2019, the USD equivalent of unused capacity under the U.K. committed credit facilities was approximately \$1.0 billion.

The commitments under the U.K.'s credit facilities are provided by a diverse bank group with no one bank providing more than 13% of the total committed capacity.

In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. The Registrants monitor compliance with the covenants on a regular basis. At December 31, 2019, the Registrants were in compliance with these covenants. At this time, the Registrants believe that these covenants and other borrowing conditions will not limit access to these funding sources.

See Note 8 to the Financial Statements for further discussion of the Registrants' credit facilities.

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

	Committed Capacity	Borrowed	Non-affiliate Used Capacity	Unused Capacity
LKE Credit Facility	\$ 375	\$ 150	\$ —	\$ 225
LG&E Money Pool (a)	500	—	238	262
KU Money Pool (a)	500	—	150	350



(a) LG&E and KU participate in an intercompany 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 authorized a maximum aggregate short-term debt limit for each utility at \$500 million from all covered sources.

See Note 14 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 credit facilities. The following commercial paper programs were in place at:

	December 31, 2019		
	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,500	\$ 450	\$ 1,050
PPL Electric	650	—	650
LG&E	350	238	112
KU	350	150	200
Total LKE	700	388	312
Total PPL	\$ 2,850	\$ 838	\$ 2,012

*Long-term Debt and Equity Securities*

*(PPL)*

PPL and its subsidiaries are authorized to issue, at the discretion of management and subject to market conditions, up to \$7 billion of long-term debt and equity securities, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

*(PPL Electric)*

PPL Electric is authorized to issue, at the discretion of management and subject to market conditions and regulatory approvals, up to \$700 million of long-term debt securities, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

*(LKE, LG&E and KU)*

LKE is authorized to issue, at the discretion of management, up to \$800 million of long-term debt with a PPL affiliate, the proceeds of which would be used to repay \$475 million of Senior Unsecured Notes maturing in November 2020 and for general corporate purposes.

LG&E is authorized to issue, at the discretion of management and subject to market conditions and regulatory approvals, up to \$400 million of long-term debt securities, the proceeds of which would be used to repay short-term debt incurred to fund capital expenditures and for general corporate purposes.

KU is authorized to issue, at the discretion of management and subject to market conditions and regulatory approvals, up to \$800 million of long-term debt securities, the proceeds of which would be used to repay \$500 million of First Mortgage Bonds maturing in November 2020, repay short-term debt incurred to fund capital expenditures and for general corporate purposes.

*Contributions from Parent/Member (PPL Electric, LKE, LG&E and KU)*

From time to time, LKE's member or the parents of PPL Electric, LG&E and KU make capital contributions to subsidiaries. The proceeds from these contributions are used to fund capital expenditures and for other general corporate purposes and, in the case of LKE, to make contributions to its subsidiaries.

**Forecasted Uses of Cash***(All Registrants)*

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, the Registrants currently expect to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common stock, distributions by LKE to its member, and possibly the purchase or redemption of a portion of debt securities.

**Capital Expenditures**

The table below shows the Registrants' current capital expenditure projections for the years 2020 through 2024. Expenditures for the domestic regulated utilities are expected to be recovered through rates, pending regulatory approval.

	Total	Projected				
		2020 (b)	2021	2022	2023	2024
<b>PPL</b>						
Construction expenditures (a)						
Generating facilities	\$ 763	\$ 148	\$ 222	\$ 106	\$ 121	\$ 166
Distribution facilities	9,299	1,961	1,860	1,767	1,800	1,911
Transmission facilities	2,724	903	632	470	357	362
Environmental	549	139	209	113	84	4
Other	932	221	207	161	171	172
Total Capital Expenditures	<u>\$ 14,267</u>	<u>\$ 3,372</u>	<u>\$ 3,130</u>	<u>\$ 2,617</u>	<u>\$ 2,533</u>	<u>\$ 2,615</u>
<b>PPL Electric (a)</b>						
Distribution facilities	\$ 1,810	\$ 419	\$ 406	\$ 397	\$ 294	\$ 294
Transmission facilities	1,960	713	399	350	245	253
Total Capital Expenditures	<u>\$ 3,770</u>	<u>\$ 1,132</u>	<u>\$ 805</u>	<u>\$ 747</u>	<u>\$ 539</u>	<u>\$ 547</u>
<b>LKE</b>						
Generating facilities	\$ 763	\$ 148	\$ 222	\$ 106	\$ 121	\$ 166
Distribution facilities	1,661	417	392	296	284	272
Transmission facilities	764	190	233	120	112	109
Environmental	549	139	209	113	84	4
Other	407	113	98	58	69	69
Total Capital Expenditures	<u>\$ 4,144</u>	<u>\$ 1,007</u>	<u>\$ 1,154</u>	<u>\$ 693</u>	<u>\$ 670</u>	<u>\$ 620</u>
<b>LG&amp;E</b>						
Generating facilities	\$ 322	\$ 48	\$ 100	\$ 58	\$ 54	\$ 62
Distribution facilities	1,013	273	254	166	164	156
Transmission facilities	132	44	39	15	15	19
Environmental	214	58	90	38	28	—
Other	207	60	47	31	34	35
Total Capital Expenditures	<u>\$ 1,888</u>	<u>\$ 483</u>	<u>\$ 530</u>	<u>\$ 308</u>	<u>\$ 295</u>	<u>\$ 272</u>
<b>KU</b>						
Generating facilities	\$ 441	\$ 100	\$ 122	\$ 48	\$ 67	\$ 104
Distribution facilities	648	144	138	130	120	116
Transmission facilities	632	146	194	105	97	90
Environmental	335	81	119	75	56	4
Other	203	52	52	28	36	35
Total Capital Expenditures	<u>\$ 2,259</u>	<u>\$ 523</u>	<u>\$ 625</u>	<u>\$ 386</u>	<u>\$ 376</u>	<u>\$ 349</u>

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately \$93 million for PPL and \$77 million for PPL Electric over the five-year period.



(b) The 2020 total excludes amounts included in accounts payable as of December 31, 2019.

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. For the years presented, this table includes PPL Electric's asset optimization program to replace aging transmission and distribution assets.

**Contractual Obligations**

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2019, estimated contractual cash obligations were as follows:

	<u>Total</u>	<u>2020</u>	<u>2021-2022</u>	<u>2023-2024</u>	<u>After 2024</u>
<b>PPL</b>					
Long-term Debt (a)	\$ 22,002	\$ 1,169	\$ 2,848	\$ 3,186	\$ 14,799
Interest on Long-term Debt (b)	15,131	926	1,657	1,435	11,113
Operating Leases (c)	122	26	42	27	27
Purchase Obligations (d)	2,759	1,137	842	325	455
Pension Benefit Plan Funding Obligations (e)	681	272	226	183	—
Total Contractual Cash Obligations	<u>\$ 40,695</u>	<u>\$ 3,530</u>	<u>\$ 5,615</u>	<u>\$ 5,156</u>	<u>\$ 26,394</u>
<b>PPL Electric</b>					
Long-term Debt (a)	\$ 4,039	\$ —	\$ 874	\$ 90	\$ 3,075
Interest on Long-term Debt (b)	3,441	166	317	281	2,677
Unconditional Power Purchase Obligations	30	22	8	—	—
Total Contractual Cash Obligations	<u>\$ 7,510</u>	<u>\$ 188</u>	<u>\$ 1,199</u>	<u>\$ 371</u>	<u>\$ 5,752</u>
<b>LKE</b>					
Long-term Debt (a)	\$ 6,041	\$ 975	\$ 674	\$ 13	\$ 4,379
Interest on Long-term Debt (b)	3,598	237	378	363	2,620
Operating Leases (c)	61	18	22	13	8
Coal and Natural Gas Purchase Obligations (f)	1,482	572	661	235	14
Unconditional Power Purchase Obligations (g)	554	31	62	62	399
Construction Obligations (h)	221	184	34	3	—
Pension Benefit Plan Obligations (e)	22	22	—	—	—
Other Obligations	304	159	78	25	42
Total Contractual Cash Obligations	<u>\$ 12,283</u>	<u>\$ 2,198</u>	<u>\$ 1,909</u>	<u>\$ 714</u>	<u>\$ 7,462</u>
<b>LG&amp;E</b>					
Long-term Debt (a)	\$ 2,024	\$ —	\$ 292	\$ —	\$ 1,732
Interest on Long-term Debt (b)	1,573	80	146	143	1,204
Operating Leases (c)	24	7	9	5	3
Coal and Natural Gas Purchase Obligations (f)	837	289	383	155	10
Unconditional Power Purchase Obligations (g)	382	21	42	43	276
Construction Obligations (h)	77	64	12	1	—
Pension Benefit Plan Obligations (e)	4	4	—	—	—
Other Obligations	99	50	20	15	14
Total Contractual Cash Obligations	<u>\$ 5,020</u>	<u>\$ 515</u>	<u>\$ 904</u>	<u>\$ 362</u>	<u>\$ 3,239</u>

	Total	2020	2021-2022	2023-2024	After 2024
<b>KU</b>					
Long-term Debt (a)	\$ 2,642	\$ 500	\$ 132	\$ 13	\$ 1,997
Interest on Long-term Debt (b)	1,809	104	173	172	1,360
Operating Leases (c)	36	11	13	8	4
Coal and Natural Gas Purchase Obligations (f)	645	283	278	80	4
Unconditional Power Purchase Obligations (g)	172	10	20	19	123
Construction Obligations (h)	108	97	10	1	—
Pension Benefit Plan Obligations (e)	1	1	—	—	—
Other Obligations	146	70	39	9	28
<b>Total Contractual Cash Obligations</b>	<b>\$ 5,559</b>	<b>\$ 1,076</b>	<b>\$ 665</b>	<b>\$ 302</b>	<b>\$ 3,516</b>

- (a) Reflects principal maturities based on stated maturity or earlier put dates. See Note 8 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E and KU. The Registrants do not have any significant finance lease obligations.
- (b) Assumes interest payments through stated maturity or earlier put dates. For PPL, LKE, LG&E and KU the payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and for PPL, payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.
- (c) See Note 9 to the Financial Statements for additional information.
- (d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes, as applicable, the purchase obligations of electricity, coal, natural gas and limestone, as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above.
- (e) The amounts for PPL include WPD's contractual deficit pension funding requirements arising from actuarial valuations performed in March 2016. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit. The amounts also include contributions made or committed to be made in 2020 for PPL's and LKE's U.S. pension plans (for PPL Electric, LG&E and KU includes their share of these amounts). Based on the current funded status of these plans, except for WPD's plans, no cash contributions are required. See Note 11 to the Financial Statements for a discussion of expected contributions.
- (f) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 13 to the Financial Statements for additional information.
- (g) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 13 to the Financial Statements for additional information.
- (h) Represents construction commitments, which are also reflected in the Capital Expenditures table presented above.

#### Dividends/Distributions

##### (PPL)

PPL views dividends as an integral component of shareowner return and expects to continue to pay dividends in amounts intended to maintain a capitalization structure that supports investment grade credit ratings. In November 2019, PPL declared its quarterly common stock dividend, payable January 2, 2020, at 41.25 cents per share (equivalent to \$1.65 per annum). On February 14, 2020, PPL announced an increase of its quarterly common stock dividend to 41.5 cents per share (equivalent to \$1.66 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.

Subject to certain exceptions, PPL may not declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2019, no interest payments were deferred.

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

From time to time, as determined by their respective Board of Directors, the Registrants pay dividends or distributions, as applicable, to their respective shareholders or members. Certain of the credit facilities of PPL Electric, LKE, LG&E and KU include minimum debt covenant ratios that could effectively restrict the payment of dividends or distributions.

##### (All Registrants)

See Note 8 to the Financial Statements for these and other restrictions related to distributions on capital interests for the Registrants and their subsidiaries.



**Purchase or Redemption of Debt Securities**

The Registrants will continue to evaluate outstanding debt securities and may decide to purchase or redeem these securities in open market or privately negotiated transactions, in exchange transactions or otherwise, depending upon prevailing market conditions, available cash and other factors, and may be commenced or suspended at any time. The amounts involved may be material.

**Rating Agency Actions**

Moody's and S&P periodically review 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 following table sets forth the Registrants' and their subsidiaries' credit ratings for outstanding debt securities or commercial paper programs as of December 31, 2019.

Issuer	Senior Unsecured		Senior Secured		Commercial Paper	
	Moody's	S&P	Moody's	S&P	Moody's	S&P
<b>PPL</b>						
PPL Capital Funding	Baa2	BBB+			P-2	A-2
WPD plc	Baa3	BBB+				
WPD (East Midlands)	Baa1	A-				
WPD (West Midlands)	Baa1	A-				
WPD (South Wales)	Baa1	A-				
WPD (South West)	Baa1	A-				
<b>PPL and PPL Electric</b>						
PPL Electric			A1	A	P-2	A-2
<b>PPL and LKE</b>						
LKE	Baa1	BBB+				
LG&E			A1	A	P-2	A-2
KU			A1	A	P-2	A-2

The rating agencies have taken the following actions related to the Registrants and their subsidiaries.

*(PPL)*

In September 2019, Moody's and S&P assigned ratings of Baa1 and A- to WPD (East Midlands) £250 million of 1.75% Senior Notes due 2031.

*(PPL and PPL Electric)*

In September 2019, Moody's and S&P assigned ratings of A1 and A to PPL Electric's \$400 million 3.00% First Mortgage Bonds due 2049.



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

In March 2019, Moody's and S&P assigned ratings of A1 and A to LG&E's \$400 million 4.25% First Mortgage Bonds due 2049. The bonds were issued April 1, 2019.

In March 2019, Moody's and S&P assigned ratings of A1 and A to the County of Jefferson, Kentucky's \$128 million 1.85% Pollution Control Revenue Bonds, 2001 Series A, due 2033, previously issued on behalf of LG&E. The bonds were remarketed April 1, 2019.

In May 2019, Moody's assigned a rating of A1, and in June 2019, S&P assigned a rating of A to the County of Jefferson, Kentucky's \$31 million 1.65% Series A Environmental Facilities Revenue Refunding Bonds, due 2033, previously issued on behalf of LG&E. The bonds were remarketed June 1, 2019.

In May 2019, Moody's assigned a rating of A1, and in June 2019, S&P assigned a rating of A to the County of Jefferson, Kentucky's \$35 million 1.65% Series B Environmental Facilities Revenue Refunding Bonds, due 2033, previously issued on behalf of LG&E. The bonds were remarketed June 1, 2019.

In September 2019, Moody's and S&P assigned ratings of A1 and A to the County of Jefferson, Kentucky's \$40 million 1.75% Pollution Control Revenue Bonds, 2005 Series A, due 2035, previously issued on behalf of LG&E. The bonds were remarketed September 17, 2019.

### *(PPL, LKE and KU)*

In March 2019, Moody's assigned a rating of A1 and S&P assigned a rating of A to KU's \$300 million 4.375% First Mortgage Bonds due 2045. The bonds were issued April 1, 2019.

In August 2019, Moody's assigned a rating of A1, and in September 2019, S&P assigned a rating of A to the County of Carroll, Kentucky's \$96 million 1.55% Pollution Control Revenue Refunding Bonds, 2016 Series A (Kentucky Utilities Company Project), due 2042, previously issued on behalf of KU. The bonds were remarketed September 3, 2019.

In August 2019, Moody's assigned a rating of A1, and in September 2019, S&P lowered its rating to A to the following bonds:

- County of Carroll, Kentucky's \$50 million 1.75% Environmental Facilities Revenue Bonds, 2004 Series A due 2034;
- County of Carroll, Kentucky's \$54 million 1.20% Environmental Facilities Revenue Refunding Bonds, 2006 Series B due 2034;
- County of Carroll, Kentucky's \$78 million 1.20% Environmental Facilities Revenue Bonds, 2006 Series B due 2032;
- County of Mercer, Kentucky's \$13 million 1.30% Solid Waste Disposal Facility Revenue Bonds, 2000 Series A due 2023.

The bonds, previously issued on behalf of KU, were remarketed September 3, 2019. S&P and Moody's lowered their ratings as a result of KU's termination of the letters of credit that previously provided credit enhancement for these bonds. See Note 8 to the Financial Statements for additional information.

## Ratings Triggers

### *(PPL)*

As discussed in Note 8 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event for each company. These notes totaled £5.4 billion (approximately \$6.9 billion) nominal value at December 31, 2019.

### *(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 17 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 December 31, 2019.

**Guarantees for Subsidiaries (PPL)**

PPL guarantees certain consolidated affiliate financing arrangements. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, accelerate maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL believes that these covenants will not limit access to relevant funding sources. See Note 13 to the Financial Statements for additional information about guarantees.

**Off-Balance Sheet Arrangements (All Registrants)**

The Registrants have entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 13 to the Financial Statements for a discussion of these agreements.

**Risk Management**

**Market Risk**

(All Registrants)

See Notes 1, 16 and 17 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.

The following interest rate hedges were outstanding at December 31:

	2019				2018			
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	
<b>PPL</b>								
Cash flow hedges								
Cross-currency swaps (c)	\$ 702	\$ 156	\$ (71)	2028	\$ 702	\$ 137	\$ (76)	
Economic hedges								
Interest rate swaps (d)	147	(22)	(1)	2033	147	(20)	(1)	
<b>LKE</b>								
Economic hedges								
Interest rate swaps (d)	147	(22)	(1)	2033	147	(20)	(1)	
<b>LG&amp;E</b>								
Economic hedges								
Interest rate swaps (d)	147	(22)	(1)	2033	147	(20)	(1)	

- (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 December 31, 2019 and 2018 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 December 31 is shown below.

	10% Adverse Movement in Rates	
	2019	2018
PPL	\$ 655	\$ 652
PPL Electric	197	188
LKE	198	172
LG&E	84	62
KU	104	92

*Foreign Currency Risk (PPL)*

PPL is exposed to foreign currency risk primarily through investments in and earnings of 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 December 31:

	2019				2018			
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	
Economic hedges (b)	£ 859	\$ 137	\$ (89)	2020	£ 1,540	\$ 201	\$ (181)	

- (a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
- (b) To economically hedge the translation 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 required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is insignificant and mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. 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*

Volumetric risk is the risk related to the changes in volume of retail sales due to weather, economic conditions or other factors. PPL is exposed to volumetric risk through its subsidiaries as described below.

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- 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 regulations, recovery of such exposure occurs on a two year lag. See Note 1 to the Financial Statements 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.

### *Defined Benefit Plans - Equity Securities Price Risk*

See "Application of Critical Accounting Policies - Defined Benefits" for additional information regarding the effect of equity securities price risk on plan assets.

### Credit Risk

*(All Registrants)*

Credit risk is the risk that the Registrants would incur a loss as a result of nonperformance by counterparties of their contractual obligations. The Registrants maintain credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and require other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, the Registrants, as applicable, have concentrations of suppliers and customers among electric utilities, financial institutions and energy marketing and trading companies. These concentrations may impact the Registrants' overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

*(PPL and PPL Electric)*

In January 2017, the PUC issued a Final Order approving PPL Electric's PLR procurement plan for the period June 2017 through May 2021, which includes a total of eight semi-annual solicitations for electricity supply in April and October. To date, PPL Electric has conducted six of its planned eight competitive solicitations.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2019, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P and were not required to post collateral under the Agreement. A small portion of bidders were required to post an insignificant amount of collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See Note 17 to the Financial Statements for additional information on credit risk.

### **Foreign Currency Translation (PPL)**

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2019, changes in this exchange rate resulted in a foreign currency translation gain of \$106 million, which reflected a \$181 million increase to PP&E, \$34 million increase to goodwill and \$12 million decrease to other net liabilities partially offset by a \$121 million increase to long-term debt. In 2018, changes in this exchange rate resulted in a foreign currency translation loss of \$453 million, which reflected a \$754 million decrease to PP&E and \$150 million decrease to goodwill partially offset by a \$445 million decrease to long-term debt and a decrease of \$6 million to other net liabilities. In 2017, changes in this exchange rate resulted in a foreign currency translation gain of \$537 million, which reflected a \$935 million increase to PP&E and \$198 million increase to goodwill partially offset by a \$549 million increase to long-term debt and an increase of \$47 million to other net liabilities.

*(All Registrants)*

### **Related Party Transactions**

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 14 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.



## **Acquisitions, Development and Divestitures**

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.

### Capacity Needs (PPL, LKE, LG&E and KU)

As a result of environmental requirements and energy efficiency measures, KU retired two older coal-fired electricity generating units at the E.W. Brown plant in February 2019 with a combined summer rating capacity of 272 MW. Despite the retirement of these units, LG&E and KU maintain sufficient generating capacity to serve their anticipated load.

## **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 costs 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. 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 costs 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 "Legal Matters" in Note 13 to the Financial Statements for a discussion of the more significant environmental claims. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2020 through 2024. See Note 19 to the Financial Statements for information related to the impacts of CCRs on AROs.

## **Sustainability**

Increasing attention has been focused on a broad range of corporate activities under the heading of "sustainability", which has resulted in a significant increase in the number of requests from interested parties for information on sustainability topics. These parties range from investor groups focused on environmental, social, governance and other matters to non-investors concerned with a variety of public policy matters. Often the scope of the information sought is very broad and not necessarily relevant to an issuer's business or industry. As a result, a number of private groups have proposed to standardize the subject matter constituting sustainability, either generally or by industry. Those efforts remain ongoing. In addition, certain of these private groups have advocated that the SEC promulgate regulations requiring specific sustainability reporting under the Securities Exchange Act of 1934, as amended (the "'34 Act"), or that issuers voluntarily include certain sustainability disclosure in their '34 Act reports. To date, no new reporting requirements have been adopted or proposed by the SEC.

As has been PPL's practice, to the extent sustainability issues have or may have a material impact on the Registrants' financial condition or results of operation, PPL discloses such matters in accordance with applicable securities law and SEC regulations. With respect to other sustainability topics that PPL deems relevant to investors but that are not required to be reported under applicable securities law and SEC regulation, PPL will continue each spring to publish its annual sustainability report including tracking reductions related to the company's goal to reduce carbon emissions and post that report on its corporate website at [www.pplweb.com](http://www.pplweb.com) and on [www.pplsustainability.com](http://www.pplsustainability.com). Neither the information in such annual sustainability report nor the information at such websites is incorporated in this Form 10-K by reference, and it should not be considered a part of this Form 10-K. In preparing its sustainability report, PPL is guided by the framework established by the Global Reporting Initiative, which identifies environmental, social, governance and other subject matter categories. PPL also participates in efforts by the Edison Electric Institute to provide the appropriate subset of sustainability information that can be applied consistently across the electric utility industry. Additionally, PPL publicly discloses its corporate political contributions and responds to the CDP climate survey.

**Cybersecurity**

See "Cybersecurity Management" in "Item 1. Business" and "Item 1A. Risk factors" for a discussion of cybersecurity risks affecting the Registrants and the related strategies for managing these risks.

**Competition**

See "Competition" under each of PPL's reportable segments in "Item 1. Business - General - Segment Information" and "Item 1A. Risk Factors" for a discussion of competitive factors affecting the Registrants.

**New Accounting Guidance**

See Notes 1 and 21 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

**Application of Critical Accounting Policies**

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

**Defined Benefits**

*(All Registrants)*

Certain of the Registrants and/or their subsidiaries sponsor or participate in certain qualified funded and non-qualified unfunded defined benefit pension plans and both funded and unfunded other postretirement benefit plans. See Notes 1, 7 and 11 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

A summary of plan sponsors by Registrant and whether a Registrant or its subsidiaries sponsor (S) or participate in and receives allocations (P) from those plans is shown in the table below.

Plan Sponsor	PPL	PPL Electric	LKE	LG&E	KU
PPL Services	S	P			
WPD (a)	S				
LKE (b)			S	P	P
LG&E (b)				S	

(a) Does not sponsor or participate in other postretirement benefits plans.

(b) The pension plans sponsored by LKE and LG&E were merged effective January 1, 2020 into the LG&E and KU Pension Plan. The merged plan is sponsored by LKE, LG&E and KU participate in this plan.

Management makes certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. As such, annual net periodic defined benefit costs are recorded in current earnings or regulatory assets and liabilities based on estimated results. Any differences between actual and estimated results are recorded in AOCI or, in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in AOCI or regulatory assets and liabilities are amortized to income over future periods. The significant assumptions are:

- Discount Rate - In selecting the discount rates for U.S. defined benefit plans, the plan sponsors start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of Aa-rated non-callable (or callable with make-whole provisions) bonds that could be purchased for a hypothetical settlement portfolio. The plan sponsors then use the single discount rate derived from matching the discounted benefit payment stream to the market value of the selected bond portfolio.

In selecting the discount rate for its U.K. pension plans, WPD starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows are matched against a spot-rate yield curve to determine the assumed discount rate. The spot-rate yield curve uses an iBoxx British pounds sterling denominated corporate bond index as its base. From this base, those bonds with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. WPD uses the single weighted-average discount rate derived from the spot rates to discount the benefit obligation. In addition, the spot rates that match the cash flows associated with the service cost and interest cost are used to discount those components of net periodic defined benefit cost.

- **Expected Return on Plan Assets** - The expected long-term rates of return for pension and other postretirement benefits are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement. In selecting a rate of compensation increase, plan sponsors consider past experience, the potential impact of movements in inflation rates and expectations of ongoing compensation practices.

See Note 11 to the Financial Statements for details of the assumptions selected for pension and other postretirement benefits. A variance in the assumptions could significantly impact accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities.

The following tables reflect changes in certain assumptions based on the Registrants' primary defined benefit plans. The inverse of this change would have the opposite impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

	<u>Increase (Decrease)</u>				
<b>Actuarial assumption</b>					
Discount Rate					(0.25%)
Expected Return on Plan Assets					(0.25%)
Rate of Compensation Increase					0.25 %
	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>	<u>(Increase) Decrease</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
<b>Actuarial assumption</b>	<u>Defined Benefit Asset</u>	<u>Defined Benefit Liabilities</u>	<u>AOCI (pre-tax)</u>	<u>Net Regulatory Assets</u>	<u>Defined Benefit Costs</u>
<b>PPL</b>					
Discount rates	\$ (371)	\$ 134	\$ 413	\$ 92	\$ 47
Expected return on plan assets	n/a	n/a	n/a	n/a	31
Rate of compensation increase	(56)	15	62	9	13
<b>PPL Electric</b>					
Discount rates		57	—	57	3
Expected return on plan assets		n/a	—	n/a	4
Rate of compensation increase		6	—	6	1
<b>LKE</b>					
Discount rates	(9)	51	26	34	6
Expected return on plan assets	n/a	n/a	n/a	n/a	4
Rate of compensation increase	n/a	6	3	3	2



	Increase (Decrease)	Increase (Decrease)	(Increase) Decrease	Increase (Decrease)	Increase (Decrease)
	Defined Benefit Asset	Defined Benefit Liabilities	AOCI (pre-tax)	Net Regulatory Assets	Defined Benefit Costs
<b>Actuarial assumption</b>					
<b>LG&amp;E</b>					
Discount rates	(16)	2	n/a	18	2
Expected return on plan assets	n/a	n/a	n/a	n/a	1
Rate of compensation increase	(1)	—	n/a	1	—
<b>KU</b>					
Discount rates	(14)	2	n/a	16	2
Expected return on plan assets	n/a	n/a	n/a	n/a	1
Rate of compensation increase	(2)	—	n/a	2	—

### Income Taxes *(All Registrants)*

Significant management judgment is required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns, valuation allowances on deferred tax assets, as well as whether the undistributed earnings of WPD are considered indefinitely reinvested.

Additionally, significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. On a quarterly basis, uncertain tax positions are reassessed by considering information known as of the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be derecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

The need for valuation allowances to reduce deferred tax assets also requires significant management judgment. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

See Note 6 to the Financial Statements for income tax disclosures, including the impact of the TCJA and management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested. Based on this conclusion, PPL Global does not record deferred U.S. federal income taxes on WPD's undistributed earnings.

### Regulatory Assets and Liabilities

*(All Registrants)*

PPL Electric, LG&E and KU are subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to the Registrants and other regulated entities, and the status of any pending or potential deregulation legislation. Based



on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels and is subject to change in the future. If future recovery of costs ceases to be probable, the regulatory asset would be written-off. Additionally, the regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.

See Note 7 to the Financial Statements for regulatory assets and regulatory liabilities recorded at December 31, 2019 and 2018, as well as additional information on those regulatory assets and liabilities. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

*(PPL)*

WPD's operations are regulated by Ofgem. Ofgem has adopted a price control regulatory framework focused on outputs and performance in contrast to traditional U.S. utility ratemaking that operates under a cost recovery model. Because the regulatory model is incentive-based, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP for entities subject to cost-based rate regulation and does not record regulatory assets and liabilities. See "General - Regulation" in Note 1 to the Financial Statements for additional information.

**Price Risk Management (PPL)**

See "Financial Condition - Risk Management" above.

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

Goodwill is tested for impairment at the reporting unit level. PPL has determined its reporting units to be primarily at the same level as its reportable segments. LKE, LG&E and KU are individually single operating and reportable segments. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit may be greater than the reporting unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. See "Long-Lived and Intangible Assets - Asset Impairment (Excluding Investments)" in Note 1 to the Financial Statements for further discussion of qualitative and quantitative goodwill impairment tests. See Note 18 to the Financial Statements for information on goodwill balances at December 31, 2019.

PPL elected to perform the two-step quantitative impairment test of goodwill for the U.K. Regulated segment reporting unit in the fourth quarter of 2019. Management used both discounted cash flows and market multiples including implied RAV premiums, which required significant assumptions, to estimate the fair value of the reporting units. Significant assumptions used in the discounted cash flows include discount and growth rates, outcomes of future rate filings, and projected operating and capital cash flows. Projected operating and capital cash flows is based on the Registrants' internal business plan, which assumes the occurrence of certain future events. Significant assumptions used in the market multiples include utility sector market performance and comparable transactions.

Application of an appropriate weighting to both the discounted cash flow and market multiple valuations for the most recent impairment test performed as of October 1, 2019 did not require the second-step assessment and did not result in any impairment.

A high degree of judgment is required to develop estimates related to fair value conclusions. A decrease in the forecasted cash flows of 10%, an increase in the discount rate of 0.25%, or a 10% decrease in the market multiples would not have resulted in an impairment of goodwill for this reporting unit.

PPL (for its Kentucky Regulated segment), and individually, LKE, LG&E and KU elected to perform the qualitative step zero evaluation of goodwill, as of October 1, 2019. Based on these evaluations, management concluded it was not more likely than not that the fair value of these reporting units was less than their carrying values. As such, the two-step quantitative impairment test was not performed.

**Asset Retirement Obligations (PPL, LKE, LG&E and KU)**

ARO liabilities are required to be recognized for legal obligations associated with the retirement of long-lived assets. Initial obligations are measured at estimated fair value. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and amortized to expense over the asset's useful life.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that consider estimated retirement costs in current period dollars, inflated to the anticipated retirement date and discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the ARO estimate. Any change to the capitalized asset is generally amortized over the remaining life of the associated long-lived asset.

See "Long-Lived and Intangible Assets - Asset Retirement Obligations" in Note 1, Note 7 and Note 19 to the Financial Statements for additional information on AROs.

At December 31, 2019, the total recorded balances and information on the most significant recorded AROs were as follows.

	Most Significant AROs				Description
	Total ARO Recorded	Amount Recorded	% of Total		
PPL	\$ 282	\$ 181	64		Ponds, landfills and natural gas mains
LKE	215	181	84		Ponds, landfills and natural gas mains
LG&E	73	56	77		Ponds, landfills and natural gas mains
KU	142	125	88		Ponds and landfills

The most significant assumptions surrounding AROs are the forecasted retirement costs (including settlement dates and the timing of cash flows), discount and inflation rates. At December 31, 2019, a 10% increase to retirement cost would increase these ARO liabilities by \$33 million. A 0.25% decrease in the discount rate would increase these ARO liabilities by \$4 million and a 0.25% increase in the inflation rate would increase these ARO liabilities by \$2 million. There would be no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of these changes in assumptions.

**Revenue Recognition - Unbilled Revenues (LKE, LG&E and KU)**

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers are billed on cycles which vary based on the timing of actual meter reads taken throughout the month, estimates are recorded for unbilled revenues at the end of each reporting period. For LG&E and KU, such unbilled revenue amounts reflect estimates of deliveries to customers since the date of the last reading of their meters. The unbilled revenue estimates reflect consideration of factors including daily load models, estimated usage for each customer class, the effect of current and different rate schedules, the meter read schedule, the billing schedule, actual weather data, and, where applicable, the impact of weather normalization or other regulatory provisions of rate structures. See "Unbilled revenues" on the Registrants' Balance Sheets for balances at December 31, 2019 and 2018.

**Other Information (All Registrants)**

PPL's Audit Committee has approved the independent auditor to provide audit and audit-related services, tax services and other services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

Reference is made to "Risk Management" for the Registrants in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations."

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareowners and the Board of Directors of PPL Corporation

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

### **Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### **Regulatory Assets and Liabilities - Impact of Rate Regulation on Various Account Balances and Disclosures - Refer to Notes 1 and 7 to the Financial Statements**

#### *Critical Audit Matter Description*

As discussed in Note 1 to the financial statements, PPL Corporation owns and operates three cost-based rate-regulated utilities in the United States (U.S.) for which rates are set by the Federal Energy Regulatory Commission (FERC), the Kentucky Public Service Commission (KPSC), the Virginia State Corporation Commission (VSCC) and the Pennsylvania Public Utility Commission (PUC) to enable the regulated utilities to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Base rates are generally established based on a future test period. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by accounting principles generally accepted in the United States of America and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates.



The accounting for regulatory assets and regulatory liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC, KPSC, VSCC and PUC. The accounting for the economics of rate regulation also impacts other financial statement line items, including regulated utility plant, operating revenues, depreciation, and income taxes and impacts multiple note disclosures. As of December 31, 2019, PPL Corporation had a recorded regulatory assets balance of \$1,559 million and regulatory liabilities balance of \$2,687 million.

PPL Corporation's U.S. regulated utilities' rates are subject to cost-based rate-setting processes and annual earnings oversight. Rates are established based on an analysis of the costs incurred and the regulated utility's capital structure, and must be approved by one or more federal or state regulatory commissions, including the FERC, KPSC, VSCC and PUC. Regulatory decisions can have an impact on the recovery of costs, the rate earned on invested capital, and the timing and amount of assets to be recovered by rates. The FERC, KPSC, VSCC and PUC regulation of rates is premised on the full recovery of prudently incurred costs and an adequate return on capital investments. Decisions to be made by the FERC, KPSC, VSCC and PUC in the future will impact the accounting for regulated operations, including decisions about the amount of allowable costs and return on invested capital included in rates and any refunds that may be required. While PPL Corporation's U.S. utilities have indicated that they expect to recover costs from customers through regulated rates, there is a risk that the FERC, KPSC, VSCC or PUC will not approve full recovery of such costs or approve recovery on a timely basis in future regulatory decisions.

We identified the impact of rate regulation as a critical audit matter due to the significant judgments made by management in continually assessing whether the regulatory assets are probable of future recovery by considering factors, such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders and the status of any pending legislation. Auditing these judgments required specialized knowledge of accounting for rate regulation and the rate-setting process due to its inherent complexities.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the uncertainty of future decisions by the FERC, KPSC, VSCC and PUC included the following, among others:

- We tested the effectiveness of management's internal controls over evaluating the likelihood of recovery in future rates of costs deferred as regulatory assets. We tested the effectiveness of management's controls over the recognition of amounts as regulated utility plant, regulatory assets or liabilities, operating revenues, depreciation, income taxes, and note disclosures and the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates or of a future reduction in rates.
- We obtained and read relevant regulatory orders issued by the FERC, KPSC, VSCC and PUC for PPL Corporation's U.S. regulated utilities to assess the likelihood of recovery in future rates or of a future reduction in rates.
- We inquired of management about regulated utility plant that may be abandoned. We inspected minutes of the board of directors, regulatory orders and other filings with the commission to identify any evidence that may contradict management's assertion regarding probability of an abandonment.
- We evaluated PPL Corporation's disclosures related to the impacts of rate-regulation, including the balances recorded and regulatory developments, in the financial statements.

**Goodwill - U.K. Regulated Reporting Unit - Refer to Notes 1 and 18 to the Financial Statements**

*Critical Audit Matter Description*

PPL Corporation's balance sheet includes \$3.2 billion of goodwill as of December 31, 2019, of which \$2.5 billion was allocated to the U.K. Regulated reporting unit. The fair value of the U.K. Regulated reporting unit exceeded its carrying value as of the measurement date and, therefore, no impairment was recognized. PPL Corporation elected to perform the two-step quantitative impairment test of goodwill for the U.K. Regulated reporting unit in the fourth quarter of 2019. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of the reporting units. Significant assumptions used in the discounted cash flows included discount and growth rates, and projected operating and capital cash flows. Projected operating and capital cash flows are based on PPL Corporation's internal business plan, which assumes the occurrence of certain events in the future. Significant assumptions used in the market multiples include utility sector market performance and comparable transactions.

We identified goodwill for the U.K. Regulated reporting unit as a critical audit matter because of the significant judgments made by management to estimate the fair value of the U.K. Regulated reporting unit, specifically due to changes in the economy in the U.K. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists, when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to the regulatory asset value premiums (RAV premiums), discount and growth rates, and projected operating and capital cash flows.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the RAV premiums, discount and growth rates, and projected operating and capital cash flows used by management to estimate the fair value of the U.K. Regulated reporting unit included the following, among others:

- We tested the effectiveness of management's internal controls over their goodwill impairment evaluation, including those over the determination of the fair value of the U.K. Regulated reporting unit, such as controls related to management's RAV premiums estimate, and selection of discount and growth rates and projected operating and capital cash flows.
- We evaluated the reasonableness of management's projected operating and capital cash flows by comparing the forecasts to:
  - Historical operating and capital cash flows.
  - Internal communications to management and the board of directors.
  - Forecasted information included in PPL Corporation's press releases as well as in analyst and industry reports for PPL Corporation.
- We evaluated the impact of changes in management's forecasts from the October 1, 2019 annual measurement date to December 31, 2019.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the (1) valuation methodology, (2) RAV premiums and (3) discount and growth rates by:
  - Testing the source information underlying the determination of the RAV premiums, and discount and growth rates and the mathematical accuracy of the calculation.
  - Developing a range of independent estimates and comparing those to the RAV premiums, and discount and growth rates selected by management.

**Income Taxes - Valuation Allowances - Estimates of future taxable income and management's determination of whether it is more likely than not that deferred tax assets will be realized - Refer to Note 1 and 6 to the Financial Statements**

*Critical Audit Matter Description*

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating losses and tax credit carryforwards. Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and the U.K. PPL Corporation files tax returns in multiple jurisdictions with complex tax laws and regulations. Valuation allowances have been established for the amount that, more likely than not, will not be realized. PPL Corporation has \$834 million of valuation allowances recorded on \$1,479 million of deferred tax assets related to federal, state and foreign loss and credit carryforwards as of December 31, 2019.

Management considers a number of factors in assessing the realization of a deferred tax asset associated with net operating losses and tax credit carryforwards, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax-planning strategies. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

We identified management's estimation of the valuation allowances associated with loss and credit carryforwards as a critical audit matter because the need for valuation allowances to reduce deferred tax assets requires significant management judgment. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our income tax specialists, when performing audit procedures to evaluate the reasonableness of management's estimates of future taxable income and the determination of whether it is more likely than not that the deferred tax assets will be realized.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to estimated future taxable income and the determination of whether it is more likely than not that the deferred tax assets will be realized included the following, among others:

- We tested the effectiveness of management's internal controls over the valuation allowance for income taxes, including management's internal controls over the estimates of future taxable income and the determination of whether it is more likely than not that the deferred tax assets will be realized.
- We evaluated the reasonableness of the methods, assumptions, and judgments used by management to determine whether a valuation allowance was necessary.
- With the assistance of our income tax specialists, we evaluated whether the sources of management's estimated taxable income were of the appropriate character and sufficient to utilize the deferred tax assets under the relevant tax laws.
- We evaluated management's ability to accurately estimate taxable income by comparing actual results to management's historical estimates and evaluating whether there have been any changes that would affect management's ability to continue accurately estimating taxable income.
- We tested the reasonableness of management's estimates of future taxable income by comparing the estimates to:
  - Internal budgets.
  - Historical taxable income, as adjusted for nonrecurring items.
  - Internal communications to management and the board of directors.
  - Forecasted information included in PPL Corporation's press releases as well as in analyst and industry reports for PPL Corporation.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey  
February 14, 2020

We have served as the Company's auditor since 2015.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareowners and the Board of Directors of PPL Corporation

### **Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of PPL Corporation and subsidiaries (the "Company") as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 14, 2020, expressed an unqualified opinion on those financial statements.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey  
February 14, 2020



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareowner and the Board of Directors of PPL Electric Utilities Corporation

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of PPL Electric Utilities Corporation and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ Deloitte & Touche LLP

Parsippany, New Jersey  
February 14, 2020

We have served as the Company's auditor since 2015.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Sole Member and the Board of Directors of LG&E and KU Energy LLC

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of LG&E and KU Energy LLC and Subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ Deloitte & Touche LLP

Louisville, Kentucky  
February 14, 2020

We have served as the Company's auditor since 2015.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholder and the Board of Directors of Louisville Gas and Electric Company

### **Opinion on the Financial Statements**

We have audited the accompanying balance sheets of Louisville Gas and Electric Company (the "Company") as of December 31, 2019 and 2018, the related statements of income, equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ Deloitte & Touche LLP

Louisville, Kentucky  
February 14, 2020

We have served as the Company's auditor since 2015.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholder and the Board of Directors of Kentucky Utilities Company

**Opinion on the Financial Statements**

We have audited the accompanying balance sheets of Kentucky Utilities Company (the "Company") as of December 31, 2019 and 2018, the related statements of income, equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ Deloitte & Touche LLP

Louisville, Kentucky  
February 14, 2020

We have served as the Company's auditor since 2015.



**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,  
PPL Corporation and Subsidiaries**

*(Millions of Dollars, except share data)*

	2019	2018	2017
<b>Operating Revenues</b>	\$ 7,769	\$ 7,785	\$ 7,447
<b>Operating Expenses</b>			
Operation			
Fuel	709	799	759
Energy purchases	723	745	685
Other operation and maintenance	1,985	1,983	1,802
Depreciation	1,199	1,094	1,008
Taxes, other than income	313	312	292
Total Operating Expenses	<u>4,929</u>	<u>4,933</u>	<u>4,546</u>
<b>Operating Income</b>	2,840	2,852	2,901
Other Income (Expense) - net	309	396	(88)
Interest Expense	<u>994</u>	<u>963</u>	<u>901</u>
<b>Income Before Income Taxes</b>	2,155	2,285	1,912
Income Taxes	<u>409</u>	<u>458</u>	<u>784</u>
<b>Net Income</b>	<u>\$ 1,746</u>	<u>\$ 1,827</u>	<u>\$ 1,128</u>
<b>Earnings Per Share of Common Stock:</b>			
Net Income Available to PPL Common Shareowners:			
Basic	\$ 2.39	\$ 2.59	\$ 1.64
Diluted	\$ 2.37	\$ 2.58	\$ 1.64
<b>Weighted-Average Shares of Common Stock Outstanding (in thousands)</b>			
Basic	728,512	704,439	685,240
Diluted	736,754	708,619	687,334

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31,**  
**PPL Corporation and Subsidiaries**  
*(Millions of Dollars)*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Net income</b>	<b>\$ 1,746</b>	<b>\$ 1,827</b>	<b>\$ 1,128</b>
<b>Other comprehensive income (loss):</b>			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of \$0, (\$2), (\$1)	108	(444)	538
Qualifying derivatives, net of tax of \$2, (\$9), \$19	(11)	36	(79)
Defined benefit plans:			
Prior service costs, net of tax of \$0, \$3, \$0	(1)	(11)	—
Net actuarial gain (loss), net of tax of \$119, \$44, \$72	(592)	(187)	(308)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):			
Qualifying derivatives, net of tax of (\$5), \$6, (\$18)	13	(29)	73
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0	—	—	1
Defined benefit plans:			
Prior service costs, net of tax of (\$1), \$0, (\$1)	2	2	1
Net actuarial (gain) loss, net of tax of (\$22), (\$36), (\$37)	87	142	130
<b>Total other comprehensive income (loss)</b>	<b>(394)</b>	<b>(491)</b>	<b>356</b>
<b>Comprehensive income</b>	<b>\$ 1,352</b>	<b>\$ 1,336</b>	<b>\$ 1,484</b>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,  
PPL Corporation and Subsidiaries**

(Millions of Dollars)

	2019	2018	2017
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 1,746	\$ 1,827	\$ 1,128
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,199	1,094	1,008
Amortization	81	78	97
Defined benefit plans - (income)	(263)	(192)	(95)
Deferred income taxes and investment tax credits	309	355	707
Unrealized (gains) losses on derivatives, and other hedging activities	73	(186)	178
Stock compensation expense	36	26	38
Other	(22)	(3)	(9)
Change in current assets and current liabilities			
Accounts receivable	4	28	(33)
Accounts payable	(77)	78	(10)
Unbilled revenues	(5)	41	(48)
Fuel, materials and supplies	(26)	17	40
Regulatory assets and liabilities, net	(88)	13	(12)
Other current liabilities	(73)	(22)	6
Other	(33)	(2)	11
Other operating activities			
Defined benefit plans - funding	(350)	(361)	(565)
Proceeds from transfer of excess benefit plan funds	—	65	—
Other assets	(100)	(75)	32
Other liabilities	16	40	(12)
Net cash provided by operating activities	<u>2,427</u>	<u>2,821</u>	<u>2,461</u>
<b>Cash Flows from Investing Activities</b>			
Expenditures for property, plant and equipment	(3,083)	(3,238)	(3,133)
Purchase of investments	(55)	(65)	—
Proceeds from the sale of investments	69	6	—
Other investing activities	(11)	(64)	(28)
Net cash used in investing activities	<u>(3,080)</u>	<u>(3,361)</u>	<u>(3,161)</u>
<b>Cash Flows from Financing Activities</b>			
Issuance of long-term debt	1,465	1,059	1,515
Retirement of long-term debt	(300)	(277)	(168)
Issuance of common stock	1,167	698	453
Payment of common stock dividends	(1,192)	(1,133)	(1,072)
Net increase (decrease) in short-term debt	(278)	363	115
Other financing activities	(26)	(20)	(19)
Net cash provided by financing activities	<u>836</u>	<u>690</u>	<u>824</u>
<b>Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash</b>	<u>10</u>	<u>(18)</u>	<u>15</u>
<b>Net Increase in Cash, Cash Equivalents and Restricted Cash</b>	<u>193</u>	<u>132</u>	<u>139</u>
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	643	511	372
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 836</u>	<u>\$ 643</u>	<u>\$ 511</u>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash paid during the period for:			
Interest - net of amount capitalized	\$ 905	\$ 910	\$ 845
Income taxes - net	\$ 93	\$ 127	\$ 65
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 340	\$ 345	\$ 360
Accrued expenditures for intangible assets at December 31,	\$ 79	\$ 64	\$ 68

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



**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,  
PPL Corporation and Subsidiaries**

(Millions of Dollars, shares in thousands)

	2019	2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 815	\$ 621
Accounts receivable (less reserve: 2019, \$58; 2018, \$56)		
Customer	687	663
Other	105	107
Unbilled revenues	504	496
Fuel, materials and supplies	332	303
Prepayments	79	70
Price risk management assets	147	109
Other current assets	98	63
Total Current Assets	2,767	2,432
<b>Property, Plant and Equipment</b>		
Regulated utility plant	42,709	39,734
Less: accumulated depreciation - regulated utility plant	8,055	7,310
Regulated utility plant, net	34,654	32,424
Non-regulated property, plant and equipment	357	355
Less: accumulated depreciation - non-regulated property, plant and equipment	109	101
Non-regulated property, plant and equipment, net	248	254
Construction work in progress	1,580	1,780
Property, Plant and Equipment, net	36,482	34,458
<b>Other Noncurrent Assets</b>		
Regulatory assets	1,492	1,673
Goodwill	3,198	3,162
Other intangibles	742	716
Pension benefit asset	464	535
Price risk management assets	149	228
Other noncurrent assets	386	192
Total Other Noncurrent Assets	6,431	6,506
<b>Total Assets</b>	<b>\$ 45,680</b>	<b>\$ 43,396</b>

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



**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,  
PPL Corporation and Subsidiaries**

(Millions of Dollars, shares in thousands)

	2019	2018
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 1,151	\$ 1,430
Long-term debt due within one year	1,172	530
Accounts payable	956	989
Taxes	99	110
Interest	294	278
Dividends	317	296
Customer deposits	261	257
Regulatory liabilities	115	122
Other current liabilities	535	551
<b>Total Current Liabilities</b>	<b>4,900</b>	<b>4,563</b>
<b>Long-term Debt</b>	<b>20,721</b>	<b>20,069</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	3,088	2,796
Investment tax credits	124	126
Accrued pension obligations	587	771
Asset retirement obligations	212	264
Regulatory liabilities	2,572	2,714
Other deferred credits and noncurrent liabilities	485	436
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<b>7,068</b>	<b>7,107</b>
<b>Commitments and Contingent Liabilities (Notes 7 and 13)</b>		
<b>Equity</b>		
Common stock - \$0.01 par value (a)	8	7
Additional paid-in capital	12,214	11,021
Earnings reinvested	5,127	4,593
Accumulated other comprehensive loss	(4,358)	(3,964)
<b>Total Equity</b>	<b>12,991</b>	<b>11,657</b>
<b>Total Liabilities and Equity</b>	<b>\$ 45,680</b>	<b>\$ 43,396</b>

(a) 1,560,000 shares authorized; 767,233 and 720,323 shares issued and outstanding at December 31, 2019 and December 31, 2018.

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

## CONSOLIDATED STATEMENTS OF EQUITY

### PPL Corporation and Subsidiaries

(Millions of Dollars)

	PPL Shareowners					Total
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	
<b>December 31, 2016</b>	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	13,667		482			482
Stock-based compensation			(18)			(18)
Net income				1,128		1,128
Dividends and dividend equivalents (b)				(1,086)		(1,086)
Other comprehensive income (loss)					356	356
<b>December 31, 2017</b>	<u>693,398</u>	<u>\$ 7</u>	<u>\$ 10,305</u>	<u>\$ 3,871</u>	<u>\$ (3,422)</u>	<u>\$ 10,761</u>
Common stock issued	26,925		718			718
Stock-based compensation			(2)			(2)
Net income				1,827		1,827
Dividends and dividend equivalents (b)				(1,156)		(1,156)
Other comprehensive income (loss)					(491)	(491)
Adoption of reclassification of certain tax effects from AOCI guidance cumulative effect adjustment (Note 1)				51	(51)	—
<b>December 31, 2018</b>	<u>720,323</u>	<u>\$ 7</u>	<u>\$ 11,021</u>	<u>\$ 4,593</u>	<u>\$ (3,964)</u>	<u>\$ 11,657</u>
Common stock issued	46,910	1	1,184			1,185
Stock-based compensation			9			9
Net income				1,746		1,746
Dividends and dividend equivalents (b)				(1,212)		(1,212)
Other comprehensive income (loss)					(394)	(394)
<b>December 31, 2019</b>	<u>767,233</u>	<u>\$ 8</u>	<u>\$ 12,214</u>	<u>\$ 5,127</u>	<u>\$ (4,358)</u>	<u>\$ 12,991</u>

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

(b) Dividends declared per share of common stock at December 31, 2019, 2018 and 2017 were: \$1.65, \$1.64 and \$1.58.

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

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**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,  
PPL Electric Utilities Corporation and Subsidiaries**

(Millions of Dollars)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Operating Revenues</b>	\$ 2,358	\$ 2,277	\$ 2,195
<b>Operating Expenses</b>			
Operation			
Energy purchases	549	544	507
Other operation and maintenance	566	578	572
Depreciation	386	352	309
Taxes, other than income	112	109	107
Total Operating Expenses	<u>1,613</u>	<u>1,583</u>	<u>1,495</u>
<b>Operating Income</b>	745	694	700
Other Income (Expense) - net	25	23	12
Interest Income from Affiliate	6	8	5
Interest Expense	<u>170</u>	<u>159</u>	<u>142</u>
<b>Income Before Income Taxes</b>	606	566	575
Income Taxes	<u>149</u>	<u>136</u>	<u>213</u>
<b>Net Income (a)</b>	<u>\$ 457</u>	<u>\$ 430</u>	<u>\$ 362</u>

(a) Net income equals comprehensive income.

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



**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,  
PPL Electric Utilities Corporation and Subsidiaries**

(Millions of Dollars)

	2019	2018	2017
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 457	\$ 430	\$ 362
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	386	352	309
Amortization	24	22	33
Defined benefit plans - expense	—	3	12
Deferred income taxes and investment tax credits	90	125	258
Other	(19)	(4)	(8)
Change in current assets and current liabilities			
Accounts receivable	33	47	(57)
Accounts payable	5	10	3
Unbilled revenues	(14)	7	(13)
Prepayments	(1)	1	3
Regulatory assets and liabilities	(43)	(19)	(5)
Taxes payable	1	4	(4)
Other	(11)	10	(1)
Other operating activities			
Defined benefit plans - funding	(21)	(28)	(24)
Other assets	15	(37)	15
Other liabilities	11	55	(3)
Net cash provided by operating activities	<u>913</u>	<u>978</u>	<u>880</u>
<b>Cash Flows from Investing Activities</b>			
Expenditures for property, plant and equipment	(1,114)	(1,192)	(1,244)
Expenditures for intangible assets	(7)	(4)	(10)
Other investing activities	4	3	2
Net cash used in investing activities	<u>(1,117)</u>	<u>(1,193)</u>	<u>(1,252)</u>
<b>Cash Flows from Financing Activities</b>			
Issuance of long-term debt	393	398	470
Retirement of long-term debt	(100)	—	—
Contributions from PPL	400	429	575
Payment of common stock dividends to parent	(486)	(390)	(336)
Net decrease in short-term debt		—	(295)
Other financing activities	(8)	(4)	(6)
Net cash provided by financing activities	<u>199</u>	<u>433</u>	<u>408</u>
<b>Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash</b>	<b>(5)</b>	<b>218</b>	<b>36</b>
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	269	51	15
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 264</u>	<u>\$ 269</u>	<u>\$ 51</u>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 154	\$ 144	\$ 128
Income taxes - net	\$ 32	\$ (20)	\$ 4
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 180	\$ 158	\$ 133

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

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,  
PPL Electric Utilities Corporation and Subsidiaries**

(Millions of Dollars, shares in thousands)

	2019	2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 262	\$ 267
Accounts receivable (less reserve: 2019, \$28; 2018, \$27)		
Customer	258	264
Other	22	38
Accounts receivable from affiliates	11	11
Unbilled revenues	134	120
Materials and supplies	33	25
Prepayments	6	5
Regulatory assets	26	11
Other current assets	9	9
<b>Total Current Assets</b>	<b>761</b>	<b>750</b>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	12,589	11,637
Less: accumulated depreciation - regulated utility plant	3,078	2,856
Regulated utility plant, net	9,511	8,781
Construction work in progress	597	586
<b>Property, Plant and Equipment, net</b>	<b>10,108</b>	<b>9,367</b>
<b>Other Noncurrent Assets</b>		
Regulatory assets	726	824
Intangibles	263	260
Other noncurrent assets	43	42
<b>Total Other Noncurrent Assets</b>	<b>1,032</b>	<b>1,126</b>
<b>Total Assets</b>	<b>\$ 11,901</b>	<b>\$ 11,243</b>

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

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,  
PPL Electric Utilities Corporation and Subsidiaries**

(Millions of Dollars, shares in thousands)

	2019	2018
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 438	\$ 418
Accounts payable to affiliates	32	25
Taxes	13	12
Interest	41	37
Regulatory liabilities	96	74
Other current liabilities	93	101
<b>Total Current Liabilities</b>	<b>713</b>	<b>667</b>
<b>Long-term Debt</b>	<b>3,985</b>	<b>3,694</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	1,447	1,320
Accrued pension obligations	179	282
Regulatory liabilities	599	675
Other deferred credits and noncurrent liabilities	146	144
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<b>2,371</b>	<b>2,421</b>
<b>Commitments and Contingent Liabilities (Notes 7 and 13)</b>		
<b>Equity</b>		
Common stock - no par value (a)	364	364
Additional paid-in capital	3,558	3,158
Earnings reinvested	910	939
<b>Total Equity</b>	<b>4,832</b>	<b>4,461</b>
<b>Total Liabilities and Equity</b>	<b>\$ 11,901</b>	<b>\$ 11,243</b>

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at December 31, 2019 and December 31, 2018.

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



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

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
<b>December 31, 2016</b>	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391
Net income				362	362
Capital contributions from parent			575		575
Dividends declared on common stock				(336)	(336)
<b>December 31, 2017</b>	66,368	\$ 364	\$ 2,729	\$ 899	\$ 3,992
Net income				430	430
Capital contributions from parent			429		429
Dividends declared on common stock				(390)	(390)
<b>December 31, 2018</b>	66,368	\$ 364	\$ 3,158	\$ 939	\$ 4,461
Net income				457	457
Capital contributions from parent			400		400
Dividends declared on common stock				(486)	(486)
<b>December 31, 2019</b>	66,368	\$ 364	\$ 3,558	\$ 910	\$ 4,832

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

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



**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,  
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2019	2018	2017
<b>Operating Revenues</b>	<b>\$ 3,206</b>	<b>\$ 3,214</b>	<b>\$ 3,156</b>
<b>Operating Expenses</b>			
Operation			
Fuel	709	799	759
Energy purchases	174	201	178
Other operation and maintenance	861	848	801
Depreciation	547	475	439
Taxes, other than income	74	70	65
Total Operating Expenses	<u>2,365</u>	<u>2,393</u>	<u>2,242</u>
<b>Operating Income</b>	<b>841</b>	<b>821</b>	<b>914</b>
Other Income (Expense) - net	(13)	(16)	(8)
Interest Expense	226	206	197
Interest Expense with Affiliate	<u>31</u>	<u>25</u>	<u>18</u>
<b>Income Before Income Taxes</b>	<b>571</b>	<b>574</b>	<b>691</b>
Income Taxes	<u>103</u>	<u>129</u>	<u>375</u>
<b>Net Income</b>	<b>\$ 468</b>	<b>\$ 445</b>	<b>\$ 316</b>

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31,  
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2019	2018	2017
<b>Net income</b>	<b>\$ 468</b>	<b>\$ 445</b>	<b>\$ 316</b>
<b>Other comprehensive income (loss):</b>			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Defined benefit plans:			
Prior service costs, net of tax of \$0, \$0, \$1	(1)	—	(2)
Net actuarial gain (loss), net of tax of \$2, (\$2), \$13	(6)	7	(23)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0	—	—	1
Defined benefit plans:			
Prior service costs, net of tax of \$0, \$0, (\$1)	1	2	1
Net actuarial (gain) loss, net of tax of \$1, (\$3), (\$2)	2	8	5
<b>Total other comprehensive income (loss)</b>	<b>(4)</b>	<b>17</b>	<b>(18)</b>
<b>Comprehensive income</b>	<b>\$ 464</b>	<b>\$ 462</b>	<b>\$ 298</b>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,  
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2019	2018	2017
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 468	\$ 445	\$ 316
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	547	475	439
Amortization	27	18	24
Defined benefit plans - expense	11	17	25
Deferred income taxes and investment tax credits	82	94	294
Other	(3)	(4)	—
Change in current assets and current liabilities			
Accounts receivable	(16)	1	(12)
Accounts payable	(26)	39	(9)
Accounts payable to affiliates	2	2	2
Unbilled revenues	5	34	(33)
Fuel, materials and supplies	—	7	45
Regulatory assets and liabilities, net	(45)	32	(7)
Taxes payable	(5)	(3)	27
Other	(8)	(24)	41
Other operating activities			
Defined benefit plans - funding	(34)	(131)	(35)
Expenditures for asset retirement obligations	(89)	(72)	(34)
Other assets	(3)	(24)	8
Other liabilities	25	9	8
Net cash provided by operating activities	<u>938</u>	<u>915</u>	<u>1,099</u>
<b>Cash Flows from Investing Activities</b>			
Expenditures for property, plant and equipment	(1,094)	(1,117)	(892)
Other investing activities	—	1	4
Net cash used in investing activities	<u>(1,094)</u>	<u>(1,116)</u>	<u>(888)</u>
<b>Cash Flows from Financing Activities</b>			
Net increase (decrease) in notes payable with affiliates	37	(112)	62
Issuance of long-term note with affiliate	—	250	—
Issuance of long-term debt	705	118	160
Retirement of long-term debt	(200)	(27)	(70)
Acquisition of outstanding bonds	(40)	—	—
Remarketing of reacquired bonds	40	—	—
Distributions to member	(308)	(302)	(402)
Contributions from member	63	—	—
Net increase (decrease) in short-term debt	(126)	270	59
Other financing activities	(12)	(2)	(3)
Net cash provided by (used in) financing activities	<u>159</u>	<u>195</u>	<u>(194)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>3</u>	<u>(6)</u>	<u>17</u>
Cash and Cash Equivalents at Beginning of Period	24	30	13
Cash and Cash Equivalents at End of Period	<u>\$ 27</u>	<u>\$ 24</u>	<u>\$ 30</u>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 237	\$ 218	\$ 204
Income taxes - net	\$ 29	\$ 46	\$ 48
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 113	\$ 150	\$ 174

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

**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,  
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2019	2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 27	\$ 24
Accounts receivable (less reserve: 2019, \$28; 2018, \$27)		
Customer	260	239
Other	71	63
Unbilled revenues	164	169
Fuel, materials and supplies	250	248
Prepayments	30	25
Regulatory assets	41	25
Other current assets	2	—
Total Current Assets	<u>845</u>	<u>793</u>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	14,646	13,721
Less: accumulated depreciation - regulated utility plant	2,356	2,125
Regulated utility plant, net	<u>12,290</u>	<u>11,596</u>
Construction work in progress	794	1,018
Property, Plant and Equipment, net	<u>13,084</u>	<u>12,614</u>
<b>Other Noncurrent Assets</b>		
Regulatory assets	766	849
Goodwill	996	996
Other intangibles	69	78
Other noncurrent assets	171	82
Total Other Noncurrent Assets	<u>2,002</u>	<u>2,005</u>
<b>Total Assets</b>	<u>\$ 15,931</u>	<u>\$ 15,412</u>

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



**CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,  
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2019	2018
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 388	\$ 514
Long-term debt due within one year	975	530
Notes payable with affiliates	150	113
Accounts payable	316	366
Accounts payable to affiliates	11	9
Customer deposits	62	61
Taxes	58	63
Price risk management liabilities	4	4
Regulatory liabilities	19	48
Interest	40	32
Asset retirement obligations	70	82
Other current liabilities	153	126
<b>Total Current Liabilities</b>	<b>2,246</b>	<b>1,948</b>
<b>Long-term Debt</b>		
Long-term debt	4,377	4,322
Long-term debt to affiliate	650	650
<b>Total Long-term Debt</b>	<b>5,027</b>	<b>4,972</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	1,069	956
Investment tax credits	124	126
Price risk management liabilities	17	16
Accrued pension obligations	233	282
Asset retirement obligations	145	214
Regulatory liabilities	1,973	2,039
Other deferred credits and noncurrent liabilities	155	136
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<b>3,716</b>	<b>3,769</b>
<b>Commitments and Contingent Liabilities (Notes 7 and 13)</b>		
<b>Member's equity</b>	<b>4,942</b>	<b>4,723</b>
<b>Total Liabilities and Equity</b>	<b>\$ 15,931</b>	<b>\$ 15,412</b>

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

**CONSOLIDATED STATEMENTS OF EQUITY**  
**LG&E and KU Energy LLC and Subsidiaries**

*(Millions of Dollars)*

	<b>Member's Equity</b>
<b>December 31, 2016</b>	<b>\$ 4,667</b>
Net income	316
Distributions to member	(402)
Other comprehensive income (loss)	(18)
<b>December 31, 2017</b>	<b>\$ 4,563</b>
Net income	\$ 445
Distributions to member	(302)
Other comprehensive income (loss)	17
<b>December 31, 2018</b>	<b>\$ 4,723</b>
Net income	\$ 468
Contributions from member	63
Distributions to member	(308)
Other comprehensive income (loss)	(4)
<b>December 31, 2019</b>	<b>\$ 4,942</b>

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



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**STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,  
Louisville Gas and Electric Company**  
*(Millions of Dollars)*

	2019	2018	2017
<b>Operating Revenues</b>			
Retail and wholesale	\$ 1,473	\$ 1,467	\$ 1,422
Electric revenue from affiliate	27	29	31
<b>Total Operating Revenues</b>	<b>1,500</b>	<b>1,496</b>	<b>1,453</b>
<b>Operating Expenses</b>			
Operation			
Fuel	289	308	292
Energy purchases	154	183	160
Energy purchases from affiliate	7	13	10
Other operation and maintenance	387	376	350
Depreciation	231	195	183
Taxes, other than income	39	36	33
<b>Total Operating Expenses</b>	<b>1,107</b>	<b>1,111</b>	<b>1,028</b>
<b>Operating Income</b>	<b>393</b>	<b>385</b>	<b>425</b>
Other Income (Expense) – net	(11)	(12)	(10)
Interest Expense	87	76	71
<b>Income Before Income Taxes</b>	<b>295</b>	<b>297</b>	<b>344</b>
Income Taxes	63	64	131
<b>Net Income (a)</b>	<b>\$ 232</b>	<b>\$ 233</b>	<b>\$ 213</b>

(a) Net income equals comprehensive income.

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



**STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,  
Louisville Gas and Electric Company**

(Millions of Dollars)

	2019	2018	2017
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 232	\$ 233	\$ 213
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	231	195	183
Amortization	15	14	14
Defined benefit plans - expense	3	3	7
Deferred income taxes and investment tax credits	56	60	126
Other	—	—	1
Change in current assets and current liabilities			
Accounts receivable	(9)	4	(7)
Accounts receivable from affiliates	6	—	4
Accounts payable	(10)	10	(7)
Accounts payable to affiliates	5	1	(4)
Unbilled revenues	1	14	(16)
Fuel, materials and supplies	5	4	12
Regulatory assets and liabilities, net	(19)	5	(5)
Taxes payable	7	1	(15)
Other	(5)	(10)	16
Other operating activities			
Defined benefit plans - funding	(6)	(61)	(4)
Expenditures for asset retirement obligations	(30)	(22)	(15)
Other assets	(1)	(12)	5
Other liabilities	11	4	4
Net cash provided by operating activities	<u>492</u>	<u>443</u>	<u>512</u>
<b>Cash Flows from Investing Activities</b>			
Expenditures for property, plant and equipment	<u>(482)</u>	<u>(554)</u>	<u>(458)</u>
Net cash used in investing activities	<u>(482)</u>	<u>(554)</u>	<u>(458)</u>
<b>Cash Flows from Financing Activities</b>			
Issuance of long-term debt	399	100	160
Retirement of long-term debt	(200)	—	(70)
Acquisition of outstanding bonds	(40)	—	—
Remarketing of reacquired bonds	40	—	—
Payment of common stock dividends to parent	(182)	(156)	(192)
Contributions from parent	25	83	30
Net increase (decrease) in short-term debt	(41)	80	30
Other financing activities	(6)	(1)	(2)
Net cash provided by (used in) financing activities	<u>(5)</u>	<u>106</u>	<u>(44)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>5</u>	<u>(5)</u>	<u>10</u>
Cash and Cash Equivalents at Beginning of Period	<u>10</u>	<u>15</u>	<u>5</u>
Cash and Cash Equivalents at End of Period	<u>\$ 15</u>	<u>\$ 10</u>	<u>\$ 15</u>

**Supplemental Disclosures of Cash Flow Information**

Cash paid (received) during the period for:

Interest - net of amount capitalized	\$ 77	\$ 71	\$ 65
Income taxes - net	\$ 2	\$ 7	\$ 22

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at December 31,	\$ 59	\$ 61	\$ 92
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The accompanying Notes to Financial Statements are an integral part of the financial statements.

**BALANCE SHEETS AT DECEMBER 31,  
Louisville Gas and Electric Company**

(Millions of Dollars, shares in thousands)

	2019	2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 15	\$ 10
Accounts receivable (less reserve: 2019, \$1; 2018, \$1)		
Customer	121	110
Other	41	30
Unbilled revenues	76	77
Accounts receivable from affiliates	18	24
Fuel, materials and supplies	122	127
Prepayments	14	12
Regulatory assets	25	21
Other current assets	1	—
<b>Total Current Assets</b>	<b>433</b>	<b>411</b>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	6,372	5,816
Less: accumulated depreciation - regulated utility plant	846	741
Regulated utility plant, net	5,526	5,075
Construction work in progress	297	514
<b>Property, Plant and Equipment, net</b>	<b>5,823</b>	<b>5,589</b>
<b>Other Noncurrent Assets</b>		
Regulatory assets	380	431
Goodwill	389	389
Other intangibles	41	47
Other noncurrent assets	67	16
<b>Total Other Noncurrent Assets</b>	<b>877</b>	<b>883</b>
<b>Total Assets</b>	<b>\$ 7,133</b>	<b>\$ 6,883</b>

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

**BALANCE SHEETS AT DECEMBER 31,  
Louisville Gas and Electric Company**

(Millions of Dollars, shares in thousands)

	2019	2018
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 238	\$ 279
Long-term debt due within one year	—	434
Accounts payable	172	172
Accounts payable to affiliates	31	26
Customer deposits	31	29
Taxes	33	26
Price risk management liabilities	4	4
Regulatory liabilities	2	17
Interest	15	11
Asset retirement obligations	24	23
Other current liabilities	47	39
<b>Total Current Liabilities</b>	<b>597</b>	<b>1,060</b>
<b>Long-term Debt</b>	<b>2,005</b>	<b>1,375</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	697	628
Investment tax credits	34	34
Price risk management liabilities	17	16
Asset retirement obligations	49	80
Regulatory liabilities	883	915
Other deferred credits and noncurrent liabilities	89	88
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<b>1,769</b>	<b>1,761</b>
<b>Commitments and Contingent Liabilities (Notes 7 and 13)</b>		
<b>Equity</b>		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,820	1,795
Earnings reinvested	518	468
<b>Total Equity</b>	<b>2,762</b>	<b>2,687</b>
<b>Total Liabilities and Equity</b>	<b>\$ 7,133</b>	<b>\$ 6,883</b>

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at December 31, 2019 and December 31, 2018.

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



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

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
<b>December 31, 2016</b>	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				213	213
Capital contributions from LKE			30		30
Cash dividends declared on common stock				(192)	(192)
<b>December 31, 2017</b>	21,294	\$ 424	\$ 1,712	\$ 391	\$ 2,527
Net income				233	233
Capital contributions from LKE			83		83
Cash dividends declared on common stock				(156)	(156)
<b>December 31, 2018</b>	21,294	\$ 424	\$ 1,795	\$ 468	\$ 2,687
Net income				232	232
Capital contributions from LKE			25		25
Cash dividends declared on common stock				(182)	(182)
<b>December 31, 2019</b>	21,294	\$ 424	\$ 1,820	\$ 518	\$ 2,762

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

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



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**STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,  
Kentucky Utilities Company**

(Millions of Dollars)

	2019	2018	2017
<b>Operating Revenues</b>			
Retail and wholesale	\$ 1,733	\$ 1,747	\$ 1,734
Electric revenue from affiliate	7	13	10
<b>Total Operating Revenues</b>	<b>1,740</b>	<b>1,760</b>	<b>1,744</b>
<b>Operating Expenses</b>			
Operation			
Fuel	420	491	467
Energy purchases	20	18	18
Energy purchases from affiliate	27	29	31
Other operation and maintenance	438	441	423
Depreciation	315	279	255
Taxes, other than income	35	34	32
<b>Total Operating Expenses</b>	<b>1,255</b>	<b>1,292</b>	<b>1,226</b>
<b>Operating Income</b>	<b>485</b>	<b>468</b>	<b>518</b>
Other Income (Expense) – net	(4)	(6)	(4)
Interest Expense	109	100	96
<b>Income Before Income Taxes</b>	<b>372</b>	<b>362</b>	<b>418</b>
Income Taxes	79	76	159
<b>Net Income (a)</b>	<b>\$ 293</b>	<b>\$ 286</b>	<b>\$ 259</b>

(a) Net income approximates comprehensive income.

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

**STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,  
Kentucky Utilities Company**

(Millions of Dollars)

	2019	2018	2017
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 293	\$ 286	\$ 259
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	315	279	255
Amortization	10	3	9
Defined benefit plans - expense	(1)	—	4
Deferred income taxes and investment tax credits	39	48	152
Other	(3)	(4)	—
Change in current assets and current liabilities			
Accounts receivable	(3)	(4)	(5)
Accounts payable	(15)	29	—
Accounts payable to affiliates	(2)	(3)	(6)
Unbilled revenues	4	20	(17)
Fuel, materials and supplies	(6)	3	32
Regulatory assets and liabilities, net	(26)	27	(2)
Taxes payable	2	5	(26)
Other	(6)	(3)	9
Other operating activities			
Defined benefit plans - funding	(3)	(54)	(23)
Expenditures for asset retirement obligations	(59)	(50)	(19)
Other assets	(2)	(12)	3
Other liabilities	16	11	9
Net cash provided by operating activities	<u>553</u>	<u>581</u>	<u>634</u>
<b>Cash Flows from Investing Activities</b>			
Expenditures for property, plant and equipment	(610)	(562)	(432)
Other investing activities	—	1	4
Net cash used in investing activities	<u>(610)</u>	<u>(561)</u>	<u>(428)</u>
<b>Cash Flows from Financing Activities</b>			
Issuance of long-term debt	306	18	—
Retirement of long-term debt	—	(27)	—
Payment of common stock dividends to parent	(229)	(246)	(226)
Contributions from parent	68	45	—
Net increase (decrease) in short-term debt	(85)	190	29
Other financing activities	(5)	(1)	(1)
Net cash provided by (used in) financing activities	<u>55</u>	<u>(21)</u>	<u>(198)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(2)</u>	<u>(1)</u>	<u>8</u>
Cash and Cash Equivalents at Beginning of Period	<u>14</u>	<u>15</u>	<u>7</u>
Cash and Cash Equivalents at End of Period	<u>\$ 12</u>	<u>\$ 14</u>	<u>\$ 15</u>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 101	\$ 95	\$ 92
Income taxes - net	\$ 39	\$ 25	\$ 34
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 54	\$ 88	\$ 82

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

**BALANCE SHEETS AT DECEMBER 31,  
Kentucky Utilities Company**

(Millions of Dollars, shares in thousands)

	2019	2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 12	\$ 14
Accounts receivable (less reserve: 2019, \$1; 2018, \$2)		
Customer	139	129
Other	27	34
Unbilled revenues	88	92
Fuel, materials and supplies	128	121
Prepayments	14	11
Regulatory assets	16	4
Other current assets	1	—
<b>Total Current Assets</b>	<b>425</b>	<b>405</b>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	8,262	7,895
Less: accumulated depreciation - regulated utility plant	1,507	1,382
Regulated utility plant, net	6,755	6,513
Construction work in progress	496	503
<b>Property, Plant and Equipment, net</b>	<b>7,251</b>	<b>7,016</b>
<b>Other Noncurrent Assets</b>		
Regulatory assets	386	418
Goodwill	607	607
Other intangibles	28	31
Other noncurrent assets	128	63
<b>Total Other Noncurrent Assets</b>	<b>1,149</b>	<b>1,119</b>
<b>Total Assets</b>	<b>\$ 8,825</b>	<b>\$ 8,540</b>

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



**BALANCE SHEETS AT DECEMBER 31,  
Kentucky Utilities Company**

(Millions of Dollars, shares in thousands)

	2019	2018
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 150	\$ 235
Long-term debt due within one year	500	96
Accounts payable	121	171
Accounts payable to affiliates	52	53
Customer deposits	31	32
Taxes	26	24
Regulatory liabilities	17	31
Interest	20	16
Asset retirement obligations	46	59
Other current liabilities	51	35
<b>Total Current Liabilities</b>	<b>1,014</b>	<b>752</b>
<b>Long-term Debt</b>	<b>2,123</b>	<b>2,225</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	792	735
Investment tax credits	90	92
Asset retirement obligations	96	134
Regulatory liabilities	1,090	1,124
Other deferred credits and noncurrent liabilities	46	36
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<b>2,114</b>	<b>2,121</b>
<b>Commitments and Contingent Liabilities (Notes 7 and 13)</b>		
<b>Equity</b>		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,729	2,661
Earnings reinvested	537	473
<b>Total Equity</b>	<b>3,574</b>	<b>3,442</b>
<b>Total Liabilities and Equity</b>	<b>\$ 8,825</b>	<b>\$ 8,540</b>

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at December 31, 2019 and December 31, 2018.

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

**STATEMENTS OF EQUITY**  
**Kentucky Utilities Company**

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
<b>December 31, 2016</b>	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				259		259
Cash dividends declared on common stock				(226)		(226)
Other comprehensive income (loss)					1	1
<b>December 31, 2017</b>	37,818	\$ 308	\$ 2,616	\$ 433	\$ —	\$ 3,357
Net income				286		286
Capital contributions from LKE			45			45
Cash dividends declared on common stock				(246)		(246)
<b>December 31, 2018</b>	37,818	\$ 308	\$ 2,661	\$ 473	\$ —	\$ 3,442
Net income				293		293
Capital contributions from LKE			68			68
Cash dividends declared on common stock				(229)		(229)
<b>December 31, 2019</b>	37,818	\$ 308	\$ 2,729	\$ 537	\$ —	\$ 3,574

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

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

**COMBINED NOTES TO FINANCIAL STATEMENTS**

**Index to Combined Notes to Consolidated Financial Statements**

The notes to the consolidated financial statements that follow are a combined presentation. The following list indicates the Registrants to which the footnotes apply:

	Registrant				
	PPL	PPL Electric	LKE	LG&E	KU
1. Summary of Significant Accounting Policies	x	x	x	x	x
2. Segment and Related Information	x	x	x	x	x
3. Revenue from Contracts with Customers	x	x	x	x	x
4. Preferred Securities	x	x		x	x
5. Earnings Per Share	x				
6. Income and Other Taxes	x	x	x	x	x
7. Utility Rate Regulation	x	x	x	x	x
8. Financing Activities	x	x	x	x	x
9. Leases	x		x	x	x
10. Stock-Based Compensation	x	x	x		
11. Retirement and Postemployment Benefits	x	x	x	x	x
12. Jointly Owned Facilities	x		x	x	x
13. Commitments and Contingencies	x	x	x	x	x
14. Related Party Transactions		x	x	x	x
15. Other Income (Expense) - net	x	x			
16. Fair Value Measurements	x	x	x	x	x
17. Derivative Instruments and Hedging Activities	x	x	x	x	x
18. Goodwill and Other Intangible Assets	x	x	x	x	x
19. Asset Retirement Obligations	x		x	x	x
20. Accumulated Other Comprehensive Income (Loss)	x		x		
21. New Accounting Guidance Pending Adoption	x	x	x	x	x

**1. Summary of Significant Accounting Policies**

*(All Registrants)*

**General**

Capitalized terms and abbreviations appearing in the combined notes to 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.

**Business and Consolidation**

*(PPL)*

PPL is a utility holding company that, through its regulated subsidiaries, is primarily engaged in: 1) the distribution of electricity in the U.K.; 2) the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas, primarily in Kentucky; and 3) the transmission, distribution and sale of electricity in Pennsylvania. Headquartered in Allentown, PA, PPL's principal subsidiaries are PPL Global, LKE (including its principal subsidiaries, LG&E and KU) and PPL Electric. PPL's corporate level financing subsidiary is PPL Capital Funding.

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WPD, a subsidiary of PPL Global, through indirect, wholly owned subsidiaries, operates distribution networks providing electricity service in the U.K. WPD serves end-users in South Wales and southwest and central England. Its principal subsidiaries are WPD (South Wales), WPD (South West), WPD (East Midlands) and WPD (West Midlands).

PPL consolidates WPD on a one-month lag. Material events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

### *(PPL and PPL Electric)*

PPL Electric is a cost-based rate-regulated utility subsidiary of PPL. PPL Electric's principal business is the transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania, and the regulated supply of electricity to retail customers in that territory as a PLR.

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

LKE is a utility holding company with cost-based rate-regulated utility operations through its subsidiaries, LG&E and KU. 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 their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name.

### *(All Registrants)*

The financial statements of the Registrants include each company's own accounts, as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for Variable Interest Entities (VIEs). The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE and, as a result, are the primary beneficiary of the entity. The Registrants are not the primary beneficiary in any significant VIEs. Investments in entities in which a company has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated.

The financial statements of PPL, LKE, LG&E and KU include their share of any undivided interests in jointly owned facilities, as well as their share of the related operating costs of those facilities. See Note 12 for additional information.

## Regulation

### *(PPL)*

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. Electricity distribution revenues are set by Ofgem for a given time period through price control reviews that are not directly based on cost recovery. The price control formula that governs WPD's allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. As a result, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

### *(All Registrants)*

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Base rates are generally established based on a future test period. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover expected future costs, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and regulatory liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the applicable state regulatory commissions. See Note 7 for additional details regarding regulatory matters.



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### Accounting Records

The system of accounts for domestic regulated entities is maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the applicable state regulatory commissions.

### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Loss Accruals

Potential losses are accrued when (1) information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of uncertain future events and (2) the amount of loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The Registrants continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

### **Earnings Per Share (PPL)**

EPS is computed using the two-class method, which is an earnings allocation method for computing EPS that treats a participating security as having rights to earnings that would otherwise have been available to common shareowners. Share-based payment awards that provide recipients a non-forfeitable right to dividends or dividend equivalents are considered participating securities.

### **Price Risk Management**

*(All Registrants)*

Interest rate contracts are used to hedge exposure to changes in the fair value of debt instruments and to hedge exposure to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exposures, primarily associated with PPL's investments in U.K. subsidiaries. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain contracts may not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved to facilitate net settlement. Certain derivative contracts may be excluded from the requirements of derivative accounting treatment because NPNS has been elected. These contracts are accounted for using accrual accounting. Contracts that have been classified as derivative contracts are reflected on the balance sheets at fair value. The portion of derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while the portion of derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities."

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the classification of the hedged items.

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

*(PPL)*

Processes exist that allow for subsequent review and validation of contract information as it relates to interest rate and foreign currency derivatives. The accounting department provides the treasury department with guidelines on appropriate accounting

classifications for various contract types and strategies. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.
- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.
- Transactions to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions to hedge the value of a net investment of foreign operations can be designated as net investment hedges.
- Derivative transactions that do not qualify for cash flow or net investment hedge treatment are marked to fair value through earnings. These transactions generally include foreign currency forwards and options to hedge GBP-denominated earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.

*(All Registrants)*

- Derivative transactions may be marked to fair value through regulatory assets/liabilities at PPL Electric, LG&E and KU, if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

*(PPL and PPL Electric)*

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, NPNS has been elected for these contracts.

See Notes 16 and 17 for additional information on derivatives.

## **Revenue**

*(All Registrants)*

Operating revenues are primarily recorded based on energy deliveries through the end of each calendar month. Unbilled retail revenues result because customers' bills are rendered throughout the month, rather than bills being rendered at the end of the month. For LKE, LG&E and KU, unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. For PPL Electric, unbilled revenues for a month are calculated by multiplying the actual unbilled kWh by an average rate per customer class.

PPL Electric's, LG&E's and KU's base rates are determined based on cost of service. Some regulators have also authorized the use of additional alternative revenue programs, which enable PPL Electric, LG&E and KU to adjust future rates based on past activities or completed events. Revenues from alternative revenue programs are recognized when the specific events permitting future billings have occurred. Revenues from alternative revenue programs are required to be presented separately from revenues from contracts with customers. These amounts are, however, presented as revenues from contracts with customers, with an offsetting adjustment to alternative revenue program revenue, when they are billed to customers in future periods. See Note 3 for additional information.

*(PPL)*

WPD is currently operating under the eight-year price control period of RIIO-ED1, which commenced for electric distribution companies on April 1, 2015. Ofgem has adopted a price control mechanism that establishes the amount of base demand revenue WPD can earn, subject to certain true-ups, and provides for increased or reduced revenues based on incentives or penalties for performance relative to pre-established targets. WPD's allowed revenue primarily includes base demand revenue (adjusted for inflation using RPI), performance incentive revenues/penalties and adjustments for over or under-recovery from prior periods.

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As the regulatory model is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment of adjustments to base demand revenue and/or allowed revenue is evaluated based on revenue recognition accounting guidance.

Unlike prior price control reviews, base demand revenue under RIIO-ED1 is adjusted during the price control period. The most significant of those adjustments are:

- **Inflation True-Up** - The base demand revenue for the RIIO-ED1 period was set based on 2012/13 prices. Therefore, an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base demand revenue. Forecasted RPI is trued up to actuals and affects future base demand revenue two regulatory years later. This revenue change is called the "TRU" adjustment.
- **Annual Iteration Process (AIP)** - The RIIO-ED1 price control period also includes an AIP. This allows future base demand revenues agreed with Ofgem as part of the price control review, to be updated during the price control period for financial adjustments including tax, pensions, cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure, together with the Totex Incentive Mechanism (TIM). Under the TIM, WPD's DNOs are able to retain 70% of any amounts not spent against the RIIO-ED1 plan and bear 70% of any over-spends. The AIP calculates an incremental change to base demand revenue, known as the "MOD" adjustment.

As both MOD and TRU are changes to future base demand revenues as determined by Ofgem, these adjustments are recognized as a component of revenues in future years in which service is provided and revenues are collected or returned to customers.

In addition to base demand revenue, certain other items are added or subtracted to arrive at allowed revenue. The most significant of these are:

- **Incentives** - Ofgem has established incentives to provide opportunities for DNO's to enhance overall returns by improving network efficiency, reliability and customer service. These incentives can result in an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets based on past performance. The annual incentives and penalties are reflected in customers' rates on a two-year lag from the time they are earned and/or assessed. Incentive revenues and penalties are included in revenues when they are billed to customers.
- **Correction Factor** - During the current price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the revenue allowed for a particular period. Conversely, WPD could also over-recover revenue. Over and under-recoveries are subtracted from or added to allowed revenue in future years when billed to customers, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising for the period are refunded/recovered on a two year lag.

## **Accounts Receivable**

*(All Registrants)*

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts.

### Allowance for Doubtful Accounts

Accounts receivable collectibility is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs and the age of the receivable. Specific events, such as bankruptcies, are also considered when applicable. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

The changes in the allowance for doubtful accounts were:

	Balance at Beginning of Period	Additions		Deductions (a)	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
<b><u>PPL</u></b>					
2019	\$ 56	\$ 37	\$ 3	\$ 38	\$ 58
2018	51	41	3	39	56
2017	54	28	(1)	30	51
<b><u>PPL Electric</u></b>					
2019	\$ 27	\$ 26	\$ —	\$ 25	\$ 28
2018	24	29	—	26	27
2017	28	18	—	22	24
<b><u>LKE</u></b>					
2019	\$ 27	\$ 8	\$ 3	\$ 10	\$ 28
2018	25	10	3	11	27
2017	24	8	(1)	6	25
<b><u>LG&amp;E</u></b>					
2019	\$ 1	\$ 2	\$ 2	\$ 4	\$ 1
2018	1	4	1	5	1
2017	2	2	(1)	2	1
<b><u>KU</u></b>					
2019	\$ 2	\$ 4	\$ 1	\$ 6	\$ 1
2018	1	5	2	6	2
2017	2	4	(1)	4	1

(a) Primarily related to uncollectible accounts written off.

**Cash**

*(All Registrants)*

**Cash Equivalents**

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

*(PPL and PPL Electric)*

**Restricted Cash and Cash Equivalents**

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash and cash equivalents. On the Balance Sheets, the current portion of restricted cash and cash equivalents is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

***Reconciliation of Cash, Cash Equivalents and Restricted Cash***

The following provides a reconciliation of Cash, Cash Equivalents and Restricted Cash reported within the Balance Sheets that sum to the total of the same amounts shown on the Statements of Cash Flows:



	PPL		PPL Electric	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 815	\$ 621	\$ 262	\$ 267
Restricted cash - current	3	3	2	2
Restricted cash - noncurrent (a)	18	19	—	—
Total Cash, Cash Equivalents and Restricted Cash	\$ 836	\$ 643	\$ 264	\$ 269

(a) Primarily consists of funds received by WPD, which are to be spent on approved initiatives to support a low carbon environment.

(All Registrants)

## Fair Value Measurements

The Registrants value certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities in defined benefit plans, and cash and cash equivalents. PPL and its subsidiaries use, as appropriate, 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) to measure the fair value of an asset or liability. 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 Registrants classify fair value measurements within one of three levels in the fair value hierarchy. The level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.
- **Level 3** - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, the Registrants' assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.

## Investments

(All Registrants)

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

## Short-term Investments

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Other current assets" on the Balance Sheets.

## Long-Lived and Intangible Assets

### Property, Plant and Equipment

(All Registrants)

PP&E is recorded at original cost, unless impaired. PP&E acquired in business combinations is recorded at fair value at the time of acquisition. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost for constructed assets includes material, labor, contractor costs, certain overheads and financing costs, where applicable. Included in PP&E are capitalized costs of software projects that were developed or obtained for internal use. The cost of repairs and minor replacements are charged to expense as incurred. The Registrants record costs associated with planned major maintenance projects in the period in which work is performed and costs are incurred.

AFUDC is capitalized at PPL Electric as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income. LG&E and KU generally do not record AFUDC as a return is provided on construction work in progress.

(PPL)

PPL capitalizes interest costs as part of construction costs. Capitalized interest, including the debt component of AFUDC for PPL, was \$10 million in 2019, \$15 million in 2018 and \$11 million 2017.

### Depreciation

(All Registrants)

Depreciation is recorded over the estimated useful lives of property using various methods including the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators. LG&E and KU accrue costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred. For LKE, LG&E and KU, all ARO depreciation expenses are reclassified to a regulatory asset. See "Asset Retirement Obligations" below and Note 7 for additional information. PPL Electric records net costs of removal when incurred as a regulatory asset. The regulatory asset is subsequently amortized through depreciation over a five-year period, which is recoverable in customer rates in accordance with regulatory practices.

Following are the weighted-average annual rates of depreciation, for regulated utility plant, for the years ended December 31:

	2019	2018	2017
PPL	2.84%	2.77%	2.65%
PPL Electric	3.05%	3.01%	2.86%
LKE	3.96%	3.69%	3.64%
LG&E	3.87%	3.63%	3.63%
KU	4.02%	3.74%	3.66%

(All Registrants)

### Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed

or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL and its subsidiaries consider:

- the expected use of the asset;
- the expected useful life of other assets to which the useful life of the intangible asset may relate;
- legal, regulatory, or contractual provisions that may limit the useful life;
- the company's historical experience as evidence of its ability to support renewal or extension;
- the effects of obsolescence, demand, competition, and other economic factors; and,
- the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

#### Asset Impairment (Excluding Investments)

The Registrants review long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell.

PPL, LKE, LG&E and KU review goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed. PPL's, LKE's, LG&E's and KU's reporting units are primarily at the operating segment level.

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if management concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

PPL elected to bypass the qualitative step zero evaluation of goodwill and quantitatively tested the goodwill at its WPD reporting unit while LKE, LG&E and KU qualitatively tested the goodwill of its reporting units for impairment as of the fourth quarter of 2019. No impairment was recognized.

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

#### Asset Retirement Obligations

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income to reflect changes in the obligation due to the passage of time. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. 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.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset. See Note 7 and Note 19 for additional information on AROs.

## **Compensation and Benefits**

### Defined Benefits *(All Registrants)*

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, for LG&E, KU and PPL Electric, to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

PPL uses an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the required amortization period. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the full required amortization period.

See Note 7 for a discussion of the regulatory treatment of defined benefit costs and Note 11 for a discussion of defined benefits.

### Stock-Based Compensation *(PPL, PPL Electric and LKE)*

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Forfeitures of awards are recognized when they occur. See Note 10 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Electric and LKE includes an allocation of PPL Services' expense.

## **Taxes**

### Income Taxes

*(All Registrants)*

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return.

Significant management judgment is required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns, valuation allowances on deferred tax assets and whether the undistributed earnings of WPD are considered indefinitely reinvested.

The Registrants use a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. The amounts ultimately paid upon resolution of issues raised by taxing authorities



may differ materially from the amounts accrued and may materially impact the financial statements of the Registrants in future periods. At December 31, 2019, no significant changes in unrecognized tax benefits are projected over the next 12 months.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

The Registrants record valuation allowances to reduce deferred income tax assets to the amounts that are more likely than not to be realized. The need for valuation allowances requires significant management judgment. If the Registrants determine that they are able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if the Registrants determine that they are not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

The Registrants defer investment tax credits when the credits are generated and amortize the deferred amounts over the average lives of the related assets.

The Registrants recognize tax-related interest and penalties in "Income Taxes" on their Statements of Income.

The Registrants use the portfolio approach method of accounting for deferred taxes related to pre-tax OCI transactions. The portfolio approach involves a strict period-by-period cumulative incremental allocation of income taxes to the change in income and losses reflected in OCI. Under this approach, the net cumulative tax effect is ignored. The net change in unrealized gains and losses recorded in AOCI under this approach would be eliminated only on the date the entire balance is sold or otherwise disposed of.

See Note 6 for additional discussion regarding income taxes, including the impact of the TCJA and management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested.

The provision for PPL's, PPL Electric's, LKE's, LG&E's and KU's deferred income taxes for regulatory assets and liabilities is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulatory assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheets in noncurrent "Regulatory assets" or "Regulatory liabilities."

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

The income tax provision for PPL Electric, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if PPL Electric, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes.

At December 31, the following intercompany tax receivables (payables) were recorded:

	2019	2018
PPL Electric	\$ 3	\$ 19
LKE	(8)	(16)
LG&E	(4)	—
KU	(6)	(5)

**Taxes, Other Than Income** *(All Registrants)*

The Registrants present sales taxes in "Other current liabilities" and PPL presents value-added taxes in "Taxes" on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 6 for details on taxes included in "Taxes, other than income" on the Statements of Income.

**Other**

*(All Registrants)*

**Leases**

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 9 for additional information.

**Fuel, Materials and Supplies**

Fuel, natural gas stored underground and materials and supplies are valued using the average cost method. Fuel costs for electricity generation are charged to expense as used. For LG&E, natural gas supply costs are charged to expense as delivered to the distribution system. See Note 7 for further discussion of the fuel adjustment clauses and gas supply clause.

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

"Fuel, materials and supplies" on the Balance Sheets consisted of the following at December 31:

	PPL		LKE		LG&E		KU	
	2019	2018	2019	2018	2019	2018	2019	2018
Fuel	\$ 106	\$ 98	\$ 106	\$ 98	\$ 43	\$ 42	\$ 63	\$ 56
Natural gas stored underground	35	41	35	41	35	41	—	—
Materials and supplies	191	164	109	109	44	44	65	65
Total	\$ 332	\$ 303	\$ 250	\$ 248	\$ 122	\$ 127	\$ 128	\$ 121

**Guarantees** *(All Registrants)*

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 13 for further discussion of recorded and unrecorded guarantees.

**Treasury Stock** *(PPL)*

PPL restores all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

**Foreign Currency Translation and Transactions** *(PPL)*

WPD's functional currency is the GBP, which is the local currency in the U.K. As such, assets and liabilities are translated to U.S. dollars at the exchange rates on the date of consolidation and related revenues and expenses are generally translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from foreign currency translation are recorded in AOCI.

Gains or losses relating to foreign currency transactions are recognized in "Other Income (Expense) - net" on the Statements of Income. See Note 15 for additional information.

**New Accounting Guidance Adopted** *(All Registrants)*

**Accounting for Leases**

Effective January 1, 2019, the Registrants adopted accounting guidance that requires lessees to recognize a right-of-use asset and lease liability for leases, unless determined to 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 result in straight-line expense recognition. Currently, all Registrant leases are operating leases.

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



In adopting this new guidance, the Registrants elected to use the following practical expedients:

- The Registrants did not re-assess the lease classifications or initial direct costs of existing leases. The Registrants also did not re-assess existing contracts for leases or lease classification.
- The Registrants did not evaluate land easements that were not previously accounted for as leases under the new guidance. New land easements are evaluated under the new guidance beginning January 1, 2019.

See Note 9 for the required disclosures resulting from the adoption of the new guidance.

(PPL, LKE, LG&E & KU)

The following table shows the amounts recorded on the Balance Sheets as of January 1, 2019 as a result of the adoption of the new lease guidance using a modified retrospective transition method with transition applied as of the beginning of the period of adoption:

	PPL	LKE	LG&E	KU
Right-of-Use Asset (a)	\$ 81	\$ 56	\$ 23	\$ 31
Lease Liability - Current (b)	23	18	9	9
Lease Liability - Noncurrent (c)	67	46	18	26

(a) Right-of-Use Assets are recorded in "Other noncurrent assets" on the Balance Sheets.

(b) Current lease liabilities are recorded in "Other current liabilities" on the Balance Sheets.

(c) Noncurrent lease liabilities are recorded in "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

### Improvements to Accounting for Hedging Activities

Effective January 1, 2019, the Registrants adopted accounting guidance, using a modified retrospective approach, which reduces complexity when applying hedge accounting as well as improves the transparency of an entity's risk management activities. This guidance eliminates the separate measurement and reporting of hedge ineffectiveness for cash flow and net investment hedges and provides for the ability to perform subsequent qualitative effectiveness assessments. The guidance also allows 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.

See Note 17 for the additional disclosures of the income statement impacts of hedging activities required from the adoption of this guidance. Disclosures related to ineffectiveness are no longer required. Other impacts of adopting this guidance were not material.

## **2. Segment and Related Information**

(PPL)

PPL is organized into three segments: U.K. Regulated, Kentucky Regulated and Pennsylvania Regulated. PPL's segments are segmented by geographic location.

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 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 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.

"Corporate and Other" primarily includes financing costs incurred at the corporate level that have not been allocated or assigned to the segments, certain other unallocated costs, as well as the financial results of Safari Energy, which is presented to reconcile segment information to PPL's consolidated results.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

	2019	2018	2017
Operating Revenues from external customers (a)			
U.K. Regulated	\$ 2,167	\$ 2,268	\$ 2,091
Kentucky Regulated	3,206	3,214	3,156
Pennsylvania Regulated	2,358	2,277	2,195
Corporate and Other	38	26	5
Total	<u>\$ 7,769</u>	<u>\$ 7,785</u>	<u>\$ 7,447</u>
Depreciation			
U.K. Regulated	\$ 250	\$ 247	\$ 230
Kentucky Regulated	547	475	439
Pennsylvania Regulated	386	352	309
Corporate and Other	16	20	30
Total	<u>\$ 1,199</u>	<u>\$ 1,094</u>	<u>\$ 1,008</u>
Amortization (b)			
U.K. Regulated	\$ 25	\$ 34	\$ 34
Kentucky Regulated	27	18	24
Pennsylvania Regulated	24	22	33
Corporate and Other	5	4	6
Total	<u>\$ 81</u>	<u>\$ 78</u>	<u>\$ 97</u>
Unrealized (gains) losses on derivatives and other hedging activities (c)			
U.K. Regulated	\$ 62	\$ (190)	\$ 166
Kentucky Regulated	6	6	6
Corporate and Other	5	(2)	6
Total	<u>\$ 73</u>	<u>\$ (186)</u>	<u>\$ 178</u>
Interest Expense			
U.K. Regulated	\$ 405	\$ 413	\$ 397
Kentucky Regulated	298	274	261
Pennsylvania Regulated	169	159	142
Corporate and Other	122	117	101
Total	<u>\$ 994</u>	<u>\$ 963</u>	<u>\$ 901</u>
Income Before Income Taxes			
U.K. Regulated	\$ 1,169	\$ 1,339	\$ 804
Kentucky Regulated	530	531	645
Pennsylvania Regulated	607	567	575
Corporate and Other	(151)	(152)	(112)
Total	<u>\$ 2,155</u>	<u>\$ 2,285</u>	<u>\$ 1,912</u>
Income Taxes (d)			
U.K. Regulated	\$ 192	\$ 225	\$ 152
Kentucky Regulated	94	120	359
Pennsylvania Regulated	149	136	216
Corporate and Other	(26)	(23)	57
Total	<u>\$ 409</u>	<u>\$ 458</u>	<u>\$ 784</u>
Deferred income taxes and investment tax credits (e)			
U.K. Regulated	\$ 140	\$ 118	\$ 66
Kentucky Regulated	82	94	294
Pennsylvania Regulated	90	125	257
Corporate and Other	(3)	18	90
Total	<u>\$ 309</u>	<u>\$ 355</u>	<u>\$ 707</u>



	2019	2018	2017
<b>Net Income</b>			
U.K. Regulated	\$ 977	\$ 1,114	\$ 652
Kentucky Regulated	436	411	286
Pennsylvania Regulated	458	431	359
Corporate and Other	(125)	(129)	(169)
<b>Total</b>	<b>\$ 1,746</b>	<b>\$ 1,827</b>	<b>\$ 1,128</b>

- (a) See Note 1 and Note 3 for additional information on Operating Revenues.  
 (b) Represents non-cash expense items that include amortization of operating lease right-of-use assets, regulatory assets, debt discounts and premiums and debt issuance costs.  
 (c) Includes unrealized gains and losses from economic activity. See Note 17 for additional information.  
 (d) Represents both current and deferred income taxes, including investment tax credits. See Note 6 for additional information on the impact of the TCJA in 2018 and 2017.  
 (e) Represents a non-cash expense item that is also included in "Income Taxes."

Cash Flow data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

	2019	2018	2017
<b>Expenditures for long-lived assets</b>			
U.K. Regulated	\$ 857	\$ 954	\$ 1,015
Kentucky Regulated	1,097	1,117	892
Pennsylvania Regulated	1,121	1,196	1,254
Corporate and Other	32	1	10
<b>Total</b>	<b>\$ 3,107</b>	<b>\$ 3,268</b>	<b>\$ 3,171</b>

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

	As of December 31,	
	2019	2018
<b>Total Assets</b>		
U.K. Regulated (a)	\$ 17,622	\$ 16,700
Kentucky Regulated	15,597	15,078
Pennsylvania Regulated	11,918	11,257
Corporate and Other (b)	543	361
<b>Total</b>	<b>\$ 45,680</b>	<b>\$ 43,396</b>

- (a) Includes \$13.2 billion and \$12.4 billion of net PP&E as of December 31, 2019 and December 31, 2018. 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, goodwill, the elimination of inter-segment transactions as well as the assets of Safari Energy.

Geographic data for the years ended December 31 are as follows:

	2019	2018	2017
<b>Revenues from external customers</b>			
U.K.	\$ 2,167	\$ 2,268	\$ 2,091
U.S.	5,602	5,517	5,356
<b>Total</b>	<b>\$ 7,769</b>	<b>\$ 7,785</b>	<b>\$ 7,447</b>

	As of December 31,	
	2019	2018
<b>Long-Lived Assets</b>		
U.K.	\$ 13,618	\$ 12,791
U.S.	23,607	22,384
<b>Total</b>	<b>\$ 37,225</b>	<b>\$ 35,175</b>

*(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.

### **3. Revenue from Contracts with Customers**

*(All Registrants)*

The following is a description of the principal activities from which the Registrants and PPL's segments generate their revenues.

*(PPL)*

#### U.K. Regulated Segment Revenue

The U.K. Regulated Segment generates revenues from contracts with customers primarily from WPD's DUoS operations.

DUoS revenues result from WPD charging licensed third-party energy suppliers for their use of WPD's distribution systems to deliver energy to their customers. WPD satisfies its performance obligation and DUoS revenue is recognized over-time as electricity is delivered. The amount of revenue recognized is based on actual and forecasted volumes of electricity delivered during the period multiplied by a per-unit energy tariff, plus fixed charges. This method of recognition fairly presents WPD's transfer of electric service to the customer as the calculation is based on volumes, and the tariff rate is set by WPD using a methodology prescribed by Ofgem. Customers are billed monthly and outstanding amounts are typically due within 14 days of the invoice date.

DUoS customers are "at will" customers of WPD with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with WPD's DUoS contracts.

*(PPL and PPL Electric)*

#### Pennsylvania Regulated Segment Revenue

The Pennsylvania Regulated Segment generates substantially all of its revenues from contracts with customers from PPL Electric's tariff-based distribution and transmission of electricity.

##### *Distribution Revenue*

PPL Electric provides distribution services to residential, commercial, industrial, municipal and governmental end users of energy. PPL Electric satisfies its performance obligation to its distribution customers and revenue is recognized over-time as electricity is delivered and simultaneously consumed by the customer. The amount of revenue recognized is the volume of electricity delivered during the period multiplied by a per-unit of energy tariff, plus a monthly fixed charge. This method of recognition fairly presents PPL Electric's transfer of electric service to the customer as the calculation is based on actual volumes, and the per-unit of energy tariff rate and the monthly fixed charge are set by the PUC. Customers are typically billed monthly and outstanding amounts are normally due within 21 days of the date of the bill.

Distribution customers are "at will" customers of PPL Electric with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with PPL Electric's retail account contracts.

##### *Transmission Revenue*

PPL Electric generates transmission revenues from a FERC-approved PJM Open Access Transmission Tariff. An annual revenue requirement for PPL Electric to provide transmission services is calculated using a formula-based rate. This revenue requirement is converted into a daily rate (dollars per day). PPL Electric satisfies its performance obligation to provide transmission services and revenue is recognized over-time as transmission services are provided and consumed. This method of

recognition fairly presents PPL Electric's transfer of transmission services as the daily rate is set by a FERC approved formula-based rate. PJM remits payment on a weekly basis.

PPL Electric's agreement to provide transmission services contains no minimum purchase commitment. The performance obligation is limited to the service requested and received to date. Accordingly, PPL Electric has no unsatisfied performance obligations.

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

**Kentucky Regulated Segment Revenue**

The Kentucky Regulated Segment generates substantially all of its revenues from contracts with customers from LG&E's and KU's regulated tariff-based sales of electricity and LG&E's regulated tariff-based sales of natural gas.

LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. Revenue from these activities is generated from tariffs approved by applicable regulatory authorities including the FERC, KPSC and VSCC. LG&E and KU satisfy their performance obligations upon LG&E's and KU's delivery of electricity and LG&E's delivery of natural gas to customers. This revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by LG&E and KU. The amount of revenue recognized is the billed volume of electricity or natural gas delivered multiplied by a tariff rate per-unit of energy, plus any applicable fixed charges or additional regulatory mechanisms. Customers are billed monthly and outstanding amounts are typically due within 22 days of the date of the bill. Additionally, unbilled revenues are recognized as a result of customers' bills rendered throughout the month, rather than bills being rendered at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh or Mcf delivered but not yet billed by the estimated average cents per kWh or Mcf. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. This method of recognition fairly presents LG&E's and KU's transfer of electricity and LG&E's transfer of natural gas to the customer as the amount recognized is based on actual and estimated volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges or regulatory mechanisms as set by the respective regulatory body.

LG&E's and KU's customers generally have no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with these customers.

*(All Registrants)*

The following table reconciles "Operating Revenues" included in each Registrant's Statement of Income with revenues generated from contracts with customers for the years ended December 31:

	2019				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 7,769	\$ 2,358	\$ 3,206	\$ 1,500	\$ 1,740
Revenues derived from:					
Alternative revenue programs (b)	(30)	(6)	(24)	(10)	(14)
Other (c)	(38)	(10)	(21)	(9)	(12)
Revenues from Contracts with Customers	<u>\$ 7,701</u>	<u>\$ 2,342</u>	<u>\$ 3,161</u>	<u>\$ 1,481</u>	<u>\$ 1,714</u>
	2018				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 7,785	\$ 2,277	\$ 3,214	\$ 1,496	\$ 1,760
Revenues derived from:					
Alternative revenue programs (b)	32	(6)	38	12	26
Other (c)	(38)	(12)	(17)	(5)	(12)
Revenues from Contracts with Customers	<u>\$ 7,779</u>	<u>\$ 2,259</u>	<u>\$ 3,235</u>	<u>\$ 1,503</u>	<u>\$ 1,774</u>



- (a) For the years ended December 31, 2019 and 2018, PPL includes \$2.2 billion and \$2.3 billion of revenues from external customers reported by the U.K. Regulated segment. PPL Electric and LKE represent revenues from external customers reported by the Pennsylvania Regulated and Kentucky Regulated segments. See Note 2 for additional information.
- (b) Alternative revenue programs include the transmission formula rate for PPL Electric, the ECR and DSM programs for LG&E and KU, the GLT program for LG&E, and the generation formula rate for KU. This line item shows the over/under collection of these rate mechanisms with over-collections of revenue shown as positive amounts in the table above and under-collections shown as negative amounts.
- (c) Represents additional revenues outside the scope of revenues from contracts with customers such as leases and other miscellaneous revenues.

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31:

	2019				
	PPL (d)	PPL Electric (d)	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 2,032	\$ —	\$ —	\$ —	\$ —
Residential	2,610	1,288	1,322	668	654
Commercial	1,257	349	908	466	442
Industrial	621	59	562	180	382
Other (b)	495	52	277	121	156
Wholesale - municipal	43	—	43	—	43
Wholesale - other (c)	49	—	49	46	37
Transmission	594	594	—	—	—
Revenues from Contracts with Customers	<u>\$ 7,701</u>	<u>\$ 2,342</u>	<u>\$ 3,161</u>	<u>\$ 1,481</u>	<u>\$ 1,714</u>

	2018				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 2,127	\$ —	\$ —	\$ —	\$ —
Residential	2,704	1,379	1,325	666	659
Commercial	1,233	368	865	455	410
Industrial	624	54	570	180	390
Other (b)	489	53	278	129	149
Wholesale - municipal	118	—	118	—	118
Wholesale - other (c)	79	—	79	73	48
Transmission	405	405	—	—	—
Revenues from Contracts with Customers	<u>\$ 7,779</u>	<u>\$ 2,259</u>	<u>\$ 3,235</u>	<u>\$ 1,503</u>	<u>\$ 1,774</u>

- (a) Represents customers of WPD.
- (b) Primarily includes revenues from pole attachments, street lighting, other public authorities and other non-core businesses.
- (c) Includes wholesale power and transmission revenues. LG&E and KU amounts include intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.
- (d) In 2019, management deemed it appropriate to present the revenue offset associated with network integration transmission service (NITS) as distribution revenue rather than transmission revenue.

As discussed in Note 2, PPL's segments are segmented by geographic location. Revenues from external customers for each segment/geographic location are reconciled to revenues from contracts with customers in the table above. For PPL Electric, revenues from contracts with customers are further disaggregated by distribution and transmission, which were \$1.7 billion and \$594 million for the year ended December 31, 2019 and \$1.9 billion and \$405 million for the year ended December 31, 2018.

Contract receivables from customers are primarily included in "Accounts receivable - Customer" and "Unbilled revenues" on the Balance Sheets. For PPL Electric, the "Accounts receivable - Customer" balance includes purchased receivables from alternative electricity suppliers. See Note 7 for additional information regarding the purchase of receivables program.



The following table shows the accounts receivable balances from contracts with customers that were impaired for the year ended December 31:

	2019	2018
PPL	\$ 27	\$ 34
PPL Electric	21	24
LKE	6	9
LG&E	2	4
KU	4	5

The following table shows the balances and certain activity of contract liabilities resulting from contracts with customers:

	PPL	PPL Electric	LKE	LG&E	KU
Contract liabilities as of December 31, 2019	\$ 44	\$ 21	\$ 9	\$ 5	\$ 4
Contract liabilities as of December 31, 2018	42	23	9	5	4
Revenue recognized during the year ended December 31, 2019 that was included in the contract liability balance at December 31, 2018	32	11	9	5	4
Contract liabilities as of December 31, 2018	\$ 42	\$ 23	\$ 9	\$ 5	\$ 4
Contract liabilities as of December 31, 2017	29	19	8	4	4
Revenue recognized during the year ended December 31, 2018 that was included in the contract liability balance at December 31, 2017	21	8	8	4	4

Contract liabilities result from recording contractual billings in advance for customer attachments to the Registrants' infrastructure and payments received in excess of revenues earned to date. Advanced billings for customer attachments are recognized as revenue ratably over the billing period. Payments received in excess of revenues earned to date are recognized as revenue as services are delivered in subsequent periods.

At December 31, 2019, PPL had \$36 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately \$32 million within the next 12 months.

#### 4. Preferred Securities

##### *(PPL)*

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2019, 2018 or 2017.

##### *(PPL Electric)*

PPL Electric is authorized to issue up to 20,629,936 shares of preferred stock. No PPL Electric preferred stock was issued or outstanding in 2019, 2018 or 2017.

##### *(LG&E)*

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a \$25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2019, 2018 or 2017.

##### *(KU)*

KU is authorized to issue up to 5,300,000 shares of preferred stock and 2,000,000 shares of preference stock without par value. KU had no preferred or preference stock issued or outstanding in 2019, 2018 or 2017.

## 5. 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. In 2019 and 2018, these securities also included the PPL common stock forward sale agreements. See Note 8 for additional information on these agreements which were partially settled in 2018 with the remaining shares settled in 2019. The forward sale agreements were dilutive under the Treasury Stock Method to the extent the average stock price of PPL's common shares exceeded the forward sale price prescribed in the agreements.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended December 31, used in the EPS calculation are:

	2019	2018	2017
<b>Income (Numerator)</b>			
Net income	\$ 1,746	\$ 1,827	\$ 1,128
Less amounts allocated to participating securities	1	2	2
Net income available to PPL common shareowners - Basic and Diluted	<u>\$ 1,745</u>	<u>\$ 1,825</u>	<u>\$ 1,126</u>
<b>Shares of Common Stock (Denominator)</b>			
Weighted-average shares - Basic EPS	728,512	704,439	685,240
Add incremental non-participating securities:			
Share-based payment awards (a)	1,101	445	2,094
Forward sale agreements	7,141	3,735	—
Weighted-average shares - Diluted EPS	<u>736,754</u>	<u>708,619</u>	<u>687,334</u>
<b>Basic EPS</b>			
Net Income available to PPL common shareowners	<u>\$ 2.39</u>	<u>\$ 2.59</u>	<u>\$ 1.64</u>
<b>Diluted EPS</b>			
Net Income available to PPL common shareowners	<u>\$ 2.37</u>	<u>\$ 2.58</u>	<u>\$ 1.64</u>

(a) The Treasury Stock Method was applied to non-participating share-based payment awards.

For the year ended December 31, PPL issued common stock related to stock-based compensation plans and DRIP as follows (in thousands):

	2019
Stock-based compensation plans (a)	1,936
DRIP	1,725

(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 8 for additional information on common stock issued under ATM Program and settlement of a portion of the PPL common stock forward sales agreements.

For the years ended December 31, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive:

	2019	2018	2017
Stock options	—	172	696
Performance units	5	—	—
Restricted stock units	3	11	—

## 6. Income and Other Taxes

(PPL)

"Income Before Income Taxes" included the following:

	2019	2018	2017
Domestic income	\$ 964	\$ 1,127	\$ 874
Foreign income	1,191	1,158	1,038
Total	<u>\$ 2,155</u>	<u>\$ 2,285</u>	<u>\$ 1,912</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 7 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and the U.K.

Significant components of PPL's deferred income tax assets and liabilities were as follows:

	2019	2018
<b>Deferred Tax Assets</b>		
Deferred investment tax credits	\$ 31	\$ 31
Regulatory liabilities	75	87
Income taxes due to customer	462	479
Accrued pension and postretirement costs	211	277
Federal loss carryforwards	324	325
State loss carryforwards	432	419
Federal and state tax credit carryforwards	402	392
Foreign capital loss carryforwards	320	313
Foreign - other	8	10
Contributions in aid of construction	112	139
Domestic - other	99	88
Valuation allowances	(834)	(808)
Total deferred tax assets	<u>1,642</u>	<u>1,752</u>
<b>Deferred Tax Liabilities</b>		
Domestic plant - net	3,546	3,359
Regulatory assets	262	314
Foreign plant - net	765	724
Foreign - pensions	72	83
Domestic - other	61	40
Total deferred tax liabilities	<u>4,706</u>	<u>4,520</u>
Net deferred tax liability	<u>\$ 3,064</u>	<u>\$ 2,768</u>

State deferred taxes are determined by entity and by jurisdiction. As a result, \$24 million and \$28 million of net deferred tax assets are shown as "Other noncurrent assets" on the Balance Sheets for 2019 and 2018.

At December 31, 2019, PPL had the following loss and tax credit carryforwards, related deferred tax assets and valuation allowances recorded against the deferred tax assets:



	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
<b>Loss carryforwards</b>				
Federal net operating losses	\$ 1,499	\$ 315	\$ —	2032-2037
Federal charitable contributions	42	9	—	2020-2024
State net operating losses	5,879	432	(393)	2021-2039
State charitable contributions	1	—	—	2020-2024
Foreign net operating losses	3	—	—	Indefinite
Foreign capital losses	1,880	320	(320)	Indefinite
Federal - Other	7	1	—	Indefinite
<b>Credit carryforwards</b>				
Federal investment tax credit		133	—	2025-2039
Federal alternative minimum tax credit (a)		8	—	Indefinite
Federal foreign tax credits (b)		218	(113)	2024-2027
Federal - other		24	(6)	2020-2039
State Recycling Credit		18	—	2028
State - other		1	—	Indefinite

(a) The TCJA repealed the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2017. The existing indefinite carryforward period for AMT credits was retained.

(b) Includes \$62 million of foreign tax credits carried forward from 2016 and \$156 million of additional foreign tax credits from 2017 related to the taxable deemed dividend associated with the TCJA.

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were as follows:

	Balance at Beginning of Period	Additions			Deductions	Balance at End of Period
		Charged to Income	Charged to Other Accounts			
2019	\$ 808	\$ 31	\$ —	\$ 5	\$ 834	
2018	838	26	—	56 (a)	808	
2017	593	256 (b)	—	11	838	

(a) Decrease in the valuation allowance of approximately \$35 million due to the change in the total foreign tax credits available after finalization of the deemed dividend calculation required by the TCJA in 2017. In addition, the deferred tax assets and corresponding valuation allowances were reduced in 2018 by approximately \$19 million due to the effect of foreign currency exchange rates.

(b) Increase in valuation allowance of approximately \$145 million related to expected future utilization of both 2017 foreign tax credits and pre-2017 foreign tax credits carried forward. For additional information, see the "Reconciliation of Income Tax Expense" and associated notes below.

In addition, the reduction of the U.S. federal corporate income tax rate enacted by the TCJA in 2017 resulted in a \$62 million increase in federal deferred tax assets and a corresponding valuation allowance related to the federal tax benefits of state net operating losses.

PPL Global does not record U.S. income taxes on the unremitted earnings of WPD, as management has determined that such earnings are indefinitely reinvested. Current year distributions from WPD to the U.S. are sourced from a portion of the current year's earnings of the WPD group. There have been no material changes to the facts underlying PPL's assertion that historically reinvested earnings of WPD as well as some portion of current year earnings will continue to be indefinitely reinvested. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate annual distributions from WPD in excess of some portion of WPD's future annual earnings. The cumulative undistributed earnings are included in "Earnings reinvested" on the Balance Sheets. The amount considered indefinitely reinvested at December 31, 2019 was \$7.5 billion. The foregoing is not impacted by U.S. tax reform and the associated conversion from a worldwide to a participation exemption system. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings in the event of repatriation to the U.S.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows:



	2019	2018	2017
<b>Income Tax Expense (Benefit)</b>			
Current - Federal	\$ (10)	\$ (19)	\$ 6
Current - State	19	17	25
Current - Foreign	91	104	45
Total Current Expense (Benefit)	100	102	76
Deferred - Federal (a)	139	203	532
Deferred - State	76	100	88
Deferred - Foreign	123	107	133
Total Deferred Expense (Benefit), excluding operating loss carryforwards	338	410	753
Amortization of investment tax credit	(3)	(3)	(3)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	7	(20)	(16)
Deferred - State	(33)	(31)	(26)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(26)	(51)	(42)
Total income tax expense (benefit)	<u>\$ 409</u>	<u>\$ 458</u>	<u>\$ 784</u>
Total income tax expense (benefit) - Federal	\$ 133	\$ 161	\$ 519
Total income tax expense (benefit) - State	62	86	87
Total income tax expense (benefit) - Foreign	214	211	178
Total income tax expense (benefit)	<u>\$ 409</u>	<u>\$ 458</u>	<u>\$ 784</u>

- (a) Due to the enactment of the TCJA, PPL recorded the following in 2017:
- \$220 million of deferred income tax expense related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities;
  - \$162 million of deferred tax expense related to the utilization of current year losses resulting from the taxable deemed dividend; partially offset by, \$60 million of deferred tax benefits related to the \$205 million of 2017 foreign tax credits partially offset by \$145 million of valuation allowances.

In the table above, the following income tax expense (benefit) are excluded from income taxes:

	2019	2018	2017
Other comprehensive income	\$ (93)	\$ (6)	\$ (34)
Valuation allowance on state deferred taxes recorded to other comprehensive income	—	—	(1)
Total	<u>\$ (93)</u>	<u>\$ (6)</u>	<u>\$ (35)</u>

	2019	2018	2017
<b>Reconciliation of Income Tax Expense (Benefit)</b>			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 453	\$ 480	\$ 669
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit (a)	45	40	46
Valuation allowance adjustments (b)	22	21	36
Impact of lower U.K. income tax rates (c)	(25)	(25)	(176)
U.S. income tax on foreign earnings - net of foreign tax credit (a)(d)	2	3	47
Foreign income return adjustments	—	—	(8)
Impact of the U.K. Finance Act on deferred tax balances (e)	(14)	(13)	(16)
Depreciation and other items not normalized	(10)	(11)	(10)
Amortization of excess deferred federal and state income taxes (f)	(40)	(37)	—
Interest benefit on U.K. financing entities	(12)	(17)	(16)
Deferred tax impact of U.S. tax reform (g)	—	—	220
Deferred tax impact of Kentucky tax reform (h)	—	9	—
Kentucky recycling credit, net of federal income tax expense (i)	(18)	—	—
Other	6	8	(8)
Total increase (decrease)	(44)	(22)	115
Total income tax expense (benefit)	<u>\$ 409</u>	<u>\$ 458</u>	<u>\$ 784</u>
<b>Effective income tax rate</b>	19.0%	20.0%	41.0%

(a) The U.S. federal corporate tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) In 2017, PPL recorded an increase in valuation allowances of \$23 million primarily related to foreign tax credits recorded in 2016. The future utilization of these credits is expected to be lower as a result of the TCJA.

In 2019, 2018 and 2017, PPL recorded deferred income tax expense of \$25 million, \$24 million and \$16 million for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

- (c) The reduction in the U.S. federal corporate income tax rate from 35% to 21% significantly reduced the difference between the U.K. and U.S. income tax rates in 2019 and 2018 compared with 2017.
- (d) In 2017, PPL recorded a federal income tax benefit of \$35 million primarily attributable to U.K. pension contributions.

In 2017, PPL recorded deferred income tax expense of \$83 million primarily related to enactment of the TCJA. The enacted tax law included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately \$462 million, including \$205 million of foreign tax credits. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, these credits were recorded as a deferred tax asset. However, it is expected that under the TCJA, only \$83 million of the \$205 million of foreign tax credits will be realized in the carry forward period. Accordingly, a valuation allowance on the current year foreign tax credits in the amount of \$122 million has been recorded to reflect the reduction in the future utilization of the credits. The foreign tax credits associated with the deemed repatriation result in a gross carryforward and corresponding deferred tax asset of \$205 million offset by a valuation allowance of \$122 million.

- (e) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K. statutory income tax rate effective April 1, 2020 to 17%. As a result, PPL reduced its net deferred tax liabilities each year as it revalued its balances at the 17% tax rate.
- (f) In 2019 and 2018, PPL recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA. This amortization represents each year's refund amount, prior to a tax gross-up, to be paid to customers for previously collected deferred taxes at higher income tax rates.
- (g) In 2017, PPL recorded deferred income tax expense related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA. In 2018, PPL recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.
- (h) In 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky, with the benefit recognized during the period in which the assets are placed into service.
- (i) In 2018, PPL filed its consolidated federal income tax return, which included updates to the TCJA provisional amounts recorded in 2017. The adjustments to the various provisional amounts that are considered complete as of the filed tax return resulted in an immaterial impact to income tax expense and are discussed in the TCJA section below.

	2019	2018	2017
<b>Taxes, other than income</b>			
State gross receipts	\$ 107	\$ 103	\$ 102
State capital stock	—	—	(6)
Foreign property	127	134	127
Domestic Other	79	75	69
<b>Total</b>	<b>\$ 313</b>	<b>\$ 312</b>	<b>\$ 292</b>

*(PPL Electric)*

The provision for PPL Electric's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of PPL Electric's deferred income tax assets and liabilities were as follows:

	2019	2018
<b>Deferred Tax Assets</b>		
Accrued pension and postretirement costs	\$ 81	\$ 110
Contributions in aid of construction	88	118
Regulatory liabilities	31	35
Income taxes due to customers	170	181
State loss carryforwards	6	14
Federal loss carryforwards	78	79
Other	23	25
<b>Total deferred tax assets</b>	<b>477</b>	<b>562</b>



	2019	2018
<b>Deferred Tax Liabilities</b>		
Electric utility plant - net	1,761	1,681
Regulatory assets	139	176
Other	24	25
Total deferred tax liabilities	1,924	1,882
Net deferred tax liability	<u>\$ 1,447</u>	<u>\$ 1,320</u>

PPL Electric expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2019, PPL Electric had the following loss carryforwards and related deferred tax assets:

	Gross	Deferred Tax Asset	Expiration
<b>Loss carryforwards</b>			
Federal net operating losses	\$ 363	\$ 76	2032-2037
Federal charitable contributions	9	2	2020-2024
State net operating losses	81	6	2031-2032

Credit carryforwards were insignificant at December 31, 2019.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows:

	2019	2018	2017
<b>Income Tax Expense (Benefit)</b>			
Current - Federal	\$ 44	\$ 2	\$ (65)
Current - State	15	9	20
Total Current Expense (Benefit)	59	11	(45)
Deferred - Federal (a)	51	96	234
Deferred - State	39	37	29
Total Deferred Expense (Benefit), excluding operating loss carryforwards	90	133	263
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	—	(8)	(5)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	—	(8)	(5)
Total income tax expense (benefit)	<u>\$ 149</u>	<u>\$ 136</u>	<u>\$ 213</u>
Total income tax expense (benefit) - Federal	\$ 95	\$ 90	\$ 164
Total income tax expense (benefit) - State	54	46	49
Total income tax expense (benefit)	<u>\$ 149</u>	<u>\$ 136</u>	<u>\$ 213</u>

(a) Due to the enactment of the TCJA in 2017, PPL Electric recorded a \$13 million deferred tax benefit related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities.

	2019	2018	2017
<b>Reconciliation of Income Tax Expense (Benefit)</b>			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 127	\$ 119	\$ 201
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit (a)	47	43	36
Depreciation and other items not normalized	(10)	(11)	(8)
Amortization of excess deferred federal income taxes (b)	(18)	(17)	—
Deferred tax impact of U.S. tax reform (c)	—	—	(13)
Other	3	2	(3)
Total increase (decrease)	22	17	12
Total income tax expense (benefit)	<u>\$ 149</u>	<u>\$ 136</u>	<u>\$ 213</u>
<b>Effective income tax rate</b>	24.6%	24.0%	37.0%

- (a) The U.S. federal corporate tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.  
 (b) In 2019 and 2018, PPL Electric recorded lower income tax expense for the amortization of excess deferred taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA. This amortization represents each year's refund amount, prior to a tax gross-up, to be paid to customers for previously collected deferred taxes at higher income tax rates.  
 (c) In 2017, PPL Electric recorded a deferred tax benefit related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2019	2018	2017
<b>Taxes, other than income</b>			
State gross receipts	\$ 107	\$ 103	\$ 102
Property and other	5	6	5
Total	<u>\$ 112</u>	<u>\$ 109</u>	<u>\$ 107</u>

(LKE)

The provision for LKE's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LKE's deferred income tax assets and liabilities were as follows:

	2019	2018
<b>Deferred Tax Assets</b>		
Federal loss carryforwards	\$ 140	\$ 142
State loss carryforwards	31	33
Federal tax credit carryforwards	162	169
Contributions in aid of construction	23	21
Regulatory liabilities	44	52
Accrued pension and postretirement costs	71	92
State tax credit carryforwards	19	1
Income taxes due to customers	292	299
Deferred investment tax credits	31	32
Lease liabilities	14	—
Valuation allowances	(6)	(8)
Other	28	28
Total deferred tax assets	<u>849</u>	<u>861</u>
<b>Deferred Tax Liabilities</b>		
Plant - net	1,778	1,671
Regulatory assets	122	138
Lease right-of-use assets	12	—
Other	6	8
Total deferred tax liabilities	<u>1,918</u>	<u>1,817</u>
Net deferred tax liability	<u>\$ 1,069</u>	<u>\$ 956</u>

At December 31, 2019, LKE had the following loss and tax credit carryforwards, related deferred tax assets, and valuation allowances recorded against the deferred tax assets:

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
<b>Loss carryforwards</b>				
Federal net operating losses	\$ 668	\$ 140	\$ —	2032 - 2037
Federal charitable contributions	23	5	—	2020 - 2024
State net operating losses	797	31	—	2029 - 2038



	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
<b>Credit carryforwards</b>				
Federal investment tax credit		133	—	2025 - 2028, 2036 - 2039
Federal alternative minimum tax credit (a)		7	—	Indefinite
Federal - other		22	(6)	2020-2039
State - recycling credit		18	—	2028
State - other		1	—	Indefinite

(a) The TCJA repealed the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2017. The existing indefinite carryforward period for AMT credits was retained.

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2019	\$ 8	\$ 3	\$ 5 (a)	\$ 6
2018	8	—	—	8
2017	11	4	7 (a)	8

(a) Tax credits expiring.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2019	2018	2017
<b>Income Tax Expense (Benefit)</b>			
Current - Federal	\$ 20	\$ 31	\$ 74
Current - State	—	4	6
Total Current Expense (Benefit)	20	35	80
Deferred - Federal (a)	81	65	268
Deferred - State (b)	5	34	32
Total Deferred Expense (Benefit), excluding benefits of operating loss carryforwards	86	99	300
Amortization of investment tax credit - Federal	(3)	(3)	(3)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	—	(2)	(2)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	—	(2)	(2)
Total income tax expense (benefit) (c)	\$ 103	\$ 129	\$ 375
Total income tax expense (benefit) - Federal	\$ 98	\$ 91	\$ 337
Total income tax expense (benefit) - State	5	38	38
Total income tax expense (benefit) (c)	\$ 103	\$ 129	\$ 375

- (a) Due to the enactment of the TCJA in 2017, LKE recorded \$112 million of deferred income tax expense, of which \$108 million related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities and \$4 million related to valuation allowances on tax credits expiring in 2021.
- (b) In 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky.
- (c) Excludes deferred federal and state tax expense (benefit) recorded to OCI of \$(1) million in 2019, \$5 million in 2018 and \$(10) million in 2017.

	2019	2018	2017
<b>Reconciliation of Income Tax Expense (Benefit)</b>			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 120	\$ 121	\$ 242
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	23	22	26
Amortization of investment tax credit	(3)	(3)	(3)
Amortization of excess deferred federal and state income taxes (b)	(23)	(20)	(2)
Deferred tax impact of U.S. tax reform (c)	—	—	112
Deferred tax impact of state tax reform (d)	—	9	—
Kentucky Recycling Credit, net of federal income tax expense (e)	(18)	—	—
Other	4	—	—
Total increase (decrease)	(17)	8	133
Total income tax expense (benefit)	\$ 103	\$ 129	\$ 375
<b>Effective income tax rate</b>	18.0%	22.5%	54.3%

- (a) The U.S. federal corporate tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.
- (b) In 2019 and 2018, LKE recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA. This amortization represents each year's refund amount, prior to a tax gross-up, to be paid to customers for previously collected deferred taxes at higher income tax rates.
- (c) In 2017, LKE recorded deferred income tax expense primarily due to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
- (d) In 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.
- (e) In 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky.

	2019	2018	2017
<b>Taxes, other than income</b>			
Property and other	\$ 74	\$ 70	\$ 65
Total	\$ 74	\$ 70	\$ 65

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LG&E's deferred income tax assets and liabilities were as follows:

	2019	2018
<b>Deferred Tax Assets</b>		
Contributions in aid of construction	\$ 15	\$ 14
Regulatory liabilities	19	24
Accrued pension and postretirement costs	6	16
Deferred investment tax credits	8	9
Income taxes due to customers	136	139
State tax credit carryforwards	14	—
Lease liabilities	5	—
Valuation allowances	(14)	—
Other	10	15
Total deferred tax assets	199	217



	2019	2018
<b>Deferred Tax Liabilities</b>		
Plant - net	811	751
Regulatory assets	77	88
Lease right-of-use assets	4	—
Other	4	6
Total deferred tax liabilities	896	845
Net deferred tax liability	\$ 697	\$ 628

At December 31, 2019 LG&E had \$14 million of state credit carryforwards that expire in 2028. In 2019, LG&E recorded a \$14 million valuation allowance related to state credit carryforwards due to insufficient projected Kentucky taxable income.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2019	2018	2017
<b>Income Tax Expense (Benefit)</b>			
Current - Federal	\$ 4	\$ —	\$ —
Current - State	4	4	5
Total Current Expense (Benefit)	8	4	5
Deferred - Federal	46	51	112
Deferred - State	10	10	14
Total Deferred Expense (Benefit), excluding benefits of operating loss carryforwards	56	61	126
Amortization of investment tax credit - Federal	(1)	(1)	(1)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	—	—	1
Total Tax Expense (Benefit) of Operating Loss Carryforwards	—	—	1
Total income tax expense (benefit)	\$ 63	\$ 64	\$ 131
Total income tax expense (benefit) - Federal	\$ 49	\$ 50	\$ 112
Total income tax expense (benefit) - State	14	14	19
Total income tax expense (benefit)	\$ 63	\$ 64	\$ 131

	2019	2018	2017
<b>Reconciliation of Income Tax Expense (Benefit)</b>			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 62	\$ 62	\$ 120
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	12	11	14
Amortization of excess deferred federal and state income taxes (b)	(10)	(8)	(1)
Kentucky recycling credit, net of federal income tax expense (c)	(14)	—	—
Valuation allowance adjustments (c)	14	—	—
Other	(1)	(1)	(2)
Total increase (decrease)	1	2	11
Total income tax expense (benefit)	\$ 63	\$ 64	\$ 131
<b>Effective income tax rate</b>	21.4%	21.5%	38.1%

- (a) The U.S. federal corporate tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.
- (b) In 2019 and 2018, LG&E recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA. This amortization represents each year's refund amount, prior to a tax gross-up, to be paid to customers for previously collected deferred taxes at higher income tax rates.
- (c) In 2019, LG&E recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky. This amount has been reserved due to insufficient Kentucky taxable income projected at LG&E.

	2019	2018	2017
<b>Taxes, other than income</b>			
Property and other	\$ 39	\$ 36	\$ 33
Total	\$ 39	\$ 36	\$ 33

(KU)

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of KU's deferred income tax assets and liabilities were as follows:

	2019	2018
<b>Deferred Tax Assets</b>		
Contributions in aid of construction	\$ 8	\$ 7
Regulatory liabilities	25	28
Accrued pension and postretirement costs	—	7
Deferred investment tax credits	23	23
Income taxes due to customers	156	160
State tax credit carryforwards	5	—
Lease liabilities	8	—
Valuation allowances	(4)	—
Other	3	3
Total deferred tax assets	<u>224</u>	<u>228</u>
<b>Deferred Tax Liabilities</b>		
Plant - net	959	911
Regulatory assets	45	50
Accrued pension and postretirement costs	2	—
Lease right-of-use assets	7	—
Other	3	2
Total deferred tax liabilities	<u>1,016</u>	<u>963</u>
Net deferred tax liability	<u>\$ 792</u>	<u>\$ 735</u>

At December 31, 2019 KU had \$5 million of state credit carryforwards of which \$4 million will expire in 2028 and \$1 million that has an indefinite carryforward period. In 2019, KU recorded a \$4 million valuation allowance related to state credit carryforwards due to insufficient projected Kentucky taxable income.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2019	2018	2017
<b>Income Tax Expense (Benefit)</b>			
Current - Federal	\$ 35	\$ 22	\$ —
Current - State	5	6	7
Total Current Expense (Benefit)	<u>40</u>	<u>28</u>	<u>7</u>
Deferred - Federal	28	40	138
Deferred - State	13	10	16
Total Deferred Expense (Benefit)	<u>41</u>	<u>50</u>	<u>154</u>
Amortization of investment tax credit - Federal	(2)	(2)	(2)
Total income tax expense (benefit)	<u>\$ 79</u>	<u>\$ 76</u>	<u>\$ 159</u>
Total income tax expense (benefit) - Federal	\$ 61	\$ 60	\$ 136
Total income tax expense (benefit) - State	18	16	23
Total income tax expense (benefit)	<u>\$ 79</u>	<u>\$ 76</u>	<u>\$ 159</u>



	2019	2018	2017
<b>Reconciliation of Income Tax Expense (Benefit)</b>			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 78	\$ 76	\$ 146
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	15	13	15
Amortization of investment tax credit	(2)	(2)	(2)
Amortization of excess deferred federal and state income taxes (b)	(13)	(12)	(1)
Kentucky recycling credit, net of federal income tax expense (c)	(4)	—	—
Valuation allowance adjustments (c)	4	—	—
Other	1	1	1
Total increase (decrease)	1	—	13
Total income tax expense (benefit)	\$ 79	\$ 76	\$ 159
<b>Effective income tax rate</b>	21.2%	21.0%	38.0%

(a) The U.S. federal corporate tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) In 2019 and 2018, KU recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA. This amortization represents each year's refund amount, prior to a tax gross-up, to be paid to customers for previously collected deferred taxes at higher income tax rates.

(c) In 2019, KU recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky. This amount has been reserved due to insufficient Kentucky taxable income projected at KU.

	2019	2018	2017
<b>Taxes, other than income</b>			
Property and other	\$ 35	\$ 34	\$ 32
Total	\$ 35	\$ 34	\$ 32

#### Unrecognized Tax Benefits (All Registrants)

PPL or its subsidiaries file tax returns in four major tax jurisdictions. The income tax provisions for PPL Electric, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2019, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
U.S. (federal)	2015 and prior	2015 and prior	2015 and prior	2015 and prior	2015 and prior
Pennsylvania (state) (a)	2015 and prior	2015 and prior			
Kentucky (state)	2014 and prior		2014 and prior	2014 and prior	2014 and prior
U.K. (foreign)	2015 and prior				

(a) Tax year 2013 is still subject to examination.

#### Tax Cuts and Jobs Act (TCJA)

On December 22, 2017, President Trump signed into law the TCJA. Substantially all of the provisions of the TCJA were effective for taxable years beginning after December 31, 2017. The TCJA included significant changes to the taxation of corporations, including provisions specifically applicable to regulated public utilities. The more significant changes that impact the Registrants were:

- The reduction in the U.S. federal corporate income tax rate from a top marginal rate of 35% to a flat rate of 21%, effective January 1, 2018;
- The exclusion from U.S. federal taxable income of dividends from foreign subsidiaries and the associated "transition tax;"
- Limitations on the tax deductibility of interest expense, with an exception to these limitations for regulated public utilities;
- Full current year expensing of capital expenditures with an exception for regulated public utilities that qualify for the exception to the interest expense limitation; and
- The continuation of certain rate normalization requirements for accelerated depreciation benefits. For non-regulated businesses, the TCJA generally provides for full expensing of property acquired after September 27, 2017.

Under GAAP, the tax effect of changes in tax laws must be recognized in the period in which the law is enacted, or December 2017 for the TCJA. The changes enacted by the TCJA were recorded as an adjustment to the Registrants' deferred tax provisions, and were reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	\$ 321	\$ (13)	\$ 112	\$ —	\$ —

The components of these adjustments are discussed below:

Reduction of U.S. Federal Corporate Income Tax Rate

GAAP requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, the Registrants' deferred taxes were remeasured based upon the U.S. federal corporate income tax rate of 21%. For PPL's regulated entities, the changes in deferred taxes were, in large part, recorded as an offset to either a regulatory asset or regulatory liability and will be reflected in future rates charged to customers. The tax rate reduction impacts on non-regulated deferred tax assets and liabilities were recorded as an adjustment to the Registrants' deferred tax provisions, and were reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	\$ 220	\$ (13)	\$ 112	\$ —	\$ —

As indicated in Note 1 - "Summary of Significant Accounting Policies - Income Taxes", PPL's U.S. regulated operations' accounting for income taxes are impacted by rate regulation. Therefore, reductions in accumulated deferred income tax balances due to the reduction in the U.S. federal corporate income tax rate to 21% under the provisions of the TCJA resulted in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers over a period of time. The TCJA included provisions that stipulate how these excess deferred taxes are to be passed back to customers for certain accelerated tax depreciation benefits. Refunds of other deferred taxes either have been or will be determined by the Registrants' regulators. The Balance Sheets at December 31, 2017 reflected the increase to the Registrants' net regulatory liabilities as a result of the TCJA as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Net Increase in Regulatory Liabilities	\$ 2,185	\$ 1,019	\$ 1,166	\$ 532	\$ 634

Transition Tax

The TCJA included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately \$462 million for purposes of the 2017 tax provision. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, the foreign tax credits associated with the deemed dividend were recorded as a deferred tax asset. However, it is expected that under the TCJA, the current and prior year foreign tax credit carryforwards will not be fully realizable.

As a result, the net deferred income tax expense impact of the deemed repatriation was \$101 million and was recorded in "Income Taxes" on the PPL Statement of Income for the year ended December 31, 2017 and "Deferred tax liabilities" on the PPL Balance Sheet at December 31, 2017.

2018 Impacts of TCJA

The Registrants recognized certain provisional amounts relating to the impact of the enactment of the TCJA in their December 31, 2017 financial statements, in accordance with SEC guidance. Included in those provisional amounts were estimates of tax depreciation, deductible executive compensation, accumulated foreign earnings, foreign tax credits, and deemed dividends from foreign subsidiaries, all of which were based on the interpretation and application of various provisions of the TCJA.

In the third quarter of 2018, PPL filed its consolidated federal income tax return, which was prepared using guidance issued by the U.S. Treasury Department and the IRS since the filing of each Registrant's 2017 Form 10-K. Accordingly, the Registrants updated the following provisional amounts and now consider them to be complete: (1) the amount of the deemed dividend and associated foreign tax credits relating to the transition tax imposed on accumulated foreign earnings as of December 31, 2017;



(2) the amount of accelerated 100% "bonus" depreciation PPL was eligible to claim in its 2017 federal income tax return; and (3) the related impacts on PPL's 2017 consolidated federal net operating loss to be carried forward to future periods. In addition, the Registrants recorded the tax impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on the changes to deferred tax assets and liabilities resulting from the completed provisional amounts. The completed provisional amounts related to the tax rate reduction had an insignificant impact on the net regulatory liabilities of PPL's U.S. regulated operations. In the fourth quarter of 2018, PPL completed its analysis of the deductibility of executive compensation awarded as of November 2, 2017 and concluded that no material change to the provisional amounts was required. The final amounts reported in PPL's 2017 federal income tax return, provisional amounts for the year ended December 31, 2017, the related measurement period adjustments, and the resulting tax impact for the year ended December 31, 2018 were as follows:

	Taxable Income (Loss) (a)		
	Adjustments per 2017 Tax Return	Adjustments per 2017 Tax Provision	2018 Adjustments
<b>PPL</b>			
Deemed Dividend	\$ 397	\$ 462	\$ (65)
Bonus Depreciation (b)	(67)	—	(67)
Consolidated Federal Net Operating Loss due to the TCJA (c)	(330)	(462)	132
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>PPL Electric</b>			
Bonus Depreciation (b)	\$ (39)	\$ —	\$ (39)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(68)	(105)	37
Total	<u>\$ (107)</u>	<u>\$ (105)</u>	<u>\$ (2)</u>
<b>LKE</b>			
Bonus Depreciation (b)	\$ (28)	\$ —	\$ (28)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(32)	(45)	13
Total	<u>\$ (60)</u>	<u>\$ (45)</u>	<u>\$ (15)</u>
<b>LG&amp;E</b>			
Bonus Depreciation (b)	\$ (17)	\$ —	\$ (17)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	17	—	17
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>KU</b>			
Bonus Depreciation (b)	\$ (11)	\$ —	\$ (11)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	11	—	11
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

- (a) The above table reflects, for each item, the amount subject to change as a result of the TCJA and does not reflect the total amount of each item included in the return and the provision.
- (b) The TCJA increased the bonus depreciation percentage from 50% to 100% for qualified property acquired and placed in service after September 27, 2017 and before January 1, 2018. Increases in tax depreciation reduce the Registrants' taxes payable and increase net deferred tax liabilities with no impact to "Income Taxes" on the Statements of Income.
- (c) An increase in the consolidated federal net operating loss reduces net deferred tax liabilities with the opposite effect if there is a decrease in the consolidated federal net operating loss. These increases or decreases have no impact to "Income Taxes" on the Statements of Income.

	Income Tax Expense (Benefit)		
	Adjustments per 2017 Tax Return	Adjustments per 2017 Tax Provision	2018 Adjustments
<b>PPL</b>			
Deemed Dividend	\$ 139	\$ 161	\$ (22)
Foreign Tax Credits	(157)	(205)	48
Valuation of Foreign Tax Credit Carryforward	110	145	(35)
Reduction in U.S. federal income tax rate	229	220	9
Total	<u>\$ 321</u>	<u>\$ 321</u>	<u>\$ —</u>
<b>PPL Electric</b>			
Reduction in U.S. federal income tax rate	\$ (13)	\$ (13)	\$ —
<b>LKE</b>			
Reduction in U.S. federal income tax rate	\$ 110	\$ 112	\$ (2)

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 was complete as of December 31, 2018 with respect to all provisional amounts.

**2019 TCJA Regulatory Update**

The IRS issued proposed regulations for certain provisions of the TCJA in 2018, including interest deductibility and Global Intangible Low-Taxed Income (GILTI). In 2019, final and new proposed regulations were issued relating to the GILTI provisions. PPL has determined that neither the final or new proposed regulations materially change PPL's conclusion that currently no incremental tax arises under these rules. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be in 2020. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant. PPL expressed its views on these proposed regulations in a comment letter addressed to the IRS on February 26, 2019.

**Other**

***Kentucky State Tax Reform (All Registrants)***

HB 487, which became law on April 27, 2018, provides for significant changes to the Kentucky tax code including (1) adopting mandatory combined reporting for corporate members of unitary business groups for taxable years beginning on or after January 1, 2019 (members of a unitary business group may make an eight-year binding election to file consolidated corporate income tax returns with all members of their federal affiliated group) and (2) a reduction in the Kentucky corporate income tax rate from 6% to 5% for taxable years beginning after December 31, 2017. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants. LKE recognized a deferred tax charge of \$9 million in 2018 primarily associated with the remeasurement of non-regulated accumulated deferred income tax balances.

As indicated in Note 1, LG&E's and KU's accounting for income taxes is impacted by rate regulation. Therefore, reductions in regulated accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In 2018, LG&E and KU recorded the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, as an increase in regulatory liabilities of \$16 million and \$19 million. In 2019, LG&E and KU began returning state excess deferred income taxes to customers in conjunction with the 2018 Kentucky base rate case. See Note 7 for additional information related to the rate case proceedings.



## 7. Utility Rate Regulation

### Regulatory Assets and Liabilities

*(All Registrants)*

PPL, PPL Electric, LKE, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to an item will be recovered or refunded within a year of the balance sheet date.

*(PPL)*

WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities. See Note 1 for additional information.

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

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC and VSCC.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and short-term debt) including adjustments for certain net investments and costs recovered separately through other means. As such, LG&E and KU generally earn a return on regulatory assets.

*(PPL, LKE and KU)*

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except for regulatory assets and liabilities related to the levelized fuel factor, pension and postretirement benefits, and AROs related to certain CCR impoundments, are excluded from the return on rate base utilized in the calculation of Virginia base rates, no return is earned on the related assets.

KU's rates to municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets.

*(PPL and PPL Electric)*

PPL Electric's distribution base rates are calculated based on recovery of costs as well as a return on distribution rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions) and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

*(All Registrants)*

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations at December 31:

	PPL		PPL Electric	
	2019	2018	2019	2018
<b>Current Regulatory Assets:</b>				
Gas supply clause	\$ 8	\$ 12	\$ —	\$ —
Smart meter rider	13	11	13	11
Plant outage costs	32	10	—	—
Transmission formula rate	—	—	3	—
Transmission service charge	10	—	10	—
Other	4	3	—	—
<b>Total current regulatory assets (a)</b>	<b>\$ 67</b>	<b>\$ 36</b>	<b>\$ 26</b>	<b>\$ 11</b>
<b>Noncurrent Regulatory Assets:</b>				
Defined benefit plans	\$ 800	\$ 963	\$ 467	\$ 558
Storm costs	39	56	15	22
Unamortized loss on debt	41	45	18	22
Interest rate swaps	22	20	—	—
Terminated interest rate swaps	81	87	—	—
Accumulated cost of removal of utility plant	220	200	220	200
AROs	279	273	—	—
Act 129 compliance rider	6	19	6	19
Other	4	10	—	3
<b>Total noncurrent regulatory assets</b>	<b>\$ 1,492</b>	<b>\$ 1,673</b>	<b>\$ 726</b>	<b>\$ 824</b>
<b>Current Regulatory Liabilities:</b>				
Generation supply charge	\$ 23	\$ 33	\$ 23	\$ 33
Transmission service charge	—	—	—	3
Environmental cost recovery	5	16	—	—
Universal service rider	9	27	9	27
Transmission formula rate	—	—	—	3
Fuel adjustment clause	8	—	—	—
TCJA customer refund	61	20	59	3
Storm damage expense rider	5	5	5	5
Generation formula rate	1	7	—	—
Other	3	14	—	—
<b>Total current regulatory liabilities</b>	<b>\$ 115</b>	<b>\$ 122</b>	<b>\$ 96</b>	<b>\$ 74</b>
<b>Noncurrent Regulatory Liabilities:</b>				
Accumulated cost of removal of utility plant	\$ 640	\$ 674	\$ —	\$ —
Power purchase agreement - OVEC	51	59	—	—
Net deferred taxes	1,756	1,826	588	629
Defined benefit plans	51	37	11	5
Terminated interest rate swaps	68	72	—	—
TCJA customer refund	—	41	—	41
Other	6	5	—	—
<b>Total noncurrent regulatory liabilities</b>	<b>\$ 2,572</b>	<b>\$ 2,714</b>	<b>\$ 599</b>	<b>\$ 675</b>

	LKE		LG&E		KU	
	2019	2018	2019	2018	2019	2018
<b>Current Regulatory Assets:</b>						
Plant outage costs	\$ 32	\$ 10	\$ 16	\$ 7	\$ 16	\$ 3
Gas supply clause	8	12	8	12	—	—
Other	1	3	1	2	—	1
<b>Total current regulatory assets</b>	<b>\$ 41</b>	<b>\$ 25</b>	<b>\$ 25</b>	<b>\$ 21</b>	<b>\$ 16</b>	<b>\$ 4</b>
<b>Noncurrent Regulatory Assets:</b>						
Defined benefit plans	\$ 333	\$ 405	\$ 206	\$ 249	\$ 127	\$ 156
Storm costs	24	34	14	20	10	14
Unamortized loss on debt	23	23	14	15	9	8
Interest rate swaps	22	20	22	20	—	—
Terminated interest rate swaps	81	87	47	51	34	36
AROs	279	273	76	75	203	198
Other	4	7	1	1	3	6
<b>Total noncurrent regulatory assets</b>	<b>\$ 766</b>	<b>\$ 849</b>	<b>\$ 380</b>	<b>\$ 431</b>	<b>\$ 386</b>	<b>\$ 418</b>
<b>Current Regulatory Liabilities:</b>						
Environmental cost recovery	\$ 5	\$ 16	\$ 1	\$ 6	\$ 4	\$ 10
Fuel adjustment clauses	8	—	—	—	8	—
TCJA customer refund	2	17	—	7	2	10
Generation formula rate	1	7	—	—	1	7
Other	3	8	1	4	2	4
<b>Total current regulatory liabilities</b>	<b>\$ 19</b>	<b>\$ 48</b>	<b>\$ 2</b>	<b>\$ 17</b>	<b>\$ 17</b>	<b>\$ 31</b>
<b>Noncurrent Regulatory Liabilities:</b>						
Accumulated cost of removal of utility plant	\$ 640	\$ 674	\$ 266	\$ 279	\$ 374	\$ 395
Power purchase agreement - OVEC	51	59	35	41	16	18
Net deferred taxes	1,168	1,197	544	557	624	640
Defined benefit plans	40	32	—	—	40	32
Terminated interest rate swaps	68	72	34	36	34	36
Other	6	5	4	2	2	3
<b>Total noncurrent regulatory liabilities</b>	<b>\$ 1,973</b>	<b>\$ 2,039</b>	<b>\$ 883</b>	<b>\$ 915</b>	<b>\$ 1,090</b>	<b>\$ 1,124</b>

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

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

### Defined Benefit Plans

(All Registrants)

Defined benefit plan regulatory assets and liabilities represent prior service cost and net actuarial gains and losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and, generally, are amortized over the average remaining service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is remeasured.

(PPL, LKE, LG&E and KU)

As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15-year amortization period for actuarial gains and losses is recorded as a regulatory asset. As of December 31, 2019, the balances were \$51 million for PPL and LKE, \$29 million for LG&E and \$22 million for KU. As of December 31, 2018, the balances were \$45 million for PPL and LKE, \$25 million for LG&E and \$20 million for KU.

*(All Registrants)*

Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC, as applicable, the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer such costs for regulatory accounting and reporting purposes. Once such authority is granted, LG&E and KU can request recovery of those expenses in a base rate case and begin amortizing the costs when recovery starts. PPL Electric can recover qualifying expenses caused by major storm events, as defined in its retail tariff, over three years through the Storm Damage Expense Rider commencing in the application year after the storm occurred. PPL Electric's regulatory assets for storm costs are being amortized through various dates ending in 2021. LG&E's and KU's regulatory assets for storm costs are being amortized through various dates ending in 2029.

Unamortized Loss on Debt

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric, through 2042 for KU, and through 2044 for LG&E.

Accumulated Cost of Removal of Utility Plant

LG&E and KU charge costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

TCJA Customer Refund

As a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, the regulators of PPL Electric, LG&E and KU have ruled that these tax benefits should be refunded to customers. In some instances, timing differences occur between the recognition of these tax benefits and the refund of the benefit to the customers which create a regulatory asset or liability.

LG&E and KU distributed these tax savings for Kentucky customers through the TCJA bill credit prior to incorporating them into base rates effective May 1, 2019. See "Regulatory Matters" for additional information. The remaining liability represents TCJA savings to be distributed to Virginia customers in 2020.

PPL Electric's current liability relates to two time periods. The liability of \$16 million related to the period of July 1, 2018 through December 31, 2019 will be credited back to distribution customers through a negative surcharge. The liability of \$43 million related to the period of January 1, 2018 through June 30, 2018 will be credited back to customers over the period of January 1, 2020 through December 31, 2020 utilizing the same negative surcharge mechanism referred to above, as approved by the PUC in November 2019.

Net Deferred Taxes

Regulatory liabilities associated with net deferred taxes represent the future revenue impact from the adjustment of deferred income taxes required primarily for excess deferred taxes and unamortized investment tax credits, largely a result of the TCJA enacted in 2017. See Note 6 for additional information on the TCJA.

*(PPL and PPL Electric)*

Generation Supply Charge (GSC)

The GSC is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply, as well as administration of the acquisition process. In addition, the GSC contains a reconciliation mechanism whereby any over- or



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under-recovery from prior quarters is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent rate filing period.

### Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

### Transmission Formula Rate

PPL Electric's transmission revenues are billed in accordance with a FERC-approved Open Access Transmission Tariff that utilizes a formula-based rate recovery mechanism. Under this formula, rates are put into effect in June of each year based upon prior year actual expenditures and current year forecasted capital additions. Rates are then adjusted the following year to reflect actual annual expenses and capital additions, as reported in PPL Electric's annual FERC Form 1, filed under the FERC's Uniform System of Accounts. Any difference between the revenue requirement in effect for the prior year and actual expenditures incurred for that year is recorded as a regulatory asset or regulatory liability.

### Storm Damage Expense Rider (SDER)

The SDER is a reconcilable automatic adjustment clause under which PPL Electric annually will compare actual storm costs to storm costs allowed in base rates and refund or recover any differences from customers. In the 2015 rate case settlement approved by the PUC in November 2015, it was determined that reportable storm damage expenses to be recovered annually through base rates will be set at \$20 million. The SDER will recover from or refund to customers, as appropriate, only applicable expenses from reportable storms that are greater than or less than \$20 million recovered annually through base rates. Storm costs incurred in PPL Electric's territory from a March 2018 storm are being amortized through 2021.

### Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, PPL Electric is currently in Phase III of the energy efficiency and conservation plan which was approved in June 2016. Phase III allows PPL Electric to recover the maximum \$313 million over the five-year period, June 1, 2016 through May 31, 2021. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The actual Phase III program costs are reconcilable after each 12 month period, and any over- or under-recovery from customers will be refunded or recovered over the next rate filing period.

### Smart Meter Rider (SMR)

Act 129 requires each electric distribution company (EDC) with more than 100,000 customers to have a PUC approved Smart Meter Technology Procurement and Installation Plan (SMP). As of December 31, 2019, PPL Electric replaced substantially all of its old meters with meters that meet the Act 129 requirements under its SMP. In accordance with Act 129, EDCs are able to recover the costs and earn a return on capital of providing smart metering technology. PPL Electric uses the SMR to recover the costs to implement its SMP. The SMR is a reconciliation mechanism whereby any over- or under-recovery from prior years is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarters.

### Universal Service Rider (USR)

The USR provides for recovery of costs associated with universal service programs, OnTrack and Winter Relief Assistance Program (WRAP), provided by PPL Electric to residential customers. OnTrack is a special payment program for low-income households and WRAP provides low-income customers a means to reduce electric bills through energy saving methods. The USR rate is applied to residential customers who receive distribution service. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered annually in the subsequent year.

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

Environmental Cost Recovery

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements, which apply to coal combustion wastes and by-products from coal-fired electricity generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. The KPSC has authorized a return on equity of 9.725% for all existing approved ECR plans and projects. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered or refunded within 12 months.

Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel to generate electricity, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel adjustment clause and, to the extent appropriate, reestablish the fuel charge included in base rates. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months. LG&E's fuel adjustment clause asset is included within other current regulatory assets above.

KU also employs a levelized fuel factor mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any under- or over-recovery of fuel expenses from the prior year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered or refunded within 12 months.

AROs

As discussed in Note 1, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. 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.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LKE, LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition. LG&E's and KU's customer rates continue to reflect the original contracts. See Notes 13 and 18 for additional discussion of the power purchase agreement.

Interest Rate Swaps

LG&E's unrealized gains and losses are recorded as regulatory assets or regulatory liabilities until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures through 2033.

Terminated Interest Rate Swaps

Net realized gains and losses on all interest rate swaps are probable of recovery through regulated rates. As such, any gains and losses on these derivatives are included in regulatory assets or liabilities and are primarily recognized in "Interest Expense" on the Statements of Income over the life of the associated debt.

Plant Outage Costs

Since July 1, 2017, plant outage costs in Kentucky have been normalized for ratemaking purposes based on an average level of expenses. Plant outage expenses that are greater or less than the average are collected from or returned to customers, through future base rates. Effective May 1, 2019 plant outage costs are normalized based on a five-year average of historical expenses with over or under recoveries collected or returned over an eight-year period.

*(PPL, LKE and LG&E)*

Gas Supply Clause

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause also includes a separate natural gas procurement incentive mechanism, which allows LG&E's rates to be adjusted annually to share savings between the actual cost of gas purchases and market indices, with the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are typically recovered or refunded within 18 months.

*(PPL, LKE and KU)*

Generation Formula Rate

KU provides wholesale requirements service to its municipal customers and bills for this service pursuant to a FERC approved generation formula rate. Under this formula, rates are put into effect each July utilizing a return on rate base calculation and actual expenses from the preceding year. The regulatory asset or liability represents the difference between the revenue requirement in effect for the current year and actual expenditures incurred for the current year.

**Regulatory Matters**

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

Kentucky Activities

*Rate Case Proceedings*

In September 2018, LG&E and KU filed requests with the KPSC for an increase in annual base electricity rates of approximately \$112 million at KU and increases in annual base electricity and gas rates of approximately \$35 million and \$25 million at LG&E. LG&E's and KU's applications also sought to include changes associated with the TCJA and state tax reform in the calculation of the proposed base rates and to terminate the TCJA bill credit mechanism when new base rates would go into effect. The elimination of the TCJA bill credit mechanism will result in an estimated annual electricity revenue increase of approximately \$58 million at KU and increases in electricity and gas revenues of approximately \$40 million and \$12 million at LG&E. The applications were based on a forecasted test year of May 1, 2019 through April 30, 2020 with a requested return-on-equity of 10.42%.

In March 2019, LG&E and KU, along with substantially all intervening parties to the proceeding, filed stipulation and recommendation agreements (stipulations) with the KPSC resolving all material issues with the parties. In addition to terminating the TCJA bill credit mechanism, the proposed stipulations provided for increases in annual revenue requirements associated with base electricity rates of approximately \$58 million at KU and increases in annual base electricity and gas rates of approximately \$4 million and \$20 million at LG&E, based on a 9.725% return-on-equity.

On April 30, 2019, the KPSC issued orders ruling on open issues and approving the proposed stipulations filed in March 2019. The orders provide for increases in the revenue requirements associated with base electricity rates of \$56 million at KU and increases associated with base electricity and gas rates of \$2 million and \$19 million at LG&E. With the termination of the TCJA bill credit mechanism, this represents annual revenue increases of \$187 million (\$114 million at KU and \$73 million at LG&E). The new base rates and all elements of the orders became effective on May 1, 2019.

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*(PPL and PPL Electric)*

### Pennsylvania Activities

#### *Distribution of TCJA Savings*

In November 2019, the PUC approved PPL Electric's October 2019 petition to distribute the \$43 million of TCJA tax savings for the period between January 1, 2018 and June 30, 2018 over the period January 1, 2020 through December 31, 2020.

### Federal Matters

#### *FERC Transmission Formula Rate*

In April 2019, PPL Electric filed its annual transmission formula rate update with the FERC, reflecting a revised revenue requirement, which includes the impact of the TCJA. The filing established the revenue requirement used to set rates that took effect in June 2019.

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

#### *FERC Transmission Rate Filing*

In 2018, LG&E and KU applied to the FERC requesting elimination of certain on-going credits to a sub-set of transmission customers relating to the 1998 merger of LG&E's and KU's parent entities and the 2006 withdrawal of LG&E and KU from the Midcontinent Independent System Operator, Inc. (MISO), a regional transmission operator and energy market. The application seeks termination of LG&E's and KU's commitment to provide certain Kentucky municipalities mitigation for certain horizontal market power concerns arising out of the 1998 LG&E and KU merger and 2006 MISO withdrawal. The amounts at issue are generally waivers or credits granted to a limited number of Kentucky Municipalities for either certain LG&E and KU or MISO transmission charges incurred for transmission service received. Due to the development of robust, accessible energy markets over time, LG&E and KU believe the mitigation commitments are no longer relevant or appropriate. In March 2019, the FERC granted LG&E's and KU's request to remove the on-going credits, conditioned upon the implementation by LG&E and KU of a transition mechanism for certain existing power supply arrangements, subject to FERC review and approval. In July 2019, LG&E and KU proposed their transition mechanism to the FERC and in September 2019, the FERC rejected the proposed transition mechanism and issued a separate order providing clarifications of certain aspects of the March order. In October 2019, LG&E and KU filed requests for rehearing and clarification on the two September orders. These rehearing requests are currently pending before FERC. Additionally, certain petitions for review of FERC's orders have been filed by multiple parties, including LG&E and KU, at the D.C. Circuit Court of Appeals. LG&E and KU cannot predict the outcome of the proceedings. LG&E and KU currently receive recovery of waivers and credits provided through other rate mechanisms.

*(All Registrants)*

#### *TCJA Impact on FERC Rates*

In November 2019, the FERC published Final Rules providing that public utility transmission providers include mechanisms in their formula rates to deduct excess ADIT from, or add deficient ADIT to, rate base and adjust their income tax allowances by amortized excess or deficient ADIT, and to make a related compliance filing.

In February 2019, PPL Electric filed with the FERC proposed revisions to its transmission formula rate template pursuant to Section 205 of the Federal Power Act and Section 35.13 of the FERC Rules and Regulations. Specifically, PPL Electric proposed to modify its formula rate to permit the return or recovery of excess or deficient ADIT resulting from the TCJA and permit PPL Electric to prospectively account for the income tax expense associated with the depreciation of the equity component of the AFUDC. In April 2019, the FERC accepted the proposed revisions to the formula rate template, which were effective June 1, 2019, as well as the proposed adjustments to ADIT, effective January 1, 2018.

In February 2019, in connection with the requirements of the TCJA and Kentucky HB 487, LG&E and KU filed a request with the FERC to amend their transmission formula rates resulting from the laws' reductions to corporate income tax rates. The FERC approved this request effective June 1, 2019. LG&E and KU are currently reviewing the Final Rule and will submit a compliance filing addressing excess ADIT by June 1, 2020. LG&E and KU do not anticipate the impact of the TCJA and Kentucky HB 487 related to their FERC-jurisdictional rates to be significant.



**Other**

**Purchase of Receivables Program**

*(PPL and PPL Electric)*

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 2019, 2018 and 2017, PPL Electric purchased \$1.2 billion, \$1.3 billion and \$1.3 billion of accounts receivable from alternative suppliers.

**8. 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 except for borrowings under LG&E's Term Loan Facility which are recorded as "Long-term debt due within one year" on the December 31, 2018 Balance Sheet. The following credit facilities were in place at:

	Expiration Date	December 31, 2019				December 31, 2018			
		Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued		
<b>PPL</b>									
<b>U.K.</b>									
WPD plc									
Syndicated Credit Facility (a)(b)(c)	Jan. 2023	£ 210	£ 155	£ —	£ 55	£ 157	£ —		
WPD (South West)									
Syndicated Credit Facility (a)(b)(c)	July 2021	245	40	—	205	—	—		
WPD (East Midlands)									
Syndicated Credit Facility (a)(b)(c)	July 2021	300	—	—	300	38	—		
WPD (West Midlands)									
Syndicated Credit Facility (a)(b)(c)	July 2021	300	48	—	252	—	—		
Uncommitted Credit Facilities									
		100	—	4	96	—	4		
Total U.K. Credit Facilities (b)		<u>£ 1,155</u>	<u>£ 243</u>	<u>£ 4</u>	<u>£ 908</u>	<u>£ 195</u>	<u>£ 4</u>		
<b>U.S.</b>									
PPL Capital Funding									
Syndicated Credit Facility (c) (d)	Jan 2024	\$ 1,450		\$ 450	\$ 1,000	\$ —	\$ 669		
Bilateral Credit Facility (c) (d)	Mar 2020	100	—	15	85	—	15		
Total PPL Capital Funding Credit Facilities		<u>\$ 1,550</u>	<u>\$ —</u>	<u>\$ 465</u>	<u>\$ 1,085</u>	<u>\$ —</u>	<u>\$ 684</u>		
<b>PPL Electric</b>									
Syndicated Credit Facility (c) (d)	Jan 2024	\$ 650	\$ —	\$ 1	\$ 649	\$ —	\$ 1		

	Expiration Date	December 31, 2019				December 31, 2018	
		Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued
<b>LG&amp;E</b>							
Syndicated Credit Facility (c) (d)	Jan 2024	\$ 500	\$ —	\$ 238	\$ 262	\$ —	\$ 279
Term Loan Credit Facility (c) (e)		—	—	—	—	200	—
Total LG&E Credit Facilities		<u>\$ 500</u>	<u>\$ —</u>	<u>\$ 238</u>	<u>\$ 262</u>	<u>\$ 200</u>	<u>\$ 279</u>
<b>KU</b>							
Syndicated Credit Facility (c) (d)	Jan 2024	\$ 400	\$ —	\$ 150	\$ 250	\$ —	\$ 235
Letter of Credit Facility (f)		—	—	—	—	—	198
Total KU Credit Facilities		<u>\$ 400</u>	<u>\$ —</u>	<u>\$ 150</u>	<u>\$ 250</u>	<u>\$ —</u>	<u>\$ 433</u>

- (a) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.
- (b) The WPD plc amounts borrowed at December 31, 2019 and 2018 included USD-denominated borrowings of \$200 million for both periods, which bore interest at 2.52% and 3.17%. The WPD (South West) amount borrowed at December 31, 2019 was a GBP-denominated borrowing, which equated to \$51 million and bore interest at 1.09%. The WPD (East Midlands) amount borrowed at December 31, 2018 was a GBP-denominated borrowing which equated to \$48 million and bore interest at 1.12%. The WPD (West Midlands) amount borrowed at December 31, 2019 was a GBP-denominated borrowing, which equated to \$62 million and bore interest at 1.11%. At December 31, 2019, the unused capacity under the U.K. credit facilities was approximately \$1.2 billion.
- (c) Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (d) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, subject to certain conditions, PPL Capital Funding may request that the capacity of its bilateral credit facility expiring in March 2020 be increased by up to \$30 million and PPL Capital Funding, PPL Electric, LG&E and KU may each request up to a \$250 million increase in its syndicated credit facility's capacity.
- (e) LG&E entered into a \$200 million term loan credit agreement in October 2017. All borrowings were repaid and the facility expired in 2019. The outstanding borrowings at December 31, 2018 bore interest at an average rate of 2.97%.
- (f) KU's letter of credit facility was terminated in September 2019 in connection with the bond remarketings discussed below.

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

	December 31, 2019				December 31, 2018	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	2.13%	\$ 1,500	\$ 450	\$ 1,050	2.82%	\$ 669
PPL Electric		650	—	650		—
LG&E	2.07%	350	238	112	2.94%	279
KU	2.02%	350	150	200	2.94%	235
Total		<u>\$ 2,850</u>	<u>\$ 838</u>	<u>\$ 2,012</u>		<u>\$ 1,183</u>

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

See Note 14 for a discussion of intercompany borrowings.

**Long-term Debt** (All Registrants)

	Weighted-Average Rate (g)	Maturities (g)	December 31,	
			2019	2018
<b>PPL</b>				
<b>U.S.</b>				
Senior Unsecured Notes	3.88%	2020 - 2047	\$ 4,325	\$ 4,325
Senior Secured Notes/First Mortgage Bonds (a) (b) (c)	3.95%	2020 - 2049	8,705	7,705
Junior Subordinated Notes	5.24%	2067 - 2073	930	930
Term Loan Credit Facility		2019	—	200
Total U.S. Long-term Debt			<u>13,960</u>	<u>13,160</u>
<b>U.K.</b>				
Senior Unsecured Notes (d)	4.97%	2020 - 2040	6,874	6,471
Index-linked Senior Unsecured Notes (e)	1.45%	2026 - 2056	1,104	1,063
Term Loan Credit Facility	2.18%	2024 - 2024	64	—
Total U.K. Long-term Debt (f)			<u>8,042</u>	<u>7,534</u>
Total Long-term Debt Before Adjustments			22,002	20,694
Fair market value adjustments			12	16
Unamortized premium and (discount), net			5	9
Unamortized debt issuance costs			(126)	(120)
Total Long-term Debt			<u>21,893</u>	<u>20,599</u>
Less current portion of Long-term Debt			1,172	530
Total Long-term Debt, noncurrent			<u>\$ 20,721</u>	<u>\$ 20,069</u>
<b>PPL Electric</b>				
Senior Secured Notes/First Mortgage Bonds (a) (b)	4.08%	2021 - 2049	\$ 4,039	\$ 3,739
Total Long-term Debt Before Adjustments			4,039	3,739
Unamortized discount			(24)	(18)
Unamortized debt issuance costs			(30)	(27)
Total Long-term Debt			<u>3,985</u>	<u>3,694</u>
Less current portion of Long-term Debt			—	—
Total Long-term Debt, noncurrent			<u>\$ 3,985</u>	<u>\$ 3,694</u>
<b>LKE</b>				
Senior Unsecured Notes	3.97%	2020 - 2021	\$ 725	\$ 725
Term Loan Credit Facility			—	200
First Mortgage Bonds (a) (c)	3.84%	2020 - 2049	4,666	3,966
Long-term debt to affiliate	3.69%	2026 - 2028	650	650
Total Long-term Debt Before Adjustments			6,041	5,541
Unamortized premium			5	—
Unamortized discount			(12)	(13)
Unamortized debt issuance costs			(32)	(26)
Total Long-term Debt			<u>6,002</u>	<u>5,502</u>
Less current portion of Long-term Debt			975	530
Total Long-term Debt, noncurrent			<u>\$ 5,027</u>	<u>\$ 4,972</u>



	Weighted-Average Rate (g)	Maturities (g)	December 31,	
			2019	2018
<b>LG&amp;E</b>				
Term Loan Credit Facility			\$ —	\$ 200
First Mortgage Bonds (a) (c)	3.73%	2025 - 2049	2,024	1,624
Total Long-term Debt Before Adjustments			2,024	1,824
Unamortized discount			(4)	(4)
Unamortized debt issuance costs			(15)	(11)
Total Long-term Debt			2,005	1,809
Less current portion of Long-term Debt			—	434
Total Long-term Debt, noncurrent			\$ 2,005	\$ 1,375
<b>KU</b>				
First Mortgage Bonds (a) (c)	3.93%	2020 - 2045	\$ 2,642	\$ 2,342
Total Long-term Debt Before Adjustments			2,642	2,342
Unamortized premium			5	—
Unamortized discount			(8)	(8)
Unamortized debt issuance costs			(16)	(13)
Total Long-term Debt			2,623	2,321
Less current portion of Long-term Debt			500	96
Total Long-term Debt, noncurrent			\$ 2,123	\$ 2,225

(a) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all of PPL Electric's tangible distribution properties and certain of its tangible transmission properties located in Pennsylvania, subject to certain exceptions and exclusions. The carrying value of PPL Electric's property, plant and equipment was approximately \$10.1 billion and \$9.4 billion at December 31, 2019 and 2018.

Includes LG&E's first mortgage bonds that are secured by the lien of the LG&E 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was \$5.3 billion and \$5.1 billion at December 31, 2019 and 2018.

Includes KU's first mortgage bonds that are secured by the lien of the KU 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was \$6.6 billion and \$6.3 billion at December 31, 2019 and 2018.

- (b) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (a) above. This amount includes \$224 million of which PPL Electric is allowed to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, or term rate of at least one year and \$90 million that may be redeemed, in whole or in part, at par beginning in October 2020, and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.
- (c) Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amounts, contain payment and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (a) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2019, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled \$700 million for LKE, comprised of \$392 million and \$308 million for LG&E and KU respectively. At December 31, 2019, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled \$181 million for LKE, comprised of \$148 million and \$33 million for LG&E and KU respectively. These variable rate tax-exempt revenue bonds are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.

- (d) Includes £225 million (\$291 million at December 31, 2019) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.
- (e) The principal amount of the notes issued by WPD (South West), WPD (East Midlands) and WPD (South Wales) is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts from 2018 to 2019 was an increase of



approximately £20 million (\$26 million) resulting from inflation. In addition, this amount includes £327 million (\$423 million at December 31, 2019) of notes issued by WPD (South West) that may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.

- (f) Includes £5.7 billion (\$7.4 billion at December 31, 2019) of notes that may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event, which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.
- (g) The table reflects principal maturities only, based on stated maturities or earlier put dates, and the weighted-average rates as of December 31, 2019.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt, based on stated maturities or earlier put dates, for the periods 2020 through 2024 and thereafter are as follows:

	PPL	PPL Electric	LKE	LG&E	KU
2020	\$ 1,169	\$ —	\$ 975	\$ —	\$ 500
2021	1,574	400	674	292	132
2022	1,274	474	—	—	—
2023	2,254	90	13	—	13
2024	932	—	—	—	—
Thereafter	14,799	3,075	4,379	1,732	1,997
Total	<u>\$ 22,002</u>	<u>\$ 4,039</u>	<u>\$ 6,041</u>	<u>\$ 2,024</u>	<u>\$ 2,642</u>

*(PPL)*

In June 2019, WPD plc executed and drew £50 million under a 5-year term loan facility due 2024 at a rate of 2.189%, to be reset quarterly as detailed in the terms of the facility. The borrowing equated to \$63 million at the time of drawdown, net of fees. The proceeds were used for general corporate purposes.

In September 2019, WPD (East Midlands) issued £250 million of 1.75% Senior Notes due 2031. WPD (East Midlands) received proceeds of £245 million, which equated to \$301 million at the time of issuance, net of fees and a discount. The proceeds were used to repay short-term debt and for general corporate purposes.

*(PPL and PPL Electric)*

In September 2019, PPL Electric issued \$400 million of 3.00% First Mortgage Bonds due 2049. PPL Electric received proceeds of \$390 million, net of a discount and underwriting fees, which were used to repay short-term debt and for general corporate purposes.

In December 2019, PPL Electric redeemed all of the outstanding \$100 million aggregate principal amount of its Senior Secured Bonds, 5.15% Series due 2020.

*(PPL, LKE and LG&E)*

In April 2019, LG&E issued \$400 million of 4.25% First Mortgage Bonds due 2049. LG&E received proceeds of \$396 million, net of discounts and underwriting fees, which were used to repay commercial paper and LG&E's term loan.

In April 2019, the County of Jefferson, Kentucky remarketed \$128 million of Pollution Control Revenue Bonds, 2001 Series A due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.85% through their mandatory purchase date of April 1, 2021.

In June 2019, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$31 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.65% through their mandatory purchase date of June 1, 2021.

In June 2019, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$35 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series B due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.65% through their mandatory purchase date of June 1, 2021.

In June 2019, LG&E issued a notice to bondholders of its intention to convert the \$40 million Louisville/Jefferson County Metro Government of Kentucky Pollution Control Revenue Bonds, 2005 Series A to a weekly interest rate, as permitted under the loan documents. The conversion was completed on August 1, 2019. In connection with the conversation, LG&E purchased

these bonds from the remarketing agent and held them until September 17, 2019, at which time LG&E remarketed the bonds at a long-term rate that will bear interest at 1.75% through their mandatory purchase date of July 1, 2026.

*(PPL, LKE and KU)*

In April 2019, KU reopened its 4.375% First Mortgage Bonds due 2045 and issued an additional \$300 million of this series. KU received proceeds of \$303 million, including premiums and underwriting fees, which were used to repay commercial paper and for other general corporate purposes.

In September 2019, the County of Carroll, Kentucky remarketed \$50 million of Environmental Facilities Revenue Bonds, 2004 Series A due 2034 previously issued on behalf of KU. The bonds were remarketed at a long-term rate and will bear interest at 1.75% through their mandatory purchase date of September 1, 2026.

In September 2019, the County of Carroll, Kentucky remarketed \$96 million of Pollution Control Revenue Bonds, 2016 Series A due 2042 previously issued on behalf of KU. The bonds were remarketed at a long-term rate and will bear interest at 1.55% through their mandatory purchase date of September 1, 2026.

In September 2019, the County of Carroll, Kentucky remarketed \$54 million of Environmental Facilities Revenue Bonds, 2006 Series B due 2034 previously issued on behalf of KU. The bonds were remarketed at a long-term rate and will bear interest at 1.20% through their mandatory purchase date of June 1, 2021.

In September 2019, the County of Carroll, Kentucky remarketed \$78 million of Environmental Facilities Revenue Bonds, 2008 Series A due 2032 previously issued on behalf of KU. The bonds were remarketed at a long-term rate and will bear interest at 1.20% through their mandatory purchase date of June 1, 2021.

In September 2019, the County of Mercer, Kentucky remarketed \$13 million of Solid Waste Disposal Facility Revenue Bonds, 2000 Series A due 2023 previously issued on behalf of KU. The bonds were remarketed at a long-term rate and will bear interest at 1.30% through their maturity date of May 1, 2023.

See Note 14 for additional information related to intercompany borrowings.

**Legal Separateness** *(All Registrants)*

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

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

*(PPL)*

**Equity Securities**

Equity Forward Contracts

In May 2018, PPL completed a registered underwritten public offering of 55 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 8.25 million additional shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the total 63.25 million shares of PPL common stock. Under the forward sale agreements, PPL was obligated to settle these forward sale agreements no later than November 2019. The forward sale agreements were classified as equity transactions.

In September 2018, PPL settled a portion of the initial forward sale agreements by issuing 20 million shares of PPL common stock, resulting in net cash proceeds of \$520 million. In November 2019, PPL settled the remaining 43.25 million shares of PPL common stock, resulting in net cash proceeds of \$1.1 billion. The net proceeds received will be used for general corporate purposes. See Note 5 for information on the forward sale agreements impact on the calculation of diluted EPS.

#### ATM Program

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of \$1.0 billion of its common stock through an at-the-market offering program, including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. There were no issuances under the ATM program for the twelve months ended December 31, 2019. PPL issued 42 million shares of common stock and received proceeds of \$119 million for the year ended December 31, 2018.

#### **Distributions and Related Restrictions**

In November 2019, PPL declared its quarterly common stock dividend, payable January 2, 2020, at 41.25 cents per share (equivalent to \$1.65 per annum). On February 14, 2020, PPL announced an increase of its quarterly common stock dividend to 41.5 cents per share (equivalent to \$1.66 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.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2019, no interest payments were deferred.

WPD subsidiaries have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

#### *(All Registrants)*

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its distributions to PPL. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for PPL's 2010 acquisition of LKE. In May 2012, the FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2019, net assets of \$3 billion (\$1.3 billion for LG&E and \$1.7 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of \$3.3 billion (\$1.5 billion for LG&E and \$1.8 billion for KU) were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

#### **9. Leases**

##### *(All Registrants)*

The Registrants determine whether contractual arrangements contain a lease by evaluating whether those arrangements either implicitly or explicitly identify an asset, whether the Registrants have the right to obtain substantially all of the economic benefits from use of the asset throughout the term of the arrangement, and whether the Registrants have the right to direct the

use of the asset. Renewal options are included in the lease term if it is reasonably certain the Registrants will exercise those options. Periods for which the Registrants are reasonably certain not to exercise termination options are also included in the lease term. The Registrants have certain agreements with lease and non-lease components, such as office space leases, which are generally accounted for separately.

LKE, LG&E and KU have entered into various operating leases primarily for office space, vehicles and railcars. The leases generally have fixed payments with expiration dates ranging from 2020 to 2025, some of which have options to extend the leases from one year to ten years and some have options to terminate at LKE's, LG&E's and KU's discretion. For leases that existed as of December 31, 2018, payments associated with renewal options are not included in the measurement of the lease liability and right-of-use (ROU) asset.

PPL has also entered into various operating leases primarily for office space, land easements, telecom assets and warehouse space. These leases generally have fixed payments with expiration dates ranging from 2020 through 2029, except for the land agreements which extend through 2116.

PPL Electric also has operating leases which do not have a significant impact to its operations.

### Short-term Leases

Short-term leases are leases with a term that is 12 months or less and do not include a purchase option or option to extend the initial term of the lease to greater than 12 months that the Registrants are reasonably certain to exercise. The Registrants have made an accounting policy election to not recognize the ROU asset and the lease liability arising from leases classified as short-term. Expenses related to short-term leases are included in the tables below.

### Discount Rate

The discount rate for a lease is the rate implicit in the lease unless that rate cannot be readily determined. In that case, the Registrants are required to use their incremental borrowing rate, which is the rate the Registrants would have to pay to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment.

The Registrants receive secured borrowing rates from financial institutions based on their applicable credit profiles. The Registrants use the secured rate which corresponds with the term of the applicable lease.

### Practical Expedients

See Note 1 for information on the adoption of the new lease guidance as well as the practical expedients the Registrants have elected as part of the transition.

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

### Lessee Transactions

The following table provides the components of lease cost for the Registrants' operating leases for the year ended December 31, 2019.

	PPL	LKE	LG&E	KU
Lease cost:				
Operating lease cost	\$ 33	\$ 25	\$ 12	\$ 13
Short-term lease cost	7	2	1	1
Total lease cost	<u>\$ 40</u>	<u>\$ 27</u>	<u>\$ 13</u>	<u>\$ 14</u>

The following table provides other key information related to the Registrants' operating leases at December 31, 2019.

	PPL	LKE	LG&E	KU
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 29	\$ 21	\$ 9	\$ 11
Right-of-use asset obtained in exchange for new operating lease liabilities	46	16	5	11



The following table provides the total future minimum rental payments for operating leases, as well as a reconciliation of these undiscounted cash flows to the lease liabilities recognized on the Balance Sheets as of December 31, 2019.

	PPL	LKE	LG&E	KU
2020	\$ 29	\$ 18	\$ 7	\$ 11
2021	22	13	5	8
2022	17	9	4	5
2023	15	7	3	4
2024	12	6	2	4
Thereafter	27	8	3	4
<b>Total</b>	<b>\$ 122</b>	<b>\$ 61</b>	<b>\$ 24</b>	<b>\$ 36</b>

Weighted-average discount rate	3.48%	3.96%	3.89%	4.01%
Weighted-average remaining lease term (in years)	8	5	5	5
Current lease liabilities (a)	\$ 26	\$ 16	\$ 6	\$ 10
Non-current lease liabilities (a)	78	39	15	23
Right-of-use assets (b)	96	47	18	28

- (a) Current lease liabilities are included in "Other Current Liabilities" on the Balance Sheets. Non-current lease liabilities are included in "Other deferred credits and noncurrent liabilities" on the Balance Sheets. The difference between the total future minimum lease payments and the recorded lease liabilities is due to the impact of discounting.
- (b) Right-of-use assets are included in "Other noncurrent assets" on the Balance Sheets.

At December 31, 2018, the total future minimum rental payments for all operating leases were estimated to be:

	PPL	LKE	LG&E	KU
2019	\$ 26	\$ 20	\$ 10	\$ 10
2020	21	15	6	9
2021	15	11	4	7
2022	13	7	3	4
2023	8	6	3	3
Thereafter	33	11	4	6
<b>Total</b>	<b>\$ 116</b>	<b>\$ 70</b>	<b>\$ 30</b>	<b>\$ 39</b>

### Lessor Transactions

Third parties lease land from LKE, LG&E and KU at certain generation plants to produce refined coal used to generate electricity. The leases are operating leases and expire in 2021. Payments are allocated among lease and non-lease components as stated in the agreements. Lease payments are fixed or are determined based on the amount of refined coal used in electricity generation at the facility. Payments received are primarily recorded as a regulatory liability and are amortized in accordance with regulatory approvals.

WPD leases property and telecom assets to third parties, which generally expire through 2029. These leases are operating leases. Generally, lease payments are fixed and include only a lease component.

At December 31, 2019, PPL, LKE, LG&E and KU expect to receive the following fixed lease payments over the remaining term of their operating lease agreements:

	PPL	LKE	LG&E	KU
2020	\$ 13	\$ 7	\$ —	\$ 7
2021	11	5	—	5
2022	5	—	—	—
2023	5	1	—	—
2024	3	—	—	—
Thereafter	12	—	—	—
Total	\$ 49	\$ 13	\$ —	\$ 12
Lease income recognized for the twelve months ended December 31, 2019	\$ 21	\$ 13	\$ 5	\$ 8

## 10. Stock-Based Compensation

(PPL, PPL Electric and LKE)

Under the ICP, SIP and the ICPKE (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Electric, LKE and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The following table details the award limits under each of the Plans.

Plan	Total Plan Award Limit (Shares)	Annual Grant Limit Total As % of Outstanding PPL Common Stock On First Day of Each Calendar Year	Annual Grant Limit Options (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards	
				For awards denominated in shares (Shares)	For awards denominated in cash (in dollars)
SIP	15,000,000		2,000,000	750,000	\$ 15,000,000
ICPKE	14,199,796	2%	3,000,000		

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, the rights of the participant terminate, or, with respect to certain awards, is forfeited, and the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

### Restricted Stock Units

Restricted stock units represent the right to receive shares of PPL common stock in the future, generally three years after the date of grant, in an amount based on the fair value of PPL common stock on the date of grant.

Under the SIP, each restricted stock unit entitles the grant recipient to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units are deferred and payable in shares of PPL common stock at the end of the restriction period. Dividend equivalents on restricted stock unit awards granted under the ICPKE are currently paid in cash when dividends are declared by PPL.

The fair value of restricted stock units granted is recognized on a straight-line basis over the restriction period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock units granted under the ICPKE may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for termination, retirement, disability and death of employees. Restrictions lapse on restricted stock units fully, in certain situations, as defined by each of the Plans.

The weighted-average grant date fair value of restricted stock units granted was:



	2019	2018	2017
PPL	\$ 31.95	\$ 30.58	\$ 35.30
PPL Electric	32.33	30.00	35.45
LKE	30.65	30.98	35.25

Restricted stock unit activity for 2019 was:

	Restricted Shares/Units	Weighted- Average Grant Date Fair Value Per Share
<b>PPL</b>		
Nonvested, beginning of period	1,098,203	\$ 33.45
Granted	479,428	31.95
Vested	(429,258)	33.64
Forfeited	(10,688)	31.53
Nonvested, end of period	<u>1,137,685</u>	<u>32.76</u>
<b>PPL Electric</b>		
Nonvested, beginning of period	187,337	\$ 33.09
Transfer between registrants	(3,305)	33.06
Granted	112,138	32.33
Vested	(59,661)	33.77
Forfeited	(6,649)	31.01
Nonvested, end of period	<u>229,860</u>	<u>32.61</u>
<b>LKE</b>		
Nonvested, beginning of period	133,030	\$ 33.45
Granted	76,256	30.65
Vested	(42,841)	33.75
Nonvested, end of period	<u>166,445</u>	<u>32.09</u>

Substantially all restricted stock unit awards are expected to vest.

The total fair value of restricted stock units vesting for the years ended December 31 was:

	2019	2018	2017
PPL	\$ 13	\$ 16	\$ 20
PPL Electric	2	2	3
LKE	1	5	4

### Performance Units - Total Shareowner Return

Performance units based on relative Total Shareowner Return (TSR) are intended to encourage and reward future corporate performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on TSR during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the TSR of the companies included in the Philadelphia Stock Exchange Utility Index. Awards are payable on a graduated basis based on thresholds that measure PPL's performance relative to peers that comprise the applicable index on which each year's awards are measured. Awards can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the CGNC's determination of achievement of the performance goals. Under the plan provisions, TSR performance units are subject to forfeiture upon termination of employment other than retirement, one year or more from commencement of the performance period, disability or death of an employee.

The fair value of TSR performance units granted to retirement-eligible employees is recognized as compensation expense on a straight-line basis over a one-year period, the minimum vesting period required for an employee to be entitled to payout of the

awards with no proration. For employees who are not retirement-eligible, compensation expense is recognized over the shorter of the three-year performance period or the period until the employee is retirement-eligible, with a minimum vesting and recognition period of one-year. If an employee retires before the one-year vesting period, the performance units are forfeited. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. PPL uses a mix of historic and implied volatility to value awards.

The weighted-average assumptions used in the model were:

	2019	2018	2017
Expected stock volatility	17.57%	17.60%	17.40%
Expected life	3 years	3 years	3 years

The weighted-average grant date fair value of TSR performance units granted was:

	2019	2018	2017
PPL	\$ 35.83	\$ 38.26	\$ 38.38
PPL Electric	35.68	38.37	38.37
LKE	35.93	38.32	38.24

TSR performance unit activity for 2019 was:

	TSR Performance Units	Weighted-Average Grant Date Fair Value Per Share
<b><u>PPL</u></b>		
Nonvested, beginning of period	840,124	\$ 37.89
Granted	250,734	35.83
Forfeited (a)	(351,466)	37.24
Nonvested, end of period	<u>739,392</u>	37.50
<b><u>PPL Electric</u></b>		
Nonvested, beginning of period	67,863	\$ 37.86
Granted	24,158	35.68
Forfeited (a)	(25,222)	36.92
Nonvested, end of period	<u>66,799</u>	37.43
<b><u>LKE</u></b>		
Nonvested, beginning of period	148,996	\$ 37.81
Granted	39,453	35.93
Forfeited (a)	(57,916)	37.02
Nonvested, end of period	<u>130,533</u>	37.60

(a) Primarily related to the forfeiture of 2016 performance units as performance during the period was below the minimum established performance threshold, which resulted in no payout.

There were no TSR performance units vesting for the year ended December 31, 2019 and the total fair value of TSR performance units vesting for the year ended December 31, 2018 and 2017 was \$3 million and \$8 million for PPL and insignificant for PPL Electric and LKE.



## Performance Units - Return on Equity

Beginning in 2017, PPL changed its executive compensation mix to add performance units based on achievement of a corporate Return on Equity (ROE). ROE performance units are intended to further align compensation with the company's strategy and reward for future corporate performance.

Payout of these performance units will be based on the calculated average of the annual corporate ROE for each year of the three-year performance period for PPL Corporation. ROE performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable ROE performance goal. ROE performance units can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the CGNC's determination of achievement of the performance goals. Under the plan provisions, these performance units are subject to forfeiture upon termination of employment other than retirement, disability or death of an employee.

The fair value of each ROE performance unit is based on the closing price of PPL Common Stock on the date of grant. The fair value of ROE performance units is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value awards granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. As these awards are based on performance conditions, the level of attainment is monitored each reporting period and compensation expense is adjusted based on the expected attainment level.

The weighted-average grant date fair value of ROE performance units granted was:

	2019	2018	2017
PPL	\$ 30.89	\$ 32.21	\$ 32.42
PPL Electric	30.76	32.32	34.41
LKE	30.99	32.28	34.29

ROE performance unit activity for 2019 was:

	ROE Performance Unit	Weighted-Average Grant Date Fair Value Per Share
<b><u>PPL</u></b>		
Nonvested, beginning of period	328,958	\$ 32.86
Granted	241,807	30.89
Nonvested, end of period	<u>570,765</u>	32.02
<b><u>PPL Electric</u></b>		
Nonvested, beginning of period	25,960	\$ 32.96
Granted	23,234	30.76
Nonvested, end of period	<u>49,194</u>	31.92
<b><u>LKE</u></b>		
Nonvested, beginning of period	69,620	\$ 32.87
Granted	38,185	30.99
Nonvested, end of period	<u>107,805</u>	32.20

## Stock Options

PPL's CGNC eliminated the use of stock options due to changes in its long-term incentive mix beginning in January 2014.

Under the Plans, stock options had been granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2019, are fully vested. All options expire no later than 10 years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans.

Stock option activity for 2019 was:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term (years)	Aggregate Total Intrinsic Value
<b>PPL</b>				
Outstanding at beginning of period	2,914,525	\$ 26.26		
Exercised	(1,578,554)	26.31		
Forfeited	(5,028)	28.77		
Outstanding and exercisable at end of period	1,330,943	26.20	2.5	\$ 13

For 2019, 2018 and 2017, PPL received \$53 million, \$5 million and \$19 million in cash from stock options exercised. The total intrinsic value of stock options exercised for 2019 was \$11 million, insignificant in 2018 and \$8 million for 2017. The related income tax benefits realized were not significant.

### Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards, which for PPL Electric and LKE includes an allocation of PPL Services' expense, was:

	2019	2018	2017
PPL	\$ 35	\$ 25	\$ 32
PPL Electric	12	10	18
LKE	9	8	8

The income tax benefit related to above compensation expense was as follows:

	2019	2018	2017
PPL	\$ 10	\$ 10	\$ 13
PPL Electric	3	3	8
LKE	2	2	3

At December 31, 2019, unrecognized compensation expense related to nonvested stock awards was:

	Unrecognized Compensation Expense	Weighted- Average Period for Recognition
PPL	\$ 14	1.9
PPL Electric	3	2.2
LKE	1	1.5

## 11. Retirement and Postemployment Benefits

*(All Registrants)*

### Defined Benefits

Certain employees of PPL's domestic subsidiaries are eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's primary defined benefit pension plan was closed to all newly hired salaried employees. Effective July 1, 2014, PPL's primary defined benefit pension plan was closed to all newly hired bargaining unit employees. Newly hired employees are eligible to participate in the PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer contributions.

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans. The pension plans sponsored by LKE and LG&E were merged effective January 1, 2020 into the LG&E and KU Pension Plan. The merged plan is sponsored by LKE. LG&E and KU participate in this plan.



Effective April 1, 2010, the principal defined benefit pension plan applicable to WPD (South West) and WPD (South Wales) was closed to most new employees, except for those meeting specific grandfathered participation rights. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition. New employees not eligible to participate in the plans are offered benefits under a defined contribution plan.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

Certain employees of PPL's domestic subsidiaries are eligible for certain health care and life insurance benefits upon retirement through contributory plans. Effective January 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired salaried employees. Effective July 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired bargaining unit employees. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Pension Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. WPD does not sponsor any postretirement benefit plans other than pensions.

(PPL)

The following table provides the components of net periodic defined benefit costs (credits) for PPL's domestic (U.S.) and WPD's (U.K.) pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2019	2018	2017	2019	2018	2017	2019	2018	2017
<b>Net periodic defined benefit costs (credits):</b>									
Service cost	\$ 50	\$ 62	\$ 65	\$ 68	\$ 82	\$ 76	\$ 6	\$ 7	\$ 7
Interest cost	164	156	168	187	185	178	22	21	23
Expected return on plan assets	(245)	(249)	(231)	(588)	(587)	(514)	(18)	(23)	(22)
Amortization of:									
Prior service cost (credit)	8	10	10	1	—	—	(1)	(1)	(1)
Actuarial (gain) loss	56	84	69	92	151	144	1	—	1
Net periodic defined benefit costs (credits) prior to settlements and termination benefits	33	63	81	(240)	(169)	(116)	10	4	8
Settlements	1	—	1	—	—	—	—	—	—
Termination benefits	—	—	1	—	—	—	—	—	—
Net periodic defined benefit costs (credits)	\$ 34	\$ 63	\$ 83	\$ (240)	\$ (169)	\$ (116)	\$ 10	\$ 4	\$ 8
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:</b>									
Settlement	(1)	—	(1)	—	—	—	—	—	—
Net (gain) loss	(121)	157	27	723	201	346	(18)	8	(28)
Prior service cost (credit)	2	1	(1)	—	13	—	—	—	8
Amortization of:									
Prior service (cost) credit	(8)	(10)	(10)	(1)	—	—	1	1	1
Actuarial gain (loss)	(56)	(84)	(69)	(92)	(151)	(144)	(1)	—	(1)
Total recognized in OCI and regulatory assets/liabilities (a)	(184)	64	(54)	630	63	202	(18)	9	(20)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (a)	\$ (150)	\$ 127	\$ 29	\$ 390	\$ (106)	\$ 86	\$ (8)	\$ 13	\$ (12)

(a) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension benefits and for other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	U.S. Pension Benefits			Other Postretirement Benefits		
	2019	2018	2017	2019	2018	2017
OCI	\$ (194)	\$ 90	\$ (53)	\$ (13)	\$ 20	\$ (25)
Regulatory assets/liabilities	10	(26)	(1)	(5)	(11)	5
Total recognized in OCI and regulatory assets/liabilities	\$ (184)	\$ 64	\$ (54)	\$ (18)	\$ 9	\$ (20)

(LKE)

The following table provides the components of net periodic defined benefit costs for LKE's pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2019	2018	2017	2019	2018	2017
<b>Net periodic defined benefit costs (credits):</b>						
Service cost	\$ 22	\$ 25	\$ 24	\$ 4	\$ 4	\$ 4
Interest cost	66	63	68	8	8	9
Expected return on plan assets	(101)	(102)	(92)	(8)	(9)	(7)
Amortization of:						
Prior service cost	8	9	8	1	1	1
Actuarial (gain) loss (a)	22	35	31	(1)	—	—
Net periodic defined benefit costs (b)	\$ 17	\$ 30	\$ 39	\$ 4	\$ 4	\$ 7
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:</b>						
Net (gain) loss	\$ (37)	\$ 40	\$ 30	\$ (14)	\$ 1	\$ (14)
Prior service cost	2	—	7	—	—	8
Amortization of:						
Prior service credit	(8)	(9)	(8)	(1)	(1)	(1)
Actuarial gain (loss)	(22)	(35)	(32)	1	—	—
Total recognized in OCI and regulatory assets/liabilities	(65)	(4)	(3)	(14)	—	(7)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	\$ (48)	\$ 26	\$ 36	\$ (10)	\$ 4	\$ —

- (a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LKE's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was \$5 million in 2019 and \$11 million in 2018 and 2017.
- (b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, settlement charges of \$5 million in 2019, \$6 million in 2018 and \$5 million in 2017 were 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.

For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2019	2018	2017	2019	2018	2017
OCI	\$ 13	\$ (25)	\$ 33	\$ (7)	\$ 4	\$ (2)
Regulatory assets/liabilities	(78)	21	(36)	(7)	(4)	(5)
Total recognized in OCI and regulatory assets/liabilities	\$ (65)	\$ (4)	\$ (3)	\$ (14)	\$ —	\$ (7)

(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the years ended December 31.



	Pension Benefits		
	2019	2018	2017
<b>Net periodic defined benefit costs (credits):</b>			
Service cost	\$ 1	\$ 1	\$ 1
Interest cost	11	12	13
Expected return on plan assets	(21)	(22)	(22)
Amortization of:			
Prior service cost	5	5	5
Actuarial loss (a)	9	7	9
Net periodic defined benefit costs (b)	<u>\$ 5</u>	<u>\$ 3</u>	<u>\$ 6</u>
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets - Gross:</b>			
Net (gain) loss	\$ (19)	\$ 22	\$ (9)
Prior service cost	—	—	7
Amortization of:			
Prior service credit	(5)	(5)	(5)
Actuarial gain	(9)	(7)	(9)
Total recognized in regulatory assets/liabilities	<u>(33)</u>	<u>10</u>	<u>(16)</u>
Total recognized in net periodic defined benefit costs and regulatory assets	<u>\$ (28)</u>	<u>\$ 13</u>	<u>\$ (10)</u>

- (a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LG&E's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was \$3 million in 2019, \$2 million in 2018 and \$7 million in 2017.
- (b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, settlement charges of \$5 million in 2019, \$6 million in 2018 and \$5 million in 2017 were 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.

(All Registrants)

The following net periodic defined benefit costs (credits) were charged to expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts. The U.K. pension benefits apply to PPL only.

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
PPL	\$ 18	\$ 40	\$ 59	\$ (287)	\$ (226)	\$ (151)	\$ 8	\$ 2	\$ 5
PPL Electric (a)	(4)	4	12				4	(1)	—
LKE (b)	12	21	28				2	3	5
LG&E (b)	3	4	8				2	2	3
KU (a) (b)	(1)	2	4				—	1	1

- (a) PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric and KU were allocated these costs of defined benefit plans sponsored by PPL Services (for PPL Electric) and by LKE (for KU), based on their participation in those plans, which management believes are reasonable. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to KU from LKS.
- (b) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between net periodic defined benefit costs calculated in accordance with LKE's, LG&E's and KU's pension accounting policy and the net periodic defined benefit costs calculated using a 15 year amortization period for gains and losses is recorded as a regulatory asset. Of the costs charged to Other operation and maintenance, Other Income (Expense) - net or regulatory assets, excluding amounts charged to construction and other non-expense accounts, \$2 million for LG&E and \$1 million for KU were recorded as regulatory assets in 2019, \$3 million for LG&E and \$2 million for KU were recorded as regulatory assets in 2018 and \$4 million for LG&E and \$2 million for KU were recorded as regulatory assets in 2017.

In the table above, LG&E amounts include costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by LKE. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable:

	Pension Benefits			Other Postretirement Benefits		
	2019	2018	2017	2019	2018	2017
LG&E Non-Union Only	\$ —	\$ 2	\$ 5	\$ 2	\$ 2	\$ 3

*(PPL, LKE and LG&E)*

PPL, LKE and LG&E use the base mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables with collar and factor adjustments, where applicable) for all U.S. defined benefit pension and other postretirement benefit plans. In 2017, PPL, LKE and LG&E updated to the MP-2017 mortality improvement scale from 2006 on a generational basis and continued to use this improvement scale in 2019.

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2019	2018
	2019	2018	2019	2018		
<b>PPL</b>						
Discount rate	3.64%	4.35%	1.94%	2.98%	3.60%	4.31%
Rate of compensation increase	3.79%	3.79%	3.25%	3.50%	3.76%	3.76%
<b>LKE</b>						
Discount rate	3.62%	4.35%			3.59%	4.32%
Rate of compensation increase	3.50%	3.50%			3.50%	3.50%
<b>LG&amp;E</b>						
Discount rate	3.60%	4.33%				

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.			2019	2018	2017
	2019	2018	2017	2019	2018	2017			
<b>PPL</b>									
Discount rate service cost	4.35%	3.70%	4.21%	3.12%	2.73%	2.99%	4.31%	3.64%	4.11%
Discount rate interest cost	4.35%	3.70%	4.21%	2.62%	2.31%	2.41%	4.31%	3.64%	4.11%
Rate of compensation increase	3.79%	3.78%	3.95%	3.50%	3.50%	3.50%	3.76%	3.75%	3.92%
Expected return on plan assets	7.25%	7.25%	7.00%	7.21%	7.23%	7.22%	6.46%	6.40%	6.21%
<b>LKE</b>									
Discount rate	4.35%	3.69%	4.19%				4.32%	3.65%	4.12%
Rate of compensation increase	3.50%	3.50%	3.50%				3.50%	3.50%	3.50%
Expected return on plan assets (a)	7.25%	7.25%	7.00%				7.00%	7.15%	6.82%
<b>LG&amp;E</b>									
Discount rate	4.33%	3.65%	4.13%						
Expected return on plan assets (a)	7.25%	7.25%	7.00%						

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



*(PPL and LKE)*

The following table provides the assumed health care cost trend rates for the years ended December 31:

	2019	2018	2017
<b>PPL and LKE</b>			
Health care cost trend rate assumed for next year			
– obligations	6.6%	6.6%	6.6%
– cost	6.6%	6.6%	7.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
– obligations	5.0%	5.0%	5.0%
– cost	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate			
– obligations	2024	2023	2022
– cost	2023	2022	2022

*(PPL)*

The funded status of PPL's plans at December 31 was as follows:

	Pension Benefits					
	U.S.		U.K.		Other Postretirement Benefits	
	2019	2018	2019	2018	2019	2018
<b>Change in Benefit Obligation</b>						
Benefit Obligation, beginning of period	\$ 3,883	\$ 4,288	\$ 7,275	\$ 8,219	\$ 538	\$ 589
Service cost	50	62	68	82	6	7
Interest cost	164	156	187	185	22	21
Participant contributions	—	—	12	13	14	13
Plan amendments	2	1	—	12	—	—
Actuarial (gain) loss	368	(352)	1,220	(406)	34	(34)
Settlements	(21)	—	—	—	—	—
Gross benefits paid	(300)	(272)	(363)	(381)	(58)	(58)
Federal subsidy	—	—	—	—	1	—
Currency conversion	—	—	116	(449)	—	—
Benefit Obligation, end of period	4,146	3,883	8,515	7,275	557	538
<b>Change in Plan Assets</b>						
Plan assets at fair value, beginning of period	3,109	3,488	7,801	8,490	301	405
Actual return on plan assets	735	(260)	1,095	(30)	71	(20)
Employer contributions	63	153	278	188	10	23
Participant contributions	—	—	12	13	10	11
Transfer out (a)	—	—	—	—	—	(65)
Settlements	(22)	—	—	—	—	—
Gross benefits paid	(300)	(272)	(363)	(381)	(52)	(53)
Currency conversion	—	—	122	(479)	—	—
Plan assets at fair value, end of period	3,585	3,109	8,945	7,801	340	301
Funded Status, end of period	\$ (561)	\$ (774)	\$ 430	\$ 526	\$ (217)	\$ (237)
<b>Amounts recognized in the Balance Sheets consist of:</b>						
Noncurrent asset	\$ 24	\$ —	\$ 440	\$ 535	\$ 11	\$ 2
Current liability	(8)	(13)	(1)	(1)	(2)	(3)
Noncurrent liability	(577)	(761)	(9)	(8)	(226)	(236)
Net amount recognized, end of period	\$ (561)	\$ (774)	\$ 430	\$ 526	\$ (217)	\$ (237)

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.			
	2019	2018	2019	2018	2019	2018
<b>Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:</b>						
Prior service cost (credit)	\$ 34	\$ 40	\$ 11	\$ 12	\$ 10	\$ 10
Net actuarial (gain) loss	1,029	1,207	3,435	2,806	6	24
Total (b)	<u>\$ 1,063</u>	<u>\$ 1,247</u>	<u>\$ 3,446</u>	<u>\$ 2,818</u>	<u>\$ 16</u>	<u>\$ 34</u>
<b>Total accumulated benefit obligation for defined benefit pension plans</b>	<u>\$ 3,910</u>	<u>\$ 3,668</u>	<u>\$ 7,821</u>	<u>\$ 6,689</u>		

- (a) In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA to be used to pay medical claims of active bargaining unit employees.
- (b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and as a result, does not record regulatory assets/liabilities.

For PPL's U.S. pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	U.S. Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
AOCI	\$ 352	\$ 370	\$ 13	\$ 21
Regulatory assets/liabilities	711	877	3	13
Total	<u>\$ 1,063</u>	<u>\$ 1,247</u>	<u>\$ 16</u>	<u>\$ 34</u>

The actuarial (gain) loss for all pension plans in 2019 and 2018 was primarily related to a change in the discount rate used to measure the benefit obligations of those plans.

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligation (ABO) exceed the fair value of plan assets:

	U.S.		U.K.	
	PBO in excess of plan assets		PBO in excess of plan assets	
	2019	2018	2019	2018
Projected benefit obligation	\$ 3,861	\$ 3,883	\$ 10	\$ 9
Fair value of plan assets	3,275	3,109	—	—

	U.S.		U.K.	
	ABO in excess of plan assets		ABO in excess of plan assets	
	2019	2018	2019	2018
Accumulated benefit obligation	\$ 3,624	\$ 3,668	\$ 10	\$ 9
Fair value of plan assets	3,275	3,109	—	—



(LKE)

The funded status of LKE's plans at December 31 was as follows:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
<b>Change in Benefit Obligation</b>				
Benefit Obligation, beginning of period	\$ 1,580	\$ 1,771	\$ 205	\$ 223
Service cost	22	25	4	4
Interest cost	66	63	8	8
Participant contributions	—	—	7	8
Plan amendments	2	—	—	—
Actuarial (gain) loss (b)	166	(168)	5	(16)
Settlements	(16)	—	—	—
Gross benefits paid (a)	(136)	(111)	(21)	(22)
Benefit Obligation, end of period	<u>1,684</u>	<u>1,580</u>	<u>208</u>	<u>205</u>
<b>Change in Plan Assets</b>				
Plan assets at fair value, beginning of period	1,294	1,402	117	116
Actual return on plan assets	304	(106)	27	(9)
Employer contributions	24	109	11	24
Participant contributions	—	—	7	8
Settlements	(16)	—	—	—
Gross benefits paid	(136)	(111)	(21)	(22)
Plan assets at fair value, end of period	<u>1,470</u>	<u>1,294</u>	<u>141</u>	<u>117</u>
Funded Status, end of period	<u>\$ (214)</u>	<u>\$ (286)</u>	<u>\$ (67)</u>	<u>\$ (88)</u>
<b>Amounts recognized in the Balance Sheets consist of:</b>				
Noncurrent asset	\$ 24	\$ —	\$ 11	\$ 2
Current liability	(5)	(4)	(2)	(3)
Noncurrent liability	(233)	(282)	(76)	(87)
Net amount recognized, end of period	<u>\$ (214)</u>	<u>\$ (286)</u>	<u>\$ (67)</u>	<u>\$ (88)</u>
<b>Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:</b>				
Prior service cost	\$ 30	\$ 35	\$ 10	\$ 12
Net actuarial (gain) loss	380	439	(37)	(25)
Total	<u>\$ 410</u>	<u>\$ 474</u>	<u>\$ (27)</u>	<u>\$ (13)</u>
<b>Total accumulated benefit obligation for defined benefit pension plans</b>	<u>\$ 1,561</u>	<u>\$ 1,467</u>		

(a) Gross benefits paid by the plans include lump-sum cash payments made to participants during 2019 and 2018 of \$74 million and \$52 million.

(b) The actuarial (gain) loss for all pension plans in 2019 and 2018 was primarily related to changes in the discount rate used to measure the benefit obligations of those plans.

The amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
AOCI	\$ 132	\$ 118	\$ 4	\$ 10
Regulatory assets/liabilities	278	356	(31)	(23)
Total	<u>\$ 410</u>	<u>\$ 474</u>	<u>\$ (27)</u>	<u>\$ (13)</u>

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligations (ABO) exceed the fair value of plan assets:

	PBO in excess of plan assets	
	2019	2018
Projected benefit obligation	\$ 1,398	\$ 1,580
Fair value of plan assets	1,160	1,294

	ABO in excess of plan assets	
	2019	2018
Accumulated benefit obligation	\$ 1,276	\$ 1,467
Fair value of plan assets	1,160	1,294

*(LG&E)*

The funded status of LG&E's plan at December 31, was as follows:

	Pension Benefits	
	2019	2018
<b>Change in Benefit Obligation</b>		
Benefit Obligation, beginning of period	\$ 285	\$ 326
Service cost	1	1
Interest cost	11	12
Actuarial (gain) loss	25	(24)
Gross benefits paid (a)	(36)	(30)
Benefit Obligation, end of period	286	285
<b>Change in Plan Assets</b>		
Plan assets at fair value, beginning of period	281	325
Actual return on plan assets	64	(24)
Employer contributions	1	10
Gross benefits paid	(36)	(30)
Plan assets at fair value, end of period	310	281
Funded Status, end of period	\$ 24	\$ (4)
<b>Amounts recognized in the Balance Sheets consist of:</b>		
Noncurrent asset (liability)	\$ 24	\$ (4)
Net amount recognized, end of period	\$ 24	\$ (4)
<b>Amounts recognized in regulatory assets (pre-tax) consist of:</b>		
Prior service cost	\$ 17	\$ 22
Net actuarial loss	79	107
Total	\$ 96	\$ 129
<b>Total accumulated benefit obligation for defined benefit pension plan</b>	<b>\$ 286</b>	<b>\$ 285</b>

(a) Gross benefits paid by the plan include lump-sum cash payments made to participants during 2019 and 2018 of \$21 million and \$16 million.

LG&E's pension plan had plan assets in excess of projected and accumulated benefit obligations at December 31, 2019. LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2018.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in (assets)/liabilities at December 31 as follows:



	<u>2019</u>	<u>2018</u>
Pension	\$ (7)	\$ 7
Other postretirement benefits	63	65

*(PPL Electric)*

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retirees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in liabilities at December 31 as follows:

	<u>2019</u>	<u>2018</u>
Pension	\$ 179	\$ 285
Other postretirement benefits	122	120

*(KU)*

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to KU from LKS. These allocations are based on KU's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in (assets)/liabilities at December 31 as follows.

	<u>2019</u>	<u>2018</u>
Pension	\$ (31)	\$ 1
Other postretirement benefits	16	25

**Plan Assets - U.S. Pension Plans**

*(PPL, LKE and LG&E)*

PPL's primary legacy pension plan and the pension plans sponsored by LKE and LG&E are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations of PPL and LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines as of the end of 2019 are presented below.

The asset allocation for the trust and the target allocation by portfolio at December 31 are as follows:

	Percentage of trust assets		2019
	2019 (a)	2018 (a)	Target Asset Allocation (a)
<b>Growth Portfolio</b>	57%	55%	55%
Equity securities	34%	30%	
Debt securities (b)	14%	15%	
Alternative investments	9%	10%	
<b>Immunizing Portfolio</b>	42%	43%	43%
Debt securities (b)	35%	39%	
Derivatives	7%	4%	
<b>Liquidity Portfolio</b>	1%	2%	2%
Total	100%	100%	100%

(a) Allocations exclude consideration of a group annuity contract held by the LG&E and KU Retirement Plan.

(b) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

(LKE)

LKE has pension plans, including LG&E's plan, whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of these plans' assets of \$1.5 billion and \$1.3 billion at December 31, 2019 and 2018 represents an interest of approximately 41% and 42% in the Master Trust.

(LG&E)

LG&E has a pension plan whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of this plan's assets of \$310 million and \$281 million at December 31, 2019 and 2018 represents an interest of approximately 9% in the Master Trust.

(PPL, LKE and LG&E)

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

	December 31, 2019				December 31, 2018			
	Total	Fair Value Measurements Using			Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>PPL Services Corporation Master Trust</b>								
Cash and cash equivalents	\$ 182	\$ 182	\$ —	\$ —	\$ 220	\$ 220	\$ —	\$ —
Equity securities:								
U.S. Equity	194	194	—	—	159	159	—	—
U.S. Equity fund measured at NAV (a)	451	—	—	—	340	—	—	—
International equity fund at NAV (a)	554	—	—	—	466	—	—	—
Commingled debt measured at NAV (a)	621	—	—	—	543	—	—	—
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	310	309	1	—	212	212	—	—
Corporate	951	—	931	20	899	—	874	25
Other	14	—	14	—	17	—	17	—
Alternative investments:								
Real estate measured at NAV (a)	88	—	—	—	90	—	—	—
Private equity measured at NAV (a)	62	—	—	—	65	—	—	—
Hedge funds measured at NAV (a)	194	—	—	—	175	—	—	—



	December 31, 2019				December 31, 2018			
	Fair Value Measurements Using				Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivatives	3	—	3	—	33	—	33	—
Insurance contracts	4	—	—	4	21	—	—	21
PPL Services Corporation Master Trust assets, at fair value	3,628	\$ 685	\$ 949	\$ 24	3,240	\$ 591	\$ 924	\$ 46
Receivables and payables, net (b)	99				(2)			
401(h) accounts restricted for other postretirement benefit obligations	(142)				(129)			
Total PPL Services Corporation Master Trust pension assets	<u>\$ 3,585</u>				<u>\$ 3,109</u>			

- (a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
- (b) Receivables and payables, net represents amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2019 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	\$ 25	\$ 21	\$ 46
Actual return on plan assets			
Relating to assets still held at the reporting date	(1)	4	3
Relating to assets sold during the period	3	—	3
Purchases, sales and settlements	(7)	(21)	(28)
Balance at end of period	<u>\$ 20</u>	<u>\$ 4</u>	<u>\$ 24</u>

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2018 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	\$ 13	\$ 24	\$ 37
Actual return on plan assets			
Relating to assets still held at the reporting date	(2)	1	(1)
Relating to assets sold during the period	3	—	3
Purchases, sales and settlements	11	(4)	7
Balance at end of period	<u>\$ 25</u>	<u>\$ 21</u>	<u>\$ 46</u>

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards

and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The strategy is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. The partnerships have limited lives of at least 10 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The Master Trust has unfunded commitments of \$63 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in a fund of hedge funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under most market conditions. Major investment strategies for the fund of hedge funds include long/short equity, tactical trading, event driven, and relative value. Shares may be redeemed with 45 days prior written notice. The fund is subject to short term lockups and other restrictions. The fair value for the fund has been estimated using the net asset value per share.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in treasury futures, total return swaps, interest rate swaps and swaptions (the option to enter into an interest rate swap), which are valued based on quoted prices, changes in the value of the underlying exposure or on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

In 2018, insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses. In 2019, obligations underlying the guaranteed group annuity contract were assumed by the insurance company, with a residual amount remaining in the general account of the insurer that will be paid into the master trust or distributed to participants.

#### **Plan Assets - U.S. Other Postretirement Benefit Plans**

The investment strategy with respect to other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the Master Trust, other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers and, therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the PPL VEBA trusts, excluding LKE, and the target allocation, by asset class, at December 31 are detailed below.

Asset Class	Percentage of plan assets		Target Asset Allocation
	2019	2018	2019
U.S. Equity securities	45%	40%	45%
Debt securities (a)	52%	56%	50%
Cash and cash equivalents (b)	3%	4%	5%
Total	100%	100%	100%

- (a) Includes commingled debt funds and debt securities.  
 (b) Includes money market funds.

LKE's other postretirement benefit plan is invested primarily in a 401(h) account, as disclosed in the PPL Services Corporation Master Trust, with insignificant amounts invested in money market funds within VEBA trusts for liquidity.

The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2019				December 31, 2018			
	Fair Value Measurement Using				Fair Value Measurement Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Money market funds	\$ 6	\$ 6	\$ —	\$ —	\$ 6	\$ 6	\$ —	\$ —
U.S. Equity securities:								
Large-cap equity fund measure at NAV (a)	89	—	—	—	69	—	—	—
Commingled debt fund measured at NAV (a)	68	—	—	—	68	—	—	—
Debt securities:								
Corporate bonds	35	—	35	—	28	—	28	—
Total VEBA trust assets, at fair value	198	\$ 6	\$ 35	\$ —	171	\$ 6	\$ 28	\$ —
Receivables and payables, net (b)	—				1			
401(h) account assets	142				129			
Total other postretirement benefit plan assets	\$ 340				\$ 301			

- (a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.  
 (b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

Investments in money market funds represent investments in funds that invest primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds. Fair value measurements are not obtained from a quoted price in an active market but are based on firm quotes of net asset values per share as provided by the trustee of the fund. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities. Redemptions can be made daily on these funds.

Investments in corporate bonds represent investment in a diversified portfolio of investment grade long-duration fixed income securities. The fair value of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences.

**Plan Assets - U.K. Pension Plans (PPL)**

The overall investment strategy of WPD's pension plans is developed by each plan's independent trustees in its Statement of Investment Principles in compliance with the U.K. Pensions Act of 1995 and other U.K. legislation. The trustees' primary focus



is to ensure that assets are sufficient to meet members' benefits as they fall due with a longer term objective to reduce investment risk. The investment strategy is intended to maximize investment returns while not incurring excessive volatility in the funding position. WPD's plans are invested in a wide diversification of asset types, fund strategies and fund managers; and therefore, have no significant concentration of risk. Commingled funds that consist entirely of debt securities are traded as equity units, but treated by WPD as debt securities for asset allocation and target allocation purposes. These include investments in U.K. corporate bonds and U.K. gilts.

The asset allocation and target allocation at December 31 of WPD's pension plans are detailed below.

Asset Class	Percentage of plan assets		Target Asset
			Allocation
	2019	2018	2019
Cash and cash equivalents	2%	2%	—%
Equity securities			
U.K.	—%	—%	2%
European (excluding the U.K.)	—%	1%	1%
Asian-Pacific	—%	1%	1%
North American	1%	1%	1%
Emerging markets	—%	1%	1%
Global equities	19%	19%	9%
Global Tactical Asset Allocation	29%	31%	41%
Debt securities (a)	43%	38%	38%
Alternative investments	6%	6%	6%
Total	100%	100%	100%

(a) Includes commingled debt funds.

The fair value of assets in the U.K. pension plans by asset class and level within the fair value hierarchy was:

	December 31, 2019				December 31, 2018			
	Total	Fair Value Measurement Using			Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 154	\$ 154	\$ —	\$ —	\$ 147	\$ 147	\$ —	\$ —
Equity securities measured at NAV (a) :								
U.K. companies	22	—	—	—	27	—	—	—
European companies (excluding the U.K.)	54	—	—	—	76	—	—	—
Asian-Pacific companies	35	—	—	—	49	—	—	—
North American companies	74	—	—	—	105	—	—	—
Emerging markets companies	32	—	—	—	44	—	—	—
Global Equities	1,684	—	—	—	1,465	—	—	—
Other	2,584	—	—	—	2,437	—	—	—
Debt Securities:								
U.K. corporate bonds	5	—	5	—	4	—	4	—
U.K. gilts	3,819	—	3,819	—	2,933	—	2,933	—
Alternative investments:								
Real estate measured at NAV (a)	519	—	—	—	485	—	—	—
Fair value - U.K. pension plans	8,982	\$ 154	\$ 3,824	\$ —	7,772	\$ 147	\$ 2,937	\$ —
Receivables and payables, net (b)	(37)				29			
Total U.K. pension assets	\$ 8,945				\$ 7,801			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables, net represents amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

Except for investments in real estate, the fair value measurements of WPD's pension plan assets are based on the same inputs and measurement techniques used to measure the U.S. pension plan assets described above.



Investments in equity securities represent actively and passively managed funds that are measured against various equity indices.

Other comprises a range of investment strategies, which invest in a variety of assets including equities, bonds, currencies, real estate and forestry held in unitized funds, which are considered in the Global Tactical Asset Allocation target.

U.K. corporate bonds include investment grade corporate bonds of companies from diversified U.K. industries.

U.K. gilts include gilts, index-linked gilts and swaps intended to track a portion of the plans' liabilities.

Investments in real estate represent holdings in a U.K. unitized fund that owns and manages U.K. industrial and commercial real estate with a strategy of earning current rental income and achieving capital growth. The fair value measurement of the fund is based upon a net asset value per share, which is based on the value of underlying properties that are independently appraised in accordance with Royal Institution of Chartered Surveyors valuation standards at least annually with quarterly valuation updates based on recent sales of similar properties, leasing levels, property operations and/or market conditions. The fund may be subject to redemption restrictions in the unlikely event of a large forced sale in order to ensure other unit holders are not disadvantaged.

**Expected Cash Flows - U.S. Defined Benefit Plans (PPL)**

While PPL's U.S. defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements, PPL contributed \$52 million to its U.S. pension plans in January 2020. No additional contributions are expected in 2020.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately \$9 million of benefit payments under these plans in 2020.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute \$14 million to its other postretirement benefit plans in 2020.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by PPL.

	Other Postretirement		
	Pension	Benefit Payment	Expected Federal Subsidy
2020	\$ 271	\$ 50	\$ 1
2021	267	48	1
2022	266	47	—
2023	264	46	—
2024	265	44	—
2025-2029	1,278	200	1

**(LKE)**

Effective January 1, 2020, the LKE and LG&E defined benefit pension plans were merged into a combined defined benefit pension plan. The following disclosures relate to the new combined LKE plan.

While LKE's defined benefit pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements, LKE contributed \$22 million to its pension plan in January 2020. No additional contributions are expected in 2020.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make \$5 million of benefit payments under these plans in 2020.

LKE is not required to make contributions to its other postretirement benefit plan but has historically funded this plan in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause LKE to contribute a projected \$14 million to its other postretirement benefit plan in 2020.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by LKE.

	Pension	Other Postretirement	
		Benefit Payment	Expected Federal Subsidy
2020	\$ 114	\$ 14	\$ 1
2021	115	15	—
2022	115	15	—
2023	113	15	—
2024	115	15	—
2025-2029	545	72	1

**Expected Cash Flows - U.K. Pension Plans (PPL)**

The pension plans of WPD are subject to formal actuarial valuations every three years, which are used to determine funding requirements. Contribution requirements were evaluated in accordance with the valuation performed as of March 31, 2016. WPD expects to make contributions of approximately \$273 million in 2020. WPD is currently permitted to recover in current revenues approximately 78% of its pension funding requirements for its primary pension plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans.

	Pension
2020	\$ 353
2021	351
2022	356
2023	359
2024	364
2025-2029	1,826

**Savings Plans (All Registrants)**

Substantially all employees of PPL's subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were:

	2019	2018	2017
PPL	\$ 42	\$ 40	\$ 36
PPL Electric	6	6	6
LKE	21	20	18
LG&E	6	6	5
KU	5	5	4

**12. Jointly Owned Facilities**

(PPL, LKE, LG&E and KU)

At December 31, 2019 and 2018, the Balance Sheets reflect the owned interests in the generating plants listed below.

	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
<b>PPL and LKE</b>				
<b>December 31, 2019</b>				
Trimble County Unit 1	75.00%	\$ 440	\$ 54	\$ 2
Trimble County Unit 2	75.00%	1,278	203	134

	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
<b>December 31, 2018</b>				
Trimble County Unit 1	75.00%	\$ 427	\$ 77	\$ —
Trimble County Unit 2	75.00%	1,063	199	293
<b>LG&amp;E</b>				
<b>December 31, 2019</b>				
E.W. Brown Units 6-7	38.00%	\$ 45	\$ 20	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	52	20	—
Trimble County Unit 1	75.00%	440	54	2
Trimble County Unit 2	14.25%	340	43	69
Trimble County Units 5-6	29.00%	32	12	—
Trimble County Units 7-10	37.00%	78	27	—
Cane Run Unit 7	22.00%	119	13	—
E.W. Brown Solar Unit	39.00%	10	2	—
Solar Share	44.00%	1	—	—
<b>December 31, 2018</b>				
E.W. Brown Units 6-7	38.00%	\$ 41	\$ 20	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	51	17	—
Trimble County Unit 1	75.00%	427	77	—
Trimble County Unit 2	14.25%	226	39	152
Trimble County Units 5-6	29.00%	32	11	—
Trimble County Units 7-10	37.00%	77	24	—
Cane Run Unit 7	22.00%	119	9	—
E.W. Brown Solar Unit	39.00%	10	1	—
<b>KU</b>				
<b>December 31, 2019</b>				
E.W. Brown Units 6-7	62.00%	\$ 75	\$ 32	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	46	14	—
Trimble County Unit 2	60.75%	938	160	65
Trimble County Units 5-6	71.00%	76	29	—
Trimble County Units 7-10	63.00%	128	46	—
Cane Run Unit 7	78.00%	429	49	1
E.W. Brown Solar Unit	61.00%	16	2	—
Solar Share	56.00%	2	—	—
<b>December 31, 2018</b>				
E.W. Brown Units 6-7	62.00%	\$ 66	\$ 31	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	46	15	—
Trimble County Unit 2	60.75%	837	160	141
Trimble County Units 5-6	71.00%	76	25	—
Trimble County Units 7-10	63.00%	129	41	—
Cane Run Unit 7	78.00%	428	36	—
E.W. Brown Solar Unit	61.00%	16	2	—

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.



### 13. Commitments and Contingencies

#### Energy Purchase Commitments (PPL, LKE, LG&E and KU)

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's retail natural gas supply operations. These contracts include the following commitments:

Contract Type	Maximum Maturity Date
Natural Gas Fuel	2022
Natural Gas Retail Supply	2021
Coal	2024
Coal Transportation and Fleeting Services	2027
Natural Gas Transportation	2026

LG&E and KU have a power purchase agreement with OVEC expiring in June 2040. See footnote (f) to the table in "Guarantees and Other Assurances" below for information on the OVEC power purchase contract, including recent developments in credit or debt conditions relating to OVEC. Future obligations for power purchases from OVEC are demand payments, comprised of debt-service payments and contractually-required reimbursements of plant operating, maintenance and other expenses, and are projected as follows:

	LG&E	KU	Total
2020	\$ 21	\$ 10	\$ 31
2021	21	10	31
2022	21	10	31
2023	21	10	31
2024	22	9	31
Thereafter	276	123	399
Total	<u>\$ 382</u>	<u>\$ 172</u>	<u>\$ 554</u>

LG&E and KU had total energy purchases under the OVEC power purchase agreement for the years ended December 31 as follows:

	2019	2018	2017
LG&E	\$ 15	\$ 14	\$ 14
KU	7	6	6
Total	<u>\$ 22</u>	<u>\$ 20</u>	<u>\$ 20</u>

#### 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.

#### Talen Litigation (PPL)

##### Background

In September 2013, one of PPL's former subsidiaries, PPL Montana entered into an agreement to sell its hydroelectric generating facilities. In June 2014, PPL and PPL Energy Supply, the parent company of PPL Montana, entered into various definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and ultimately combine it with Riverstone's competitive power generation businesses to form a stand-alone company named Talen Energy. In November 2014, after executing the spinoff agreements but prior to the closing of the spinoff transaction, PPL Montana closed the sale of its hydroelectric generating facilities. Subsequently, on June 1, 2015, the spinoff of PPL Energy Supply was completed. Following the spinoff transaction, PPL had no continuing ownership interest in or control of PPL Energy Supply. In connection with the spinoff transaction, PPL Montana became Talen Montana, LLC (Talen Montana), a subsidiary of Talen Energy. Talen Energy



Marketing also became a subsidiary of Talen Energy as a result of the June 2015 spinoff of PPL Energy Supply. Talen Energy has owned and operated both Talen Montana and Talen Energy Marketing since the spinoff. At the time of the spinoff, affiliates of Riverstone acquired a 35% ownership interest in Talen Energy. Riverstone subsequently acquired the remaining interests in Talen Energy in a take private transaction in December 2016.

*Talen Montana, LLC v. PPL Corporation et al.*

On October 29, 2018, Talen Montana filed a complaint against PPL and certain of its affiliates and current and former officers and directors in the First Judicial District of the State of Montana, Lewis & Clark County (Talen Direct Action). Talen Montana alleges that in November 2014, PPL and certain officers and directors improperly distributed to PPL's subsidiaries \$733 million of the proceeds from the sale of Talen Montana's (then PPL Montana's) hydroelectric generating facilities, rendering PPL Montana insolvent. The complaint includes claims for, among other things, breach of fiduciary duty; aiding and abetting breach of fiduciary duty; breach of an LLC agreement; breach of the implied duty of good faith and fair dealing; tortious interference; negligent misrepresentation; and constructive fraud. Talen Montana is seeking unspecified damages, including punitive damages, and other relief. In December 2018, PPL moved to dismiss the Talen Direct Action for lack of jurisdiction and, in the alternative, to dismiss because Delaware is the appropriate forum to decide this case. In January 2019, Talen Montana dismissed without prejudice all current and former PPL Corporation directors from the case. The parties engaged in limited jurisdictional discovery, and the Court heard oral argument regarding the PPL parties' motion to dismiss on August 22, 2019. On December 4, 2019, the Court granted PPL's motion to dismiss and on December 26, 2019, a judgment dismissing all claims against all defendants with prejudice was signed by the Court.

*Talen Montana Retirement Plan and Talen Energy Marketing, LLC, Individually and on Behalf of All Others Similarly Situated v. PPL Corporation et al.*

Also on October 29, 2018, Talen Montana Retirement Plan and Talen Energy Marketing filed a putative class action complaint on behalf of current and contingent creditors of Talen Montana who allegedly suffered harm or allegedly will suffer reasonably foreseeable harm as a result of the November 2014 distribution. The action was filed in the Sixteenth Judicial District of the State of Montana, Rosebud County, against PPL and certain of its affiliates and current and former officers and directors (Talen Putative Class Action). The plaintiffs assert claims for, among other things, fraudulent transfer, both actual and constructive; recovery against subsequent transferees; civil conspiracy; aiding and abetting tortious conduct; and unjust enrichment. They are seeking avoidance of the purportedly fraudulent transfer, unspecified damages, including punitive damages, the imposition of a constructive trust, and other relief. In December 2018, PPL removed the Talen Putative Class Action from the Sixteenth Judicial District of the State of Montana to the United States District Court for the District of Montana, Billings Division (MT Federal Court). In January 2019, the plaintiffs moved to remand the Talen Putative Class Action back to state court, and dismissed without prejudice all current and former PPL Corporation directors from the case. In September 2019, the MT Federal Court granted plaintiffs' motion to remand the case back to state court, and the PPL defendants promptly petitioned the Ninth Circuit Court of Appeals to grant an appeal of the remand decision. On November 21, 2019, the Ninth Circuit Court of Appeals denied that request and on December 30, 2019, Talen Montana Retirement Plan filed a Second Amended Complaint in the Sixteenth Judicial District of the State of Montana, Rosebud County, which removed Talen Energy Marketing, LLC as a plaintiff. On January 31, 2020, PPL defendants filed a motion to dismiss the Second Amended Complaint.

*PPL Corporation et al. vs. Riverstone Holdings LLC, Talen Energy Corporation et al.*

On November 30, 2018, PPL, certain PPL affiliates, and certain current and former officers and directors (PPL plaintiffs) filed a complaint in the Court of Chancery of the State of Delaware seeking various forms of relief against Riverstone, Talen Energy and certain of their affiliates (Delaware Action). In the complaint, the PPL plaintiffs ask the Delaware Court of Chancery for declaratory and injunctive relief. This includes a declaratory judgment that, under the separation agreement governing the spinoff of PPL Energy Supply, all related claims that arise must be heard in Delaware; that the statute of limitations in Delaware and the spinoff agreement bar these claims at this point; that PPL is not liable for the claims in either the Talen Direct Action or the Talen Putative Class Action as PPL Montana was solvent at all relevant times; and that the separation agreement requires that Talen Energy indemnify PPL for all losses arising from the debts of Talen Montana, among other things. PPL's complaint also seeks damages against Riverstone for interfering with the separation agreement and against Riverstone affiliates for breach of the implied covenant of good faith and fair dealing. The complaint was subsequently amended on January 11, 2019 and March 20, 2019, including to add claims related to indemnification with respect to the Talen Direct Action and the Talen Putative Class Action (together, the Montana Actions), request a declaration that the Montana Actions are time-barred under the spinoff agreements, and allege additional facts to support the tortious interference claim. In April 2019, the defendants filed motions to dismiss the amended complaint. In July 2019, the Court heard oral arguments from the parties regarding the motions to dismiss. On October 23, 2019, the Delaware Court of Chancery returned its opinion on the defendants' motions to dismiss sustaining all of the PPL plaintiffs' claims except for the claim for breach of implied covenant of good faith

and fair dealing. Discovery is underway, however, on January 30, 2020, the defendants filed new motions to dismiss five of the remaining eight claims in the amended complaint; the PPL plaintiffs are preparing their response. A tentative trial date has been scheduled for June 2021.

With respect to each of the Talen-related matters described above, PPL believes that the 2014 distribution of proceeds was made in compliance with all applicable laws and that PPL Montana was solvent at all relevant times. Additionally, the agreements entered into in connection with the spinoff, which PPL and affiliates of Talen Energy and Riverstone negotiated and executed prior to the 2014 distribution, directly address the treatment of the proceeds from the sale of PPL Montana's hydroelectric generating facilities; in those agreements, Talen Energy and Riverstone definitively agreed that PPL was entitled to retain the proceeds.

PPL believes that it has meritorious defenses to the claims made in the Talen Putative Class Action and intends to continue to vigorously defend against this action. The Talen Putative Class Action and the Delaware Action are both in early stages of litigation; at this time, PPL cannot predict the outcome of these matters or estimate the range of possible losses, if any, that PPL might incur as a result of the claims, although they could be material.

*(PPL, LKE and LG&E)*

#### Cane Run Environmental Claims

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 (U.S. District Court) alleging violations of the Clean Air Act, RCRA, and common law claims of nuisance, trespass and negligence. In July 2014, the U.S. District Court dismissed the RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In February 2017, the U.S. District Court dismissed PPL as a defendant and dismissed the final federal claim against LG&E, and in April 2017, issued an Order declining to exercise supplemental jurisdiction on the state law claims dismissing the case in its entirety. In June 2017, the plaintiffs filed a class action complaint in Jefferson County, Kentucky Circuit Court, against LG&E alleging 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. On January 8, 2020, the Jefferson Circuit Court issued an order denying the plaintiffs' request for class certification. On January 14, 2020, the plaintiffs filed a notice of appeal in the Kentucky Court of Appeals. PPL, LKE and LG&E cannot predict the outcome of this matter and an estimate or range of possible losses cannot be determined.

*(PPL, LKE and KU)*

#### E.W. Brown Environmental Claims

In July 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 (U.S. District Court) 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 sought injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act and RCRA, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also sought assessment of civil penalties and an award of litigation costs and attorney fees. In December 2017, the U.S. District Court issued an Order dismissing the Clean Water Act and RCRA complaints against KU in their entirety. In January 2018, the plaintiffs appealed the dismissal Order to the U.S. Court of Appeals for the Sixth Circuit. In September 2018, the U.S. Court of Appeals for the Sixth Circuit issued its ruling affirming the lower court's decision to dismiss the Clean Water Act claims but reversing its dismissal of the RCRA claims against KU and remanding the latter to the U.S. District Court. In October 2018, KU filed a petition for rehearing to the U.S. Court of Appeals for the Sixth Circuit regarding the RCRA claims. In November 2018, the U.S. Court of Appeals for the Sixth Circuit denied KU's petition for rehearing regarding the RCRA claims. In January 2019, KU filed an answer to plaintiffs' complaint in the U.S. District Court. A trial has been scheduled to begin on October 5, 2020. PPL, LKE and KU cannot predict the outcome of these matters and an estimate or range of possible losses cannot be determined.

KU is undertaking extensive remedial measures at the E.W. Brown plant including closure of the former ash pond, implementation of a groundwater remedial action plan and performance of a corrective action plan including aquatic study of adjacent surface waters and risk assessment. The aquatic study and risk assessment are being undertaken pursuant to a 2017

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agreed Order with the Kentucky Energy and Environment Cabinet (KEEC). KU conducted sampling of Herrington Lake in 2017 and 2018. In June 2019, KU submitted to the KEEC the required aquatic study and risk assessment, conducted by an independent third-party consultant, finding that discharges from the E.W. Brown plant have not had any significant impact on Herrington Lake and that the water in the lake is safe for recreational use and meets safe drinking water standards. However, until the KEEC assesses the study and issues any regulatory determinations, PPL, LKE and KU are unable to determine whether additional remedial measures will be required at the E.W. Brown plant.

## Air

### *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. The parties have entered into a tolling agreement with respect to this matter through July 31, 2020. The parties are conducting initial negotiations regarding potential settlement of the matter. 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)*

### *ELGs*

In 2015, the EPA finalized ELGs for wastewater discharge permits for new and existing steam electricity generating facilities. These guidelines require deployment of additional control technologies providing physical, chemical and biological treatment and mandate operational changes including "no discharge" requirements for certain wastewaters. The implementation date for individual generating stations was to be determined by the states on a case-by-case basis according to criteria provided by the EPA. Legal challenges to the final rule were 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 issued a proposed rule to postpone the compliance date for certain requirements. 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 are expected to be significant. Certain costs are included in the Registrants' capital plans and are subject to rate recovery.

### *CCRs*

In 2015, the EPA issued a final rule governing management of CCRs which include fly ash, bottom ash and sulfur dioxide scrubber wastes. The CCR Rule imposes extensive new requirements for certain CCR impoundments and landfills, including public notifications, location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements, and specifies restrictions relating to the beneficial use of CCRs. Legal challenges to the final rule are pending before the D.C. Circuit Court of Appeals. In July 2018, the EPA issued a final rule extending the deadline for closure of certain impoundments and adopting other substantive changes. In August 2018, the D.C. Circuit Court of Appeals vacated and remanded portions of the CCR Rule. In December 2019, the EPA addressed the deficiencies identified by the court and proposed amendments to change the closure deadline to August 31, 2020, but allow certain extensions. EPA has announced that additional amendments to the rule are planned. PPL, LKE, LG&E and KU are unable to predict the outcome of the ongoing litigation and rulemaking or potential impacts on current LG&E and KU compliance plans. The Registrants are currently finalizing closure plans and schedules.

In January 2017, Kentucky issued a new state rule relating to CCR management, effective May 2017, aimed at reflecting the requirements of the federal CCR rule. As a result of a subsequent legal challenge, in January 2018, the Franklin County, Kentucky Circuit Court issued an opinion invalidating certain procedural elements of the rule. LG&E and KU presently operate their facilities under continuing permits authorized under the former program and do not currently anticipate material impacts

as a result of the judicial ruling. The Kentucky Energy and Environmental Cabinet has announced it intends to propose new state rules aimed at addressing procedural deficiencies identified by the court and providing the regulatory framework necessary for operation of the state program in lieu of the federal CCR Rule. Associated costs are expected to be subject to rate recovery.

LG&E and KU received KPSC approval for a compliance plan providing for the 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 the federal CCR rule, 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. Since 2017, LG&E and KU have commenced closure of many of the subject impoundments and have completed closure of some of their smaller impoundments. LG&E and KU expect to commence closure of the remaining impoundments no later than August 2020. LG&E and KU generally expect to complete impoundment closures within five years of commencement, although a longer period may be required to complete closure of some facilities. Associated costs are expected to be subject to rate recovery.

In connection with the final CCR rule, LG&E and KU recorded adjustments to existing AROs beginning in 2015, and continue to record adjustments as required. See Note 19 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.

*(All Registrants)*

#### Superfund and Other Remediation

PPL Electric, LG&E and KU are potentially responsible for investigating and remediating contamination under the federal Superfund program and similar state programs. Actions are under way at certain sites including former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated by, or currently owned by predecessors or affiliates of, PPL Electric, LG&E and KU. PPL Electric is potentially responsible for a share of clean-up costs at certain sites including the Columbia Gas Plant site and the Brodhead site. Cleanup 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.

As of December 31, 2019 and December 31, 2018, PPL Electric had a recorded liability of \$10 million and \$11 million representing its best estimate of the probable loss incurred to remediate the sites identified above. Depending on the outcome of investigations at identified 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. PPL Electric, LG&E and KU lack sufficient information about such additional sites to estimate any potential liability or range of reasonably possible losses, if any, related to these sites. Such costs, however, 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, individual states may establish stricter standards for water quality and soil cleanup, that 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 possible losses, if any, related to these matters.

#### **Regulatory Issues**

See Note 7 for information on regulatory matters related to utility rate regulation.

#### 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 an estimate or range of possible losses cannot be determined.

**Other**

**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.

*(All Registrants)*

The table below details guarantees provided as of December 31, 2019. "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," for which PPL has a total recorded liability of \$5 million at December 31, 2019 and \$6 million at December 31, 2018. 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.

	<b>Exposure at December 31, 2019</b>	<b>Expiration Date</b>
<b><u>PPL</u></b>		
Indemnifications related to the WPD Midlands acquisition		(a)
WPD indemnifications for entities in liquidation and sales of assets	\$ 10	(b) 2021
WPD guarantee of pension and other obligations of unconsolidated entities	83	(c)
<b><u>PPL Electric</u></b>		
Guarantee of inventory value	26	(d) 2020
<b><u>LKE</u></b>		
Indemnification of lease termination and other divestitures	200	(e) 2021
<b><u>LG&amp;E and KU</u></b>		
LG&E and KU obligation 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 December 31, 2019, 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.

- (d) A third party logistics firm provides inventory procurement and fulfillment services. The logistics firm currently 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. In December 2019, PPL Electric declared its intent to terminate the firm's inventory procurement and fulfillment services effective March 2020. This guarantee has an estimated exposure of \$26 million, which PPL Electric will assume subsequent to the termination date. In accordance with the agreement termination terms, PPL Electric has an obligation to purchase any remaining inventory within 90 days from termination date.
- (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. 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.
- (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 \$110 million at December 31, 2019, consisting of LG&E's share of \$76 million and KU's share of \$34 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" above for additional information on the OVEC power purchase contract.

In March 2018, a sponsor with a 4.85% pro-rata share of OVEC obligations filed for bankruptcy under Chapter 11 and, in August 2018, received a rejection order for the OVEC power purchase contract in the bankruptcy proceeding. In October 2019, the bankruptcy court issued an order confirming the sponsor's proposed reorganization plan. OVEC and other entities are challenging the contract rejection, the bankruptcy plan confirmation and potential FERC approval of the plan in various forums, and, in December 2019, an appellate court remanded the contract rejection issue for further proceedings. The plan's effective date remains subject to certain conditions precedent, including FERC regulatory approval, and relevant aspects of the contract rejection and the plan subject to on-going appellate, bankruptcy and regulatory proceedings. OVEC and certain of its sponsors, 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, establishing or continuing debt reserve accounts or other changes involving OVEC's existing short and long-term debt. The ultimate outcome of these matters, including the sponsor bankruptcy and related appellate or regulatory proceedings, OVEC structural or financial steps relating thereto and any other potential impact on LG&E's and KU's obligations relating to OVEC 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.

#### 14. Related Party Transactions

##### Wholesale Sales and Purchases (LG&E and KU)

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail customers. When LG&E has excess generation capacity after serving its own retail customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E and vice versa. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost plus any split savings. Savings realized from such intercompany transactions are shared equally between both companies. The volume of energy each company has to sell to the other is dependent on its retail customers' needs and its available generation.

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

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric and LKE, their respective subsidiaries, including LG&E and KU, and each other with administrative, management and support services. For all services companies, the costs of directly assignable and attributable 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. PPL Services may also use a ratio of overall direct and indirect costs or a weighted average cost ratio. 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 years ended December 31, 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.

	2019	2018	2017
PPL Electric from PPL Services	\$ 59	\$ 59	\$ 182
LKE from PPL Services	28	26	20
PPL Electric from PPL EU Services	152	148	64
LG&E from LKS	160	151	169
KU from LKS	178	169	190

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 overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

### Intercompany Borrowings

#### *(PPL Electric)*

PPL Energy Funding maintains a \$650 million revolving line of credit with a PPL Electric subsidiary. No balance was outstanding at December 31, 2019 and 2018. The interest rates on borrowings are equal to one-month LIBOR plus a spread. Interest income is reflected in "Interest Income from Affiliate" on the Income Statements.

#### *(LKE)*

LKE maintains a \$375 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 December 31, 2019 and 2018, \$150 million and \$113 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rate on the outstanding borrowings at December 31, 2019 and 2018 were 3.20% and 3.85%. Interest expense on the revolving line of credit was not significant for 2019, 2018 or 2017.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. No balance was outstanding at December 31, 2019 and 2018. The interest rate on the loan based on the PPL affiliates credit rating is currently equal to one-month LIBOR plus a spread.

LKE maintains ten-year notes of \$400 million and \$250 million with a PPL affiliate with interest rates of 3.5% and 4%. At December 31, 2019 and 2018, the notes were reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on the \$400 million note was \$14 million for 2019, 2018 and 2017. Interest Expense on the \$250 million note was \$10 million for 2019 and \$7 million for 2018.

#### *(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. No balances were outstanding at December 31, 2019 and 2018.

#### *(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. No balances were outstanding at December 31, 2019 and 2018.

### VEBA Funds Receivable *(PPL Electric)*

In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA, to be used to pay medical claims of active bargaining unit employees. Based on PPL Electric's participation in PPL's Other Postretirement Benefit plan, PPL Electric was allocated a portion of the excess funds from PPL Services. These funds have been recorded as an intercompany receivable on



the Balance Sheets. The receivable balance decreases as PPL Electric pays incurred medical claims and is reimbursed by PPL Services. The intercompany receivable balance associated with these funds was \$32 million as of December 31, 2019, of which \$10 million was reflected in "Accounts receivable from affiliates" and \$22 million was reflected in "Other noncurrent assets" on the Balance Sheets.

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

See Note 1 for discussions regarding the intercompany tax sharing agreement (for PPL Electric, LKE, LG&E and KU) and intercompany allocations of stock-based compensation expense (for PPL Electric and LKE). For PPL Electric, LG&E and KU, see Note 11 for discussions regarding intercompany allocations associated with defined benefits.

**15. Other Income (Expense) - net**

(PPL)

The components of "Other Income (Expense) - net" for the years ended December 31, were:

	2019	2018	2017
Other Income			
Economic foreign currency exchange contracts (Note 17)	\$ (14)	\$ 150	\$ (261)
Defined benefit plans - non-service credits (Note 11)	316	257	167
Interest income	16	6	2
AFUDC - equity component	23	21	16
Miscellaneous	7	6	17
Total Other Income	<u>348</u>	<u>440</u>	<u>(59)</u>
Other Expense			
Charitable contributions	17	24	8
Miscellaneous	22	20	21
Total Other Expense	<u>39</u>	<u>44</u>	<u>29</u>
Other Income (Expense) - net	<u>\$ 309</u>	<u>\$ 396</u>	<u>\$ (88)</u>

(PPL Electric)

The components of "Other Income (Expense) - net" for the years ended December 31, were:

	2019	2018	2017
Other Income			
Defined benefit plans - non-service credits (Note 11)	\$ 4	\$ 5	\$ 1
Interest income	2	2	1
AFUDC - equity component	23	20	15
Total Other Income	<u>29</u>	<u>27</u>	<u>17</u>
Other Expense			
Charitable contributions	3	3	2
Miscellaneous	1	1	3
Total Other Expense	<u>4</u>	<u>4</u>	<u>5</u>
Other Income (Expense) - net	<u>\$ 25</u>	<u>\$ 23</u>	<u>\$ 12</u>

**16. 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. See Note 1 for information on the levels in the fair value hierarchy.

**Recurring Fair Value Measurements**

The assets and liabilities measured at fair value were:

	December 31, 2019				December 31, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>PPL</b>								
Assets								
Cash and cash equivalents	\$ 815	\$ 815	\$ —	\$ —	\$ 621	\$ 621	\$ —	\$ —
Restricted cash and cash equivalents (a)	21	21	—	—	22	22	—	—
Special use funds (a):								
Money market fund	—	—	—	—	59	59	—	—
Commingled debt fund measured at NAV (b)	29	—	—	—	—	—	—	—
Commingled equity fund measured at NAV (b)	27	—	—	—	—	—	—	—
Total special use funds	56	—	—	—	59	59	—	—
Price risk management assets (c):								
Foreign currency contracts	142	—	142	—	202	—	202	—
Cross-currency swaps	154	—	154	—	135	—	135	—
Total price risk management assets	296	—	296	—	337	—	337	—
Total assets	\$ 1,188	\$ 836	\$ 296	\$ —	\$ 1,039	\$ 702	\$ 337	\$ —
Liabilities								
Price risk management liabilities (c):								
Interest rate swaps	\$ 21	\$ —	\$ 21	\$ —	\$ 20	\$ —	\$ 20	\$ —
Foreign currency contracts	5	—	5	—	2	—	2	—
Total price risk management liabilities	\$ 26	\$ —	\$ 26	\$ —	\$ 22	\$ —	\$ 22	\$ —
<b>PPL Electric</b>								
Assets								
Cash and cash equivalents	\$ 262	\$ 262	\$ —	\$ —	\$ 267	\$ 267	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 264	\$ 264	\$ —	\$ —	\$ 269	\$ 269	\$ —	\$ —
<b>LKE</b>								
Assets								
Cash and cash equivalents	\$ 27	\$ 27	\$ —	\$ —	\$ 24	\$ 24	\$ —	\$ —
Total assets	\$ 27	\$ 27	\$ —	\$ —	\$ 24	\$ 24	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 21	\$ —	\$ 21	\$ —	\$ 20	\$ —	\$ 20	\$ —
Total price risk management liabilities	\$ 21	\$ —	\$ 21	\$ —	\$ 20	\$ —	\$ 20	\$ —
<b>LG&amp;E</b>								
Assets								
Cash and cash equivalents	\$ 15	\$ 15	\$ —	\$ —	\$ 10	\$ 10	\$ —	\$ —
Total assets	\$ 15	\$ 15	\$ —	\$ —	\$ 10	\$ 10	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 21	\$ —	\$ 21	\$ —	\$ 20	\$ —	\$ 20	\$ —
Total price risk management liabilities	\$ 21	\$ —	\$ 21	\$ —	\$ 20	\$ —	\$ 20	\$ —

	December 31, 2019				December 31, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>KU</b>								
Assets								
Cash and cash equivalents	\$ 12	\$ 12	\$ —	\$ —	\$ 14	\$ 14	\$ —	\$ —
Total assets	\$ 12	\$ 12	\$ —	\$ —	\$ 14	\$ 14	\$ —	\$ —

- (a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
- (b) In accordance with accounting guidance, certain investments that are measured at fair value using net asset value per share (NAV), or its equivalent, have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
- (c) 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.

### Special Use Funds

#### (PPL)

The special use funds are investments restricted for paying active union employee medical costs. In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA to be used to pay medical claims of active bargaining unit employees. In 2019, the funds are invested primarily in commingled debt and equity funds measured at NAV. The funds are classified as investments in equity securities. Changes in the fair value of the funds are recorded to the Statement of Income. In 2018, the funds were invested in money market funds.

#### 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 exchange 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. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	December 31, 2019		December 31, 2018	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 21,893	\$ 25,481	\$ 20,599	\$ 22,939
PPL Electric	3,985	4,589	3,694	3,901
LKE	6,002	6,766	5,502	5,768
LG&E	2,005	2,278	1,809	1,874
KU	2,623	3,003	2,321	2,451

- (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.

## 17. Derivative Instruments and Hedging Activities

### Risk Management Objectives

*(All Registrants)*

PPL 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 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 required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is insignificant and mitigated through its PUC-approved cost recovery mechanism and full-requirement supply agreements to serve its PLR customers which transfer the risk to energy suppliers.
- LG&E's and KU's rates include certain mechanisms for fuel, fuel-related expenses and energy purchases. 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*

Volumetric risk is the risk related to the changes in volume of retail sales due to weather, economic conditions or other factors. 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 regulations, recovery of such exposure occurs on a two year lag. See Note 1 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.

#### *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" transactions with counterparties, 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, LG&E and KU)*

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 \$14 million and \$40 million obligation to return cash collateral under master netting arrangements at December 31, 2019 and 2018.

PPL had no obligation to post cash collateral under master netting arrangements at December 31, 2019 and 2018.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at December 31, 2019 and 2018.

LKE, LG&E and KU had no cash collateral posted under master netting arrangements at December 31, 2019 and 2018.

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 portfolios, adjust the duration of the debt portfolios 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



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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. PPL had no such contracts at December 31, 2019.

At December 31, 2019, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$702 million that range in maturity from 2021 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

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 2019 and 2018, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges and had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges in 2017.

At December 31, 2019, 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 December 31, 2019, 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. There were no contracts outstanding at December 31, 2019.

At December 31, 2019 and 2018, PPL had \$32 million and \$31 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 December 31, 2019, the total exposure hedged by PPL was approximately £859 million (approximately \$1.3 billion based on contracted rates). These contracts have termination dates ranging from January 2020 through December 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 7 for amounts recorded in regulatory assets and regulatory liabilities at December 31, 2019 and 2018.

See Note 1 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:

	December 31, 2019				December 31, 2018			
	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)	\$ —	\$ —	\$ —	\$ 4	\$ —	\$ —	\$ —	\$ 4
Cross-currency swaps (b)	5	—	—	—	6	—	—	—
Foreign currency contracts	—	—	142	5	—	—	103	2
Total current	5	—	142	9	6	—	103	6
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	17	—	—	—	16
Cross-currency swaps (b)	149	—	—	—	129	—	—	—
Foreign currency contracts	—	—	—	—	—	—	99	—
Total noncurrent	149	—	—	17	129	—	99	16
Total derivatives	\$ 154	\$ —	\$ 142	\$ 26	\$ 135	\$ —	\$ 202	\$ 22

(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:

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income
<b>2019</b>			
Cash Flow Hedges:			
Interest rate swaps	\$ (30)	Interest Expense	\$ (9)
Cross-currency swaps	17	Other Income (Expense) - net	(9)
Total	<u>\$ (13)</u>		<u>\$ (18)</u>
Net Investment Hedges:			
Foreign currency contracts	<u>\$ 2</u>		
<b>2018</b>			
Cash Flow Hedges:			
Interest rate swaps	\$ 4	Interest Expense	\$ (8)
Cross-currency swaps	41	Other Income (Expense) - net	42
		Interest Expense	1
Total	<u>\$ 45</u>		<u>\$ 35</u>
Net Investment Hedges:			
Foreign currency contracts	<u>\$ 11</u>		
<b>2017</b>			
Cash Flow Hedges:			
Interest rate swaps	\$ —	Interest Expense	\$ (9)
Cross-currency swaps	(98)	Other Income (Expense) - net	(82)
Total	<u>\$ (98)</u>		<u>\$ (91)</u>
Net Investment Hedges:			
Foreign currency contracts	<u>\$ 1</u>		
<b>Derivatives Not Designated as Hedging Instruments</b>	<b>Location of Gain (Loss) Recognized in Income on Derivative</b>		
Foreign currency contracts	Other Income (Expense) - net	2019	2018
Interest rate swaps	Interest Expense	\$ (14)	\$ 150
	Total	(5)	(5)
		<u>\$ (19)</u>	<u>\$ 145</u>
		\$ (19)	\$ (267)
<b>Derivatives Not Designated as Hedging Instruments</b>	<b>Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets</b>		
Interest rate swaps	Regulatory assets - noncurrent	2019	2018
		\$ (1)	\$ 6
			\$ 5

The following table presents the effect of cash flow hedge activity on the Statement of Income for the year ended December 31, 2019:

	Location and Amount of Gain (Loss) Recognized in Income on Hedging Relationships	
	Interest Expense	Other Income (Expense) - net
Total income and expense line items presented in the income statement in which the effect of cash flow hedges are recorded	\$ 994	\$ 309
The effects of cash flow hedges:		
Gain (Loss) on cash flow hedging relationships:		
Interest rate swaps:		
Amount of gain (loss) reclassified from AOCI to income	(9)	—
Cross-currency swaps:		
Hedged items	—	9
Amount of gain (loss) reclassified from AOCI to income	—	(9)

*(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:

	December 31, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	\$ —	\$ 4	\$ —	\$ 4
Total current	—	4	—	4
Noncurrent:				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	—	17	—	16
Total noncurrent	—	17	—	16
Total derivatives	\$ —	\$ 21	\$ —	\$ 20

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets:

Derivative Instruments	Location of Gain (Loss)	2019	2018	2017
Interest rate swaps	Interest Expense	\$ (5)	\$ (5)	\$ (6)

Derivative Instruments	Location of Gain (Loss)	2019	2018	2017
Interest rate swaps	Regulatory assets - noncurrent	\$ (1)	\$ 6	\$ 5

*(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	
<b>December 31, 2019</b>								
<b>Treasury Derivatives</b>								
PPL	\$ 296	\$ 5	\$ 14	\$ 277	\$ 26	\$ 5	\$ —	\$ 21
LKE	—	—	—	—	21	—	—	21
LG&E	—	—	—	—	21	—	—	21



	Assets				Liabilities			
	Gross	Eligible for Offset		Net	Gross	Eligible for Offset		Net
		Derivative Instruments	Cash Collateral Received			Derivative Instruments	Cash Collateral Pledged	
<b>December 31, 2018</b>								
<b>Treasury Derivatives</b>								
PPL	\$ 337	\$ 2	\$ 40	\$ 295	\$ 22	\$ 2	\$ —	\$ 20
LKE	—	—	—	—	20	—	—	20
LG&E	—	—	—	—	20	—	—	20

### 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 December 31, 2019, 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:

	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 3	\$ 3	\$ 3
Aggregate fair value of collateral posted on these derivative instruments	—	—	—
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	3	3	3

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

### 18. Goodwill and Other Intangible Assets

#### Goodwill

*(PPL)*

The changes in the carrying amount of goodwill by segment were:

	U.K. Regulated		Kentucky Regulated		Corporate and Other		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Balance at beginning of period (a)	\$ 2,447	\$ 2,596	\$ 662	\$ 662	\$ 53	\$ —	\$ 3,162	\$ 3,258
Effect of foreign currency exchange rates	34	(149)	—	—	—	—	34	(149)
Goodwill recognized during the period (b)	—	—	—	—	—	53	—	53
Other	2	—	—	—	—	—	2	—
Balance at end of period (a)	<u>\$ 2,483</u>	<u>\$ 2,447</u>	<u>\$ 662</u>	<u>\$ 662</u>	<u>\$ 53</u>	<u>\$ 53</u>	<u>\$ 3,198</u>	<u>\$ 3,162</u>

- (a) There were no accumulated impairment losses related to goodwill.  
(b) Recognized as a result of the acquisition of Safari Energy.

## Other Intangible Assets

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2019		December 31, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Subject to amortization:</b>				
Contracts (a)	\$ 136	\$ 84	\$ 137	\$ 75
Land rights and easements	440	135	418	128
Licenses and other	22	3	21	1
<b>Total subject to amortization</b>	<u>598</u>	<u>222</u>	<u>576</u>	<u>204</u>
<b>Not subject to amortization due to indefinite life:</b>				
Land rights and easements	361	—	339	—
Other	6	—	6	—
<b>Total not subject to amortization due to indefinite life</b>	<u>367</u>	<u>—</u>	<u>345</u>	<u>—</u>
<b>Total</b>	<u>\$ 965</u>	<u>\$ 222</u>	<u>\$ 921</u>	<u>\$ 204</u>

- (a) Gross carrying amount in 2019 and 2018 includes the fair value at the acquisition date of the OVEC power purchase contract with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2019	2018	2017
Intangible assets with no regulatory offset	\$ 9	\$ 7	\$ 6
Intangible assets with regulatory offset	9	8	9
<b>Total</b>	<u>\$ 18</u>	<u>\$ 15</u>	<u>\$ 15</u>

Amortization expense for each of the next five years is estimated to be:

	2020	2021	2022	2023	2024
Intangible assets with no regulatory offset	\$ 9	\$ 9	\$ 9	\$ 9	\$ 9
Intangible assets with regulatory offset	8	8	8	8	8
<b>Total</b>	<u>\$ 17</u>	<u>\$ 17</u>	<u>\$ 17</u>	<u>\$ 17</u>	<u>\$ 17</u>

(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2019		December 31, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Subject to amortization:</b>				
Land rights and easements	\$ 370	\$ 125	\$ 363	\$ 121
Licenses and other	3	1	2	1
<b>Total subject to amortization</b>	<b>373</b>	<b>126</b>	<b>365</b>	<b>122</b>
<b>Not subject to amortization due to indefinite life:</b>				
Land rights and easements	17	—	17	—
<b>Total</b>	<b>\$ 390</b>	<b>\$ 126</b>	<b>\$ 382</b>	<b>\$ 122</b>

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was insignificant in 2019, 2018 and 2017 and is expected to be insignificant in future years.

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2019		December 31, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Subject to amortization:</b>				
Land rights and easements	\$ 22	\$ 4	\$ 21	\$ 3
OVEC power purchase agreement (a)	125	74	126	66
<b>Total subject to amortization</b>	<b>\$ 147</b>	<b>\$ 78</b>	<b>\$ 147</b>	<b>\$ 69</b>

(a) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 7 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2019	2018	2017
Intangible assets with regulatory offset	\$ 9	\$ 8	\$ 9

Amortization expense for each of the next five years is estimated to be:

	2020	2021	2022	2023	2024
Intangible assets with regulatory offset	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8



(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2019		December 31, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Subject to amortization:</b>				
Land rights and easements	\$ 7	\$ 1	\$ 7	\$ 1
OVEC power purchase agreement (a)	86	51	87	46
<b>Total subject to amortization</b>	<b>\$ 93</b>	<b>\$ 52</b>	<b>\$ 94</b>	<b>\$ 47</b>

(a) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 7 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2019	2018	2017
Intangible assets with regulatory offset	\$ 6	\$ 6	\$ 6

Amortization expense for each of the next five years is estimated to be:

	2020	2021	2022	2023	2024
Intangible assets with regulatory offset	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2019		December 31, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Subject to amortization:</b>				
Land rights and easements	\$ 15	\$ 3	\$ 14	\$ 2
OVEC power purchase agreement (a)	39	23	39	20
<b>Total subject to amortization</b>	<b>\$ 54</b>	<b>\$ 26</b>	<b>\$ 53</b>	<b>\$ 22</b>

(a) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 7 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2019	2018	2017
Intangible assets with regulatory offset	\$ 3	\$ 2	\$ 3

Amortization expense for each of the next five years is estimated to be:

	2020	2021	2022	2023	2024
Intangible assets with regulatory offset	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2



## 19. Asset Retirement Obligations

(PPL)

WPD has recorded conditional AROs required by U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables.

(PPL and PPL Electric)

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

(PPL, LKE, LG&E and KU)

PPL's LKE's, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 13 for information on the CCR rule. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements, which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. 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.

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

	PPL		LKE		LG&E		KU	
	2019	2018	2019	2018	2019	2018	2019	2018
ARO at beginning of period	\$ 347	\$ 397	\$ 296	\$ 356	\$ 103	\$ 121	\$ 193	\$ 235
Accretion	19	20	17	18	6	6	11	12
Obligations incurred	—	8	—	8	—	—	—	8
Changes in estimated timing or cost	12	(3)	(2)	(14)	(2)	(2)	—	(12)
Effect of foreign currency exchange rates	—	(3)	—	—	—	—	—	—
Obligations settled	(96)	(72)	(96)	(72)	(34)	(22)	(62)	(50)
ARO at end of period	<u>\$ 282</u>	<u>\$ 347</u>	<u>\$ 215</u>	<u>\$ 296</u>	<u>\$ 73</u>	<u>\$ 103</u>	<u>\$ 142</u>	<u>\$ 193</u>

## 20. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the years ended December 31 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)	
<b>PPL</b>						
<b>December 31, 2016</b>	\$ (1,627)	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
Amounts arising during the year	538	(79)	—	—	(308)	151
Reclassifications from AOCI	—	73	1	1	130	205
Net OCI during the year	538	(6)	1	1	(178)	356
<b>December 31, 2017</b>	<u>\$ (1,089)</u>	<u>\$ (13)</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (2,313)</u>	<u>\$ (3,422)</u>

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
Amounts arising during the year	(444)	36	—	(11)	(187)	(606)
Reclassifications from AOCI	—	(29)	—	2	142	115
Net OCI during the year	(444)	7	—	(9)	(45)	(491)
Adoption of reclassification of certain tax effects from AOCI guidance cumulative effect adjustment (Note 1)	—	(1)	—	(3)	(47)	(51)
<b>December 31, 2018</b>	<b>\$ (1,533)</b>	<b>\$ (7)</b>	<b>\$ —</b>	<b>\$ (19)</b>	<b>\$ (2,405)</b>	<b>\$ (3,964)</b>
Amounts arising during the year	108	(11)	—	(1)	(592)	(496)
Reclassifications from AOCI	—	13	—	2	87	102
Net OCI during the year	108	2	—	1	(505)	(394)
<b>December 31, 2019</b>	<b>\$ (1,425)</b>	<b>\$ (5)</b>	<b>\$ —</b>	<b>\$ (18)</b>	<b>\$ (2,910)</b>	<b>\$ (4,358)</b>
<b>LKE</b>						
<b>December 31, 2016</b>			<b>\$ (1)</b>	<b>\$ (8)</b>	<b>\$ (61)</b>	<b>\$ (70)</b>
Amounts arising during the year			—	(2)	(23)	(25)
Reclassifications from AOCI			1	1	5	7
Net OCI during the year			1	(1)	(18)	(18)
<b>December 31, 2017</b>			<b>\$ —</b>	<b>\$ (9)</b>	<b>\$ (79)</b>	<b>\$ (88)</b>
Amounts arising during the year			—	—	7	7
Reclassifications from AOCI			—	2	8	10
Net OCI during the year			—	2	15	17
Adoption of reclassification of certain tax effects from AOCI guidance cumulative effect adjustment (Note 1)			—	(2)	(16)	(18)
<b>December 31, 2018</b>			<b>\$ —</b>	<b>\$ (9)</b>	<b>\$ (80)</b>	<b>\$ (89)</b>
Amounts arising during the year			—	(1)	(6)	(7)
Reclassifications from AOCI			—	1	2	3
Net OCI during the year			—	—	(4)	(4)
<b>December 31, 2019</b>			<b>\$ —</b>	<b>\$ (9)</b>	<b>\$ (84)</b>	<b>\$ (93)</b>



The following table presents PPL's gains (losses) and related income taxes for reclassifications from AOCI for the years ended December 31, 2019, 2018 and 2017. LKE amounts are insignificant for the years ended December 31, 2019, 2018 and 2017. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 11 for additional information.

Details about AOCI	PPL			Affected Line Item on the Statements of Income
	2019	2018	2017	
Qualifying derivatives				
Interest rate swaps	\$ (9)	\$ (8)	\$ (9)	Interest Expense
Cross-currency swaps	(9)	42	(82)	Other Income (Expense) - net
	—	1	—	Interest Expense
Total Pre-tax	(18)	35	(91)	
Income Taxes	5	(6)	18	
Total After-tax	(13)	29	(73)	
Equity Investees' AOCI	—	—	(1)	Other Income (Expense) - net
Total Pre-tax	—	—	(1)	
Income Taxes	—	—	—	
Total After-tax	—	—	(1)	
Defined benefit plans				
Prior service costs	(3)	(2)	(2)	
Net actuarial loss	(109)	(178)	(167)	
Total Pre-tax	(112)	(180)	(169)	
Income Taxes	23	36	38	
Total After-tax	(89)	(144)	(131)	
Total reclassifications during the year	\$ (102)	\$ (115)	\$ (205)	

## 21. New Accounting Guidance Pending Adoption

(All Registrants)

### 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.

The Registrants adopted the guidance using a modified retrospective through a cumulative-effect adjustment to retained earnings on January 1, 2020. The adoption of this guidance did not have a significant impact on the Registrants.

### Accounting for Implementation Costs in a Cloud Computing Service Arrangement

In August 2018, the FASB issued accounting guidance that requires a customer in a cloud computing hosting arrangement that is a service contract to capitalize implementation costs consistent with internal-use software guidance for non-service arrangements. Prior guidance had not addressed these implementation costs. The guidance requires these capitalized implementation costs to be amortized over the term of the hosting arrangement to the statement of income line item where the service arrangement costs are recorded. The guidance also prescribes the financial statement classification of the capitalized implementation costs and cash flows associated with the arrangement. Additional quantitative and qualitative disclosures are also required.

The Registrants adopted this guidance prospectively effective January 1, 2020. The adoption of this guidance did not have a significant impact on the Registrants.

Simplifying the Test for Goodwill Impairment (PPL, LKE, LG&E and KU)

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.

The Registrants adopted this guidance on January 1, 2020. The adoption of this guidance did not have a significant impact on the Registrants.



**SCHEDULE I - LG&E and KU Energy LLC  
CONDENSED UNCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31,**

*(Millions of Dollars)*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Other Income (Expense) - net			
Equity in Earnings of Subsidiaries	\$ 477	\$ 470	\$ 397
Interest Income with Affiliate	28	25	14
Total	<u>505</u>	<u>495</u>	<u>411</u>
Interest Expense	30	29	30
Interest Expense with Affiliate	<u>32</u>	<u>28</u>	<u>20</u>
<b>Income Before Income Taxes</b>	<b>443</b>	438	361
Income Tax Expense (Benefit)	<u>(25)</u>	<u>(7)</u>	<u>45</u>
<b>Net Income</b>	<b>\$ 468</b>	<b>\$ 445</b>	<b>\$ 316</b>
<b>Total other comprehensive income (loss)</b>	<b>(4)</b>	17	(18)
<b>Comprehensive Income Attributable to Member</b>	<b>\$ 464</b>	<b>\$ 462</b>	<b>\$ 298</b>

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

**SCHEDULE I - LG&E and KU Energy LLC**  
**CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**  
*(Millions of Dollars)*

	2019	2018	2017
<b>Cash Flows from Operating Activities</b>			
Net cash provided by (used in) operating activities	\$ 368	\$ 346	\$ 401
<b>Cash Flows from Investing Activities</b>			
Capital contributions to affiliated subsidiaries	(93)	(128)	(30)
Net decrease (increase) in notes receivable from affiliates	(44)	(26)	(28)
Net cash provided by (used in) investing activities	(137)	(154)	(58)
<b>Cash Flows from Financing Activities</b>			
Net increase (decrease) in notes payable with affiliates	14	110	58
Contribution from member	63	—	—
Distribution to member	(308)	(302)	(402)
Net cash provided by (used in) financing activities	(231)	(192)	(344)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	—	—	(1)
Cash and Cash Equivalents at Beginning of Period	—	—	1
Cash and Cash Equivalents at End of Period	\$ —	\$ —	\$ —
<b>Supplemental disclosures of cash flow information:</b>			
Cash Dividends Received from Subsidiaries	\$ 411	\$ 402	\$ 418

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

**SCHEDULE I - LG&E and KU Energy LLC**  
**CONDENSED UNCONSOLIDATED BALANCE SHEETS AT DECEMBER 31,**

(Millions of Dollars)

	2019	2018
<b>Assets</b>		
<b>Current Assets</b>		
Accounts receivable from affiliates	\$ 3	\$ —
Income taxes receivable	3	—
Notes receivable from affiliates	1,105	1,061
Total Current Assets	1,111	1,061
<b>Investments</b>		
Affiliated companies at equity	5,577	5,422
<b>Other Noncurrent Assets</b>		
Deferred income taxes	314	299
<b>Total Assets</b>	<b>\$ 7,002</b>	<b>\$ 6,782</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Notes payable to affiliates	\$ 150	\$ 177
Long-term debt due within one year	475	—
Accounts payable to affiliates	489	487
Taxes	—	11
Other current liabilities	6	6
Total Current Liabilities	1,120	681
<b>Long-term Debt</b>		
Long-term debt	249	723
Notes payable to affiliates	691	650
Total Long-term Debt	940	1,373
<b>Deferred Credits and Other Noncurrent Liabilities</b>	—	5
<b>Equity</b>	<b>4,942</b>	<b>4,723</b>
<b>Total Liabilities and Equity</b>	<b>\$ 7,002</b>	<b>\$ 6,782</b>

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

**Schedule I - LG&E and KU Energy LLC  
Notes to Condensed Unconsolidated Financial Statements**

**1. Basis of Presentation**

LG&E and KU Energy LLC (LKE) is a holding company and conducts substantially all of its business operations through its subsidiaries. Substantially all of its consolidated assets are held by such subsidiaries. LKE uses the equity method to account for its investments in entities in which it has a controlling financial interest. LKE's cash flow and its ability to meet its obligations are largely dependent upon the earnings of these subsidiaries and the distribution or other payment of such earnings to it in the form of dividends or repayment of loans and advances from the subsidiaries. These condensed financial statements and related footnotes have been prepared in accordance with Reg. §210.12-04 of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of LKE.

LKE indirectly or directly owns all of the ownership interests of its significant subsidiaries. LKE relies primarily on dividends from its subsidiaries to fund LKE's distributions to its member and to meet its other cash requirements. See Note 8 to LKE's consolidated financial statements for discussions related to restricted net assets of its subsidiaries for the purposes of transferring funds to LKE in the form of distributions, loans or advances.

**2. Commitments and Contingencies**

See Note 13 to LKE's consolidated financial statements for commitments and contingencies of its subsidiaries.

Guarantees

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.

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.

**3. Long-Term Debt**

See Note 8 to LKE's consolidated financial statements for the terms of LKE's outstanding senior unsecured notes outstanding. Of the total outstanding, \$475 million matures in 2020 and \$250 million matures in 2021. These maturities are based on stated maturities. Also see Note 8 to LKE's consolidated financial statements for the terms of LKE's \$650 million in notes payable to a PPL affiliate. These notes range in maturity through 2028.



**QUARTERLY FINANCIAL AND DIVIDEND DATA (Unaudited)**

**PPL Corporation and Subsidiaries**

(Millions of Dollars, except per share data)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
<b>2019</b>				
Operating revenues	\$ 2,079	\$ 1,803	\$ 1,933	\$ 1,954
Operating income	781	640	726	693
Net income	466	441	475	364
Net income available to PPL common shareowners: (b)				
Basic EPS	0.65	0.61	0.66	0.49
Diluted EPS	0.64	0.60	0.65	0.48
<b>2018</b>				
Operating revenues	\$ 2,126	\$ 1,848	\$ 1,872	\$ 1,939
Operating income	851	658	686	657
Net income	452	515	445	415
Net income available to PPL common shareowners: (b)				
Basic EPS	0.65	0.74	0.63	0.57
Diluted EPS	0.65	0.73	0.62	0.57

(a) Quarterly results can vary depending on, among other things, weather. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

(b) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.

**QUARTERLY FINANCIAL DATA (Unaudited)**  
**PPL Electric Utilities Corporation and Subsidiaries**  
*(Millions of Dollars)*

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
<b>2019</b>				
Operating revenues	\$ 645	\$ 521	\$ 590	\$ 602
Operating income	198	161	193	193
Net income	121	94	118	124
<b>2018</b>				
Operating revenues	\$ 639	\$ 517	\$ 548	\$ 573
Operating income	228	133	178	155
Net income	148	75	111	96

(a) PPL Electric's business is seasonal in nature, with peak sales periods generally occurring in the winter and summer months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS  
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures.

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

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 December 31, 2019, 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 annual 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 officers and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

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

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' fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

**Management's Report on Internal Control over Financial Reporting**

**PPL Corporation**

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), our management concluded that our internal control over financial reporting was effective December 31, 2019. The effectiveness of our internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report contained on page 81.

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

Management of PPL's non-accelerated filer companies, PPL Electric, LKE, LG&E and KU, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). Each of the aforementioned companies' internal control over financial reporting is a process

designed to provide reasonable assurance to management and Board of Directors of these companies regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including the principal executive officers and principal financial officers of the companies listed above, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), management of these companies concluded that our internal control over financial reporting was effective as of December 31, 2019. This annual report does not include an attestation report of Deloitte & Touche LLP, the companies' independent registered public accounting firm regarding internal control over financial reporting for these non-accelerated filer companies. The effectiveness of internal control over financial reporting for the aforementioned companies was not subject to attestation by the companies' registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit these companies to provide only management's report in this annual report.

#### **ITEM 9B. OTHER INFORMATION**

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

None.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

##### **PPL Corporation**

Additional information for this item will be set forth in the sections entitled "Nominees for Directors" and "Board Committees - Board Committee Membership" in PPL's 2020 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2019, and which information is incorporated herein by reference. There have been no changes to the procedures by which shareowners may recommend nominees to PPL's board of directors since the filing with the SEC of PPL's 2019 Notice of Annual Meeting and Proxy Statement.

PPL has adopted a code of ethics entitled "Standards of Integrity" that applies to all directors, managers, trustees, officers (including the principal executive officers, principal financial officers and principal accounting officers (each, a "principal officer")), employees and agents of PPL and PPL's subsidiaries for which it has operating control (PPL Electric, LKE, LG&E and KU). The "Standards of Integrity" are posted on PPL's Internet website: [www.pplweb.com/Standards-of-Integrity](http://www.pplweb.com/Standards-of-Integrity). A description of any amendment to the "Standards of Integrity" (other than a technical, administrative or other non-substantive amendment) will be posted on PPL's Internet website within four business days following the date of the amendment. In addition, if a waiver constituting a material departure from a provision of the "Standards of Integrity" is granted to one of the principal officers, a description of the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver will be posted on PPL's Internet website within four business days following the date of the waiver.

PPL also has adopted its "Guidelines for Corporate Governance," which address, among other things, director qualification standards and director and board committee responsibilities. These guidelines, and the charters of each of the committees of PPL's board of directors, are posted on PPL's Internet website: [www.pplweb.com/Guidelines](http://www.pplweb.com/Guidelines) and [www.pplweb.com/board-committees](http://www.pplweb.com/board-committees).

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

Item 10 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.



**EXECUTIVE OFFICERS OF THE REGISTRANTS**

Officers of the Registrants are elected annually by their Boards of Directors to serve at the pleasure of the respective Boards. There are no family relationships among any of the executive officers, nor is there any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

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

Listed below are the executive officers at December 31, 2019.

**PPL Corporation**

Name	Age	Positions Held During the Past Five Years	Dates
William H. Spence	62	Chairman and Chief Executive Officer	July 2019 - present
		Chairman, President and Chief Executive Officer	April 2012 - June 2019
Joanne H. Raphael	60	Executive Vice President, General Counsel and Corporate Secretary	January 2019 - present
		Senior Vice President, General Counsel and Corporate Secretary	June 2015 - January 2019
		Senior Vice President and Chief External Affairs Officer-PPL Services	October 2012 - May 2015
Vincent Sorgi	48	President and Chief Operating Officer	July 2019 - present
		Executive Vice President and Chief Financial Officer	January 2019 - June 2019
		Senior Vice President and Chief Financial Officer	June 2014 - January 2019
Joseph P. Bergstein, Jr.	49	Senior Vice President and Chief Financial Officer	July 2019 - present
		Vice President-Investor Relations and Corporate Development & Planning	January 2018 - June 2019
		Vice President-Investor Relations and Treasurer	January 2016 - December 2017
		Vice President-Investor Relations and Financial Planning-PPL Services	February 2015 - December 2015
Gregory N. Dudkin (a)	62	Vice President-Investor Relations-PPL Services	April 2012 - February 2015
		President-PPL Electric	March 2012 - present
Paul W. Thompson (a)	62	Chairman of the Board, Chief Executive Officer and President-LKE	March 2018 - present
		President and Chief Operating Officer	January 2017 - March 2018
		Chief Operating Officer	February 2013 - December 2016
Philip Swift (a)	52	Chief Executive-WPD	November 2018 - present
		Operations Director	July 2013 - November 2018
Marlene C. Beers	48	Vice President and Controller	March 2019 - present
		Vice President-Finance and Regulatory Affairs and Controller-PPL Electric	August 2018 - February 2019
		Controller-PPL Electric	February 2016 - July 2018
Tadd J. Henninger	44	Vice President-Finance and Treasurer	July 2019 - present
		Vice President and Treasurer	January 2018 - July 2019
		Assistant Treasurer	December 2015 - December 2017
		Director-Corporate Finance	October 2013 - November 2015

(a) Designated an executive officer of PPL by virtue of their respective positions at a PPL subsidiary.

**ITEM 11: EXECUTIVE COMPENSATION****PPL Corporation**

Information for this item will be set forth in the sections entitled "Compensation of Directors," "The Board's Role in Risk Oversight" and "Executive Compensation" in PPL's 2020 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2019, and which information is incorporated herein by reference.

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

Item 11 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS****PPL Corporation**

Information for this item will be set forth in the section entitled "Stock Ownership" in PPL's 2020 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2019, and which information is incorporated herein by reference. In addition, provided below in tabular format is information as of December 31, 2019, with respect to compensation plans (including individual compensation arrangements) under which equity securities of PPL are authorized for issuance.

**Equity Compensation Plan Information**

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (3)	Weighted-average exercise price of outstanding options, warrants and rights (3)	Number of securities remaining available for future issuance under equity compensation plans (4)
Equity compensation plans approved by security holders (1)	56,185 – ICP 102,049 – SIP <u>1,172,709</u> – ICPKE 1,330,943 – Total	\$ 24.37 – ICP \$ 26.59 – SIP \$ 26.25 – ICPKE \$ 26.20 – Combined	1,541,819 – DDCP 10,590,858 – SIP <u>1,742,904</u> – ICPKE 13,875,581 – Total
Equity compensation plans not approved by security holders (2)			

- (1) Includes (a) the ICP, under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards were awarded to executive officers of PPL and no awards remain for issuance under this plan; (b) the ICPKE, under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to non-executive key employees of PPL and its subsidiaries; (c) the PPL 2012 SIP approved by shareowners in 2012 under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to executive officers of PPL and its subsidiaries; and (d) the DDCP, under which stock units may be awarded to directors of PPL. See Note 10 to the Financial Statements for additional information.
- (2) All of PPL's current compensation plans under which equity securities of PPL are authorized for issuance have been approved by PPL's shareowners.
- (3) Relates to common stock issuable upon the exercise of stock options awarded under the ICP, SIP and ICPKE as of December 31, 2019. In addition, as of December 31, 2019, the following other securities had been awarded and are outstanding under the ICP, SIP, ICPKE and DDCP: 369,827 restricted stock units, 524,632 TSR performance awards and 392,509 ROE performance awards under the SIP; 767,858 restricted stock units 214,759 TSR performance awards and 178,257 ROE performance awards under the ICPKE; and 563,356 stock units under the DDCP.

- (4) Based upon the following aggregate award limitations under the ICP, SIP, ICPKE and DDCP: (a) under the ICP, 15,769,431 awards (i.e., 5% of the total PPL common stock outstanding as of April 23, 1999) granted after April 23, 1999; (b) under the SIP, 15,000,000 awards; (c) under the ICPKE, 16,573,608 awards (i.e., 5% of the total PPL common stock outstanding as of January 1, 2003) granted after April 25, 2003, reduced by outstanding awards for which common stock was not yet issued as of such date of 2,373,812 resulting in a limit of 14,199,796; and (d) under the DDCP, the number of stock units available for issuance was reduced to 2,000,000 stock units in March 2012. In addition, each of the ICP and ICPKE includes an annual award limitation of 2% of total PPL common stock outstanding as of January 1 of each year.

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

Item 12 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE****PPL Corporation**

Information for this item will be set forth in the sections entitled "Transactions with Related Persons" and "Independence of Directors" in PPL's 2020 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2019, and is incorporated herein by reference.

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

Item 13 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES****PPL Corporation**

Information for this item will be set forth in the section entitled "Fees to Independent Auditor for 2019 and 2018" in PPL's 2020 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2019, and which information is incorporated herein by reference.

**PPL Electric Utilities Corporation**

For the fiscal years ended 2019 and 2018, Deloitte & Touche LLP (Deloitte) served as PPL Electric's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to PPL Electric, for professional services rendered for the audits of PPL Electric's annual financial statements and for fees billed for other services rendered by Deloitte.

	2019	2018
	(in thousands)	
Audit fees (a)	\$ 1,308	\$ 1,093
Audit-related fees (b)	16	28
Taxes (c)	—	15

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Electric's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.  
 (b) Fees for agreed-upon procedures related to annual EPA filings.  
 (c) Fees for services related to Puerto Rico hurricane recovery efforts.

**LG&E and KU Energy LLC**

For the fiscal years ended 2019 and 2018, Deloitte served as LKE's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to LKE, for professional services rendered for the audits of LKE's annual financial statements and for fees billed for other services rendered by Deloitte.

	2019	2018
	(in thousands)	
Audit fees (a)	\$ 1,973	\$ 1,761
Audit-related fees (b)	—	18

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LKE's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.  
 (b) Includes fees for agreed-upon procedures related to Kentucky Energy and Environment Cabinet forms.



### Louisville Gas and Electric Company

For the fiscal years ended 2019 and 2018, Deloitte served as LG&E's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to LG&E, for professional services rendered for the audits of LG&E's annual financial statements and for fees billed for other services rendered by Deloitte.

	2019		2018
	(in thousands)		
Audit fees (a)	\$	935	\$ 870
Audit-related fees (b)		—	9

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LG&E's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

(b) Includes fees for agreed-upon procedures related to Kentucky Energy and Environment Cabinet forms.

### Kentucky Utilities Company

For the fiscal years ended 2019 and 2018, Deloitte served as KU's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to KU, for professional services rendered for the audits of KU's annual financial statements and for fees billed for other services rendered by Deloitte.

	2019		2018
	(in thousands)		
Audit fees (a)	\$	1,021	\$ 875
Audit-related fees (b)		—	9

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in KU's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

(b) Includes fees for agreed-upon procedures related to Kentucky Energy and Environment Cabinet forms.

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

Approval of Fees. The Audit Committee of PPL has procedures for pre-approving audit and non-audit services to be provided by the independent auditor. These procedures are designed to ensure the continued independence of the independent auditor. More specifically, the use of the independent auditor to perform either audit or non-audit services is prohibited unless specifically approved in advance by the Audit Committee of PPL. As a result of this approval process, the Audit Committee of PPL has pre-approved specific categories of services and authorization levels. All services outside of the specified categories and all amounts exceeding the authorization levels are approved by the Chair of the Audit Committee of PPL, who serves as the Committee designee to review and approve audit and non-audit related services during the year. A listing of the approved audit and non-audit services is reviewed with the full Audit Committee of PPL no later than its next meeting.

The Audit Committee of PPL approved 100% of the 2019 and 2018 services provided by Deloitte.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

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

(a) The following documents are filed as part of this report:

1. Financial Statements - Refer to the "Table of Contents" for an index of the financial statements included in this report.
2. Supplementary Data and Supplemental Financial Statement Schedule - included in response to Item 8.

Schedule 1 - LG&E and KU Energy LLC Condensed Unconsolidated Financial Statements.

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

3. Exhibits

See Exhibit Index immediately following the signature pages.

**SHAREOWNER AND INVESTOR INFORMATION**

**Annual Meeting:** The 2020 annual meeting of shareowners of PPL will be held on Wednesday, May 13, 2020, at the PPL Center, 701 Hamilton St., Allentown, PA 18101.

**Proxy Statement Material:** A proxy statement and notice of PPL's annual meeting will be provided to all shareowners who are holders of record as of February 28, 2020. The latest proxy statement can be accessed at [www.pplweb.com/PPLCorpProxy](http://www.pplweb.com/PPLCorpProxy).

**PPL Annual Report:** The report will be published in the beginning of April and will be provided to all shareowners who are holders of record as of February 28, 2020. The latest annual report can be accessed at [www.pplweb.com/PPLCorpProxy](http://www.pplweb.com/PPLCorpProxy).

**Dividends:** Subject to the declaration of dividends on PPL common stock by the PPL Board of Directors or its Executive Committee, dividends are paid on the first business day of April, July, October and January. The 2020 record dates for dividends are expected to be March 10, June 10, September 10 and December 10.

**PPL's Website ([www.pplweb.com](http://www.pplweb.com)):** Shareowners can access PPL publications such as annual and quarterly reports to the Securities and Exchange Commission (SEC Forms 10-K and 10-Q), other PPL filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website can subscribe to receive automated email alerts for SEC filings, earnings releases, daily stock prices or other financial news.

Financial reports which are available at [www.pplweb.com](http://www.pplweb.com) will be mailed without charge upon request.

By mail:

PPL Treasury Dept.  
Two North Ninth Street  
Allentown, PA 18101

By email: [invserv@pplweb.com](mailto:invserv@pplweb.com)

By telephone:

610-774-5151 or Toll-free at 1-800-345-3085

**Online Account Access:** Registered shareowners can activate their account for online access by visiting [shareowneronline.com](http://shareowneronline.com).

**Direct Stock Purchase and Dividend Reinvestment Plans (Plan):** PPL offers investors the opportunity to acquire shares of PPL common stock through its Plan. Through the Plan, participants are eligible to invest up to \$25,000 per calendar month in PPL common stock. Shareowners may choose to have dividends on their PPL common stock fully or partially reinvested in PPL common stock or can receive full payment of cash dividends by check or electronic funds transfer. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

**Direct Registration System:** PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates converted to book entry form within the DRS by submitting their certificates to PPL's transfer agent.

**Listed Securities:**

**New York Stock Exchange**

**PPL Corporation:**  
Common Stock (Code: PPL)

**PPL Capital Funding, Inc.:**  
2007 Series A Junior Subordinated Notes due 2067 (Code: PPL/67)  
2013 Series B Junior Subordinated Notes due 2073 (Code: PPX)

**Fiscal Agents:**

**Transfer Agent and Registrar; Dividend Disbursing Agent; Plan Administrator**

Equiniti Trust Company  
Shareowner Services  
1110 Centre Pointe Curve, Suite 101  
Mendota Heights, MN 55120

Toll Free: 1-800-345-3085  
Outside U.S.: 651-450-4064  
Website: [shareowneronline.com](http://shareowneronline.com)

**Indenture Trustee**

The Bank of New York Mellon  
Corporate Trust Administration  
500 Ross Street  
Pittsburgh, PA 15262



EXHIBIT INDEX

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.

- 1(a) - Securities Purchase and Registration Rights Agreement, dated March 5, 2014, among PPL Capital Funding, Inc., PPL Corporation, and the several purchasers named in Schedule B thereto (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 1(b) - Final Terms, dated November 14, 2017, of Western Power Distribution (South West) plc £250,000,000 2.375% Notes due May 2029 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 16, 2017)
- 1(c) - Distribution Agreement, dated February 23, 2018, by and among PPL Corporation and J.P. Morgan Securities, LLC, Barclays Capital Inc., Citigroup Global Markets Inc., JPMorgan Chase Bank, National Association, London Branch, Barclays Bank PLC and Citibank N.A. (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 23, 2018)
- 1(d) - Final Terms, dated March 23, 2018, of Western Power Distribution (South Wales) plc £30,000,000 RPI Index Linked Senior Unsecured Notes due March 2036 (Exhibit 1(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 1(e) - Final Terms, dated May 11, 2018, of Western Power Distribution (West Midlands) plc £30,000,000 RPI Index Linked Senior Unsecured Notes due March 2028 (Exhibit 1(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2018)
- 1(f) - Final Terms, dated September 5, 2019, of Western Power Distribution (East Midlands) plc £250,000 Fixed Rate Notes due 2031 under the £4,000,000,000 Euro Medium Term Note Programme (Exhibit 1(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2019)
- 2(a) - Separation Agreement among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Raven Power Holdings LLC, C/R Energy Jade, LLC and Sapphire Power Holdings LLC., dated as of June 9, 2014 (Exhibit 2.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- 2(b) - Transaction Agreement among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Talen Energy Merger Sub, Inc., C/R Energy Jade, LLC, Sapphire Power Holdings LLC. and Raven Power Holdings LLC, dated as of June 9, 2014 (Exhibit 2.2 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- 3(a) - Amended and Restated Articles of Incorporation of PPL Corporation, effective as of May 25, 2016 (Exhibit 3(i) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 26, 2016)
- 3(b) - Bylaws of PPL Corporation, effective as of December 18, 2015 (Exhibit 3(ii) to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 21, 2015)
- 3(c) - Amended and Restated Articles of Incorporation of PPL Electric Utilities Corporation, effective as of October 31, 2013 (Exhibit 3(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2013)
- 3(d) - Bylaws of PPL Electric Utilities Corporation, effective as of October 27, 2015 (Exhibit 3(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2015)
- 3(e) - Articles of Organization of LG&E and KU Energy LLC, effective as of December 29, 2003 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173665))

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- 3(f)-1 - Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 1, 2010 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173665))
- 3(f)-2 - Amendment to Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 25, 2013 (Exhibit 3(h)-2) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2013)
- 3(g)-1 - Amended and Restated Articles of Incorporation of Louisville Gas and Electric Company, effective as of November 6, 1996 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(g)-2 - Articles of Amendment to Articles of Incorporation of Louisville Gas and Electric Company, effective as of April 6, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(h) - Bylaws of Louisville Gas and Electric Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(i)-1 - Amended and Restated Articles of Incorporation of Kentucky Utilities Company, effective as of December 14, 1993 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(i)-2 - Articles of Amendment to Articles of Incorporation of Kentucky Utilities Company, effective as of April 8, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(j) - Bylaws of Kentucky Utilities Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 4(a)-1 - Amended and Restated Employee Stock Ownership Plan, dated December 1, 2016 (Exhibit 4(a) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- 4(a)-2 - Amendment No. 1 to PPL Employee Stock Ownership Plan, dated October 2, 2017 (Exhibit 4(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2017)
- 4(a)-3 - Amendment No. 2 to PPL Employee Stock Ownership Plan, dated December 1, 2018 (Exhibit 4(a)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2018)
- 4(a)-4 - Amendment No. 3 to PPL Employee Stock Ownership Plan, dated January 1, 2019 (Exhibit 4(a)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2018)
- 4(b) - Trust Deed constituting £150 million 9.25% percent Bonds due 2020, dated November 9, 1995, between South Wales Electric plc and Bankers Trustee Company Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(c)-1 - Indenture, dated as of November 1, 1997, among PPL Corporation, PPL Capital Funding, Inc. and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 12, 1997)
- 4(c)-2 - Supplemental Indenture No. 8, dated as of June 14, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2012)
- 4(c)-3 - Supplemental Indenture No. 9, dated as of October 15, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 15, 2012)
- 4(c)-4 - Supplemental Indenture No. 10, dated as of May 24, 2013, to said Indenture (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)

- 4(c)-5 - Supplemental Indenture No. 11, dated as of May 24, 2013, to said Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(c)-6 - Supplemental Indenture No. 12, dated as of May 24, 2013, to said Indenture (Exhibit 4.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(c)-7 - Supplemental Indenture No. 13, dated as of March 10, 2014, to said Indenture (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 4(c)-8 - Supplemental Indenture No. 14, dated as of March 10, 2014, to said Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 4(c)-9 - Supplemental Indenture No. 15, dated as of May 17, 2016, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2016)
- 4(c)-10 - Supplemental Indenture No. 16, dated as of September 8, 2017, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 6, 2017)
- 4(d)-1 - Indenture, dated as of March 16, 2001, among WPD Holdings UK, Bankers Trust Company, as Trustee, Principal Paying Agent, and Transfer Agent and Deutsche Bank Luxembourg, S.A., as Paying and Transfer Agent (Exhibit 4(g) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)
- 4(d)-2 - First Supplemental Indenture constituting the creation of \$200 million 6.75% Notes due 2004, \$200 million 6.875% Notes due 2007, \$225 million 6.50% Notes due 2008, \$100 million 7.25% Notes due 2017 and \$300 million 7.375% Notes due 2028, dated as of March 16, 2001, to said Indenture (Exhibit 4(n)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(d)-3 - Second Supplemental Indenture, dated as of January 30, 2003, to said Indenture (Exhibit 4(n)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(d)-4 - Third Supplemental Indenture, dated as of October 31, 2014, to said Indenture (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2014)
- 4(d)-5 - Fourth Supplemental Indenture, dated as of December 1, 2016, to said Indenture (Exhibit 4(d)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- 4(d)-6 - Fifth Supplemental Indenture, dated as of January 2, 2019, to said Indenture (Exhibit 4(d)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2018)
- 4(e)-1 - Indenture, dated as of August 1, 2001, by PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 21, 2001)
- 4(e)-2 - Supplemental Indenture No. 6, dated as of December 1, 2005, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated December 22, 2005)
- 4(e)-3 - Supplemental Indenture No. 7, dated as of August 1, 2007, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 14, 2007)
- 4(e)-4 - Supplemental Indenture No. 9, dated as of October 1, 2008, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)



- 4(e)-5 - Supplemental Indenture No. 10, dated as of May 1, 2009, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 22, 2009)
- 4(e)-6 - Supplemental Indenture No. 11, dated as of July 1, 2011, to said Indenture (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 13, 2011)
- 4(e)-7 - Supplemental Indenture No. 12, dated as of July 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 18, 2011)
- 4(e)-8 - Supplemental Indenture No. 13, dated as of August 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 23, 2011)
- 4(e)-9 - Supplemental Indenture No. 14, dated as of August 1, 2012, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 24, 2012)
- 4(e)-10 - Supplemental Indenture No. 15, dated as of July 1, 2013, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 11, 2013)
- 4(e)-11 - Supplemental Indenture No. 16, dated as of June 1, 2014, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated June 5, 2014)
- 4(e)-12 - Supplemental Indenture No. 17, dated as of October 1, 2015, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 1, 2015)
- 4(e)-13 - Supplemental Indenture No. 18, dated as of March 1, 2016, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)
- 4(e)-14 - Supplemental Indenture No. 19, dated as of May 1, 2017, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 11, 2017)
- 4(e)-15 - Supplemental Indenture No. 20, dated as of June 1, 2018, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2018)
- 4(e)-16 - Supplemental Indenture No. 21, dated as of September 1, 2019, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 6, 2019)
- 4(f)-1 - Trust Deed constituting £200 million 5.875 percent Bonds due 2027, dated March 25, 2003, between Western Power Distribution (South West) plc and J.P. Morgan Corporate Trustee Services Limited (Exhibit 4(o)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(f)-2 - Supplement, dated May 27, 2003, to said Trust Deed, constituting £50 million 5.875 percent Bonds due 2027 (Exhibit 4(o)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(g)-1 - Pollution Control Facilities Loan Agreement, dated as of October 1, 2008, between Pennsylvania Economic Development Financing Authority and PPL Electric Utilities Corporation (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- 4(g)-2 - Pollution Control Facilities Loan Agreement, dated as of March 1, 2016, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)



- 4(g)-3 - Pollution Control Facilities Loan Agreement, dated as of March 1, 2016, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)
- 4(h) - Trust Deed constituting £105 million 1.541 percent Index-Linked Notes due 2053, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(i) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(i) - Trust Deed constituting £120 million 1.541 percent Index-Linked Notes due 2056, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(j) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(j) - Trust Deed constituting £225 million 4.80436 percent Notes due 2037, dated December 21, 2006, between Western Power Distribution (South Wales) plc and HSBC Trustee (CI) Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 4(k)-1 - Subordinated Indenture, dated as of March 1, 2007, between PPL Capital Funding, Inc., PPL Corporation and The Bank of New York, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
- 4(k)-2 - Supplemental Indenture No. 1, dated as of March 1, 2007, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
- 4(k)-3 - Supplemental Indenture No. 4, dated as of March 15, 2013, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 15, 2013)
- 4(l) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South Wales) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
- 4(m) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South West) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
- 4(n)-1 - Indenture, dated as of October 1, 2010, between Kentucky Utilities Company and The Bank of New York Mellon, as Trustee (Exhibit 4(q)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(n)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(n)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(q)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(n)-4 - Supplemental Indenture No. 3, dated as of November 1, 2013, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- 4(n)-5 - Supplemental Indenture No. 4, dated as of September 1, 2015, to said Indenture (Exhibit 4(b) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated September 28, 2015)
- 4(n)-6 - Supplemental Indenture No. 5, dated as of August 1, 2016, to said Indenture (Exhibit 4(b) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated August 26, 2016)

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- 4(u)-7 - Supplemental Indenture No. 6, dated as of August 1, 2018, to Indenture, dated as of October 1, 2010, between Kentucky Utilities Company and The Bank of New York Mellon, as Trustee (Exhibit 4(a) to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)
- 4(u)-8 - Supplemental Indenture No. 7, dated as of March 1, 2019, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 1, 2019)
- 4(r)-1 - Indenture, dated as of October 1, 2010, between Louisville Gas and Electric Company and The Bank of New York Mellon, as Trustee (Exhibit 4(r)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(r)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(r)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(r)-4 - Supplemental Indenture No. 3, dated as of November 1, 2013, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- 4(r)-5 - Supplemental Indenture No. 4, dated as of September 1, 2015, to said Indenture (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated September 28, 2015)
- 4(r)-6 - Supplemental Indenture No. 5, dated as of September 1, 2016, to said Indenture (Exhibit 4(b) to Louisville Gas and Electric Company Form 8-K (File No. 1-2893) dated September 15, 2016)
- 4(r)-7 - Supplemental Indenture No. 6, dated as of May 15, 2017, to said Indenture (Exhibit 4(b) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated June 1, 2017)
- 4(r)-8 - Supplemental Indenture No. 7, dated as of March 1, 2019, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 1, 2019)
- 4(p)-1 - Indenture, dated as of November 1, 2010, between LG&E and KU Energy LLC and The Bank of New York Mellon, as Trustee (Exhibit 4(s)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(p)-2 - Supplemental Indenture No. 1, dated as of November 1, 2010, to said Indenture (Exhibit 4(s)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(p)-3 - Supplemental Indenture No. 2, dated as of September 1, 2011, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
- 4(q)-1 - 2002 Series A Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(q)-2 - Amendment No. 1 dated as of September 1, 2010 to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(t)-1 - 2002 Series B Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)



- 4(r)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-1 - 2004 Series A Carroll County Loan Agreement, dated October 1, 2004 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(t)-1 - 2006 Series B Carroll County Loan Agreement, dated October 1, 2006 and amended and restated September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(t)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(u)-1 - 2008 Series A Carroll County Loan Agreement, dated August 1, 2008 by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(u)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(v) - 2016 Series A Carroll County Loan Agreement dated as of August 1, 2016 between Kentucky Utilities Company and the County of Carroll, Kentucky (Exhibit 4(a) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated August 26, 2016)
- 4(w)-1 - 2000 Series A Mercer County Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(w)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(x)-1 - 2002 Series A Mercer County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(x)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(y)-1 - 2002 Series A Muhlenberg County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

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- 4(y)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(z) - 2018 Series A Carroll County Loan Agreement, dated as of August 1, 2018, by and between Kentucky Utilities Company and County of Carroll, Kentucky (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)
- 4(aa)-1 - 2001 Series A Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(aa)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(bb)-1 - 2001 Series B Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(bb)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-1 - 2003 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated October 1, 2003, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-1 - 2005 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated February 1, 2005 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-1 - 2007 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated as of March 1, 2007 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ff) - 2007 Series B Louisville/Jefferson County Metro Government Amended and Restated Loan Agreement, dated November 1, 2010, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(oo) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)



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- 4(gg)-1 - 2001 Series A Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(qq)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(gg)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and the County of Trimble, Kentucky (Exhibit 4(qq)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(hh) - 2017 Series A Trimble County Loan Agreement, dated as of June 1, 2017, by and between Louisville Gas and Electric Company and the County of Trimble, Kentucky (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated June 1, 2017)
- 4(ii)-1 - 2001 Series B Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ii)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(jj) - 2016 Series A Trimble County Loan Agreement dated as of September 1, 2016 between Louisville Gas and Electric Company and the County of Trimble, Kentucky (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K (File No. 1-2893) dated September 15, 2016)
- 4(kk) - Trust Deed, dated November 26, 2010, between Central Networks East plc and Central Networks West plc, the Issuers, and Deutsche Trustee Company Limited relating to Central Networks East plc and Central Network West plc £3 billion Euro Medium Term Note Programme (Exhibit 4(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2015)
- 4(ll)-1 - Indenture, dated April 21, 2011, between PPL WEM Holdings PLC, as Issuer, and The Bank of New York Mellon, as Trustee (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(ll)-2 - Supplemental Indenture No. 1, dated April 21, 2011, to said Indenture (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(ll)-3 - Second Supplemental Indenture, dated as of October 30, 2014, to said Indenture (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2014)
- 4(mm)-1 - Trust Deed, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
- 4(mm)-2 - Amended and Restated Trust Deed, dated September 10, 2013, by and among Western Power Distribution (East Midlands) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- 4(mm)-3 - £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 9, 2016 (Exhibit 4(oo)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)

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- 4(mm)-4 - £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 (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2017)
- 4(mm)-5 - Amended and Restated Trust Deed, relating to the £3,000,000,000 Euro Medium Term Note Programme of the Issuers, dated September 9, 2016, by and among 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 as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4(a)-1 to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 4(mm)-6 - Supplement Prospectus, dated March 15, 2018 to the £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 (Exhibit 4(a)-2 to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 4(mm)-7 - Amended and Restated Trust Deed, dated August 14, 2018, by and among 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 as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)
- \*4(mm)-8 - Amended and Restated Trust Deed, dated August 12, 2019, by and among 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 as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee
- 4(nn) - Trust Deed constituting £500 million 3.625% Senior Unsecured Notes due 2023, dated November 6, 2015, by and among Western Power Distribution plc as Issuer, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 6, 2015)
- 4(oo) - Subscription Agreement, dated November 14, 2017, by and among Western Power Distribution (South West) plc as Issuer, HSBC Bank plc, Mizuho International plc, The Royal Bank of Scotland plc (trading as NatWest Markets), Banco Santander, S.A., Barclays Bank PLC, Lloyds Bank plc, Merrill Lynch International, MUFG Securities EMEA plc and RBC Europe Limited. (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 14, 2017).
- 4(pp) - Trust Deed, dated October 16, 2018, between Western Power Distribution plc as Issuer, and HSBC Corporate Trustee Company (UK) Limited as Trustee (Exhibit 4(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)
- \*4(qq) - Description of PPL Corporation's common stock, par value \$0.1 per share
- \*4(rr) - Description of PPL Capital Funding, Inc.'s Junior Subordinated Notes 2007 Series A due 2067, as guaranteed by PPL Corporation
- \*4(ss) - Description of PPL Capital Funding, Inc.'s Junior Subordinated Notes 2013 Series B due 2073, as guaranteed by PPL Corporation
- \*4(tt) - Description of PPL Electric Utilities Corporation's common stock



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- 10(a) - \$300 million Revolving Credit Agreement, dated as of November 12, 2013, among PPL Capital Funding, Inc., as borrower, PPL Corporation, as Guarantor, the Lenders party thereof and PNC Bank National Association, as Administrative Agent, and Manufactures and Traders Trust as Syndication Agent (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- 10(b)-1 - \$150 million Revolving Credit Agreement, dated as of March 26, 2014, among PPL Capital Funding, Inc., as Borrower, PPL Corporation, as Guarantor and The Bank of Nova Scotia, as Administrative Agent, Issuing Lender and Lender (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 1, 2014)
- 10(b)-2 - First Amendment to said Revolving Credit Agreement, dated as of March 17, 2015 (Exhibit 10(c)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2015)
- 10(b)-3 - Second Amendment to said Revolving Credit Agreement, dated as of March 17, 2016 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2016)
- 10(b)-4 - Third Amendment to said Revolving Credit Agreement, dated as of March 17, 2017 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2017)
- 10(b)-5 - Fourth Amendment to said Revolving Credit Agreement, dated as of March 16, 2018 (Exhibit 10(b)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2018)
- 10(b)-6 - Fifth Amendment to said Revolving Credit Agreement, dated as of March 8, 2019 (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 11459) dated March 8, 2019)
- 10(c) - Employee Matters Agreement, among PPL Corporation, Talen Energy Corporation, C/R Energy Jade, LLC, Sapphire Power Holdings LLC, and Raven Power Holdings LLC, dated as of June 9, 2014 (Exhibit 10.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- 10(d)-1 - \$300 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among PPL Electric Utilities Corporation, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(e) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2014)
- 10(d)-2 - Notice of Automatic Extension, dated as of September 29, 2014, to said Amended and Restated Credit Agreement (Exhibit 10(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2014)
- 10(d)-3 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)
- 10(d)-4 - Commitment Extension and Increase Agreement and Amendment No. 2 to said Credit Agreement, dated as of December 1, 2016 (Exhibit 10(e)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- 10(d)-5 - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018 (Exhibit 10(e)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)
- 10(d)-6 - Amendment No. 4 to said Credit Agreement, dated as of March 8, 2019 (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 8, 2019)

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- 10(e)-1 - \$300 million Revolving Credit Agreement, dated as of July 28, 2014, among PPL Capital Funding, Inc., as the Borrower, PPL Corporation, as the Guarantor, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(e)-2 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)
- 10(e)-3 - Commitment Extension and Increase Agreement and Amendment No. 2 to said Credit Agreement, dated as of December 1, 2016 (Exhibit 10(f)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- 10(e)-4 - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018 (Exhibit 10(f)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)
- 10(e)-5 - Amendment No. 4 to said Credit Agreement, dated as of March 8, 2019 (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 8, 2019)
- 10(f)-1 - \$400 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among Kentucky Utilities Company, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(f)-2 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)
- 10(f)-3 - Commitment Extension Agreement and Amendment No. 2 to said Credit Agreement, dated as of January 4, 2017 (Exhibit 10(g)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- 10(f)-4 - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018 (Exhibit 10(g)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)
- 10(f)-5 - Amendment No. 4 to said Credit Agreement, dated as of March 8, 2019 (Exhibit 10.5 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 8, 2019)
- 10(g)-1 - \$500 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among Louisville Gas and Electric Company, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(g) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(g)-2 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)
- 10(g)-3 - Commitment Extension Agreement and Amendment No. 2 to said Credit Agreement, dated as of January 4, 2017 (Exhibit 10(h)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- 10(g)-4 - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018 (Exhibit 10(h)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)



- 10(g)-5 - Amendment No. 4 to said Credit Agreement, dated as of March 8, 2019 (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 8, 2019)
- 10(h)-1 - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (South West) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank, Ltd., as Joint Coordinators, and Mizuho Bank, Ltd., as Facility Agent, relating to the £245 million Multicurrency Revolving Credit Facility Agreement originally dated January 12, 2012 (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(h)-2 - Amendment Agreement, dated March 21, 2018, between Western Power Distribution (South West) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Mizuho Bank, Ltd., as Facility Agent, relating to the £245 million Multicurrency Revolving Credit Facility Agreement originally dated January 12, 2012 and amended and restated on July 29, 2014 (Exhibit 10(d) to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 10(i)-1 - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (East Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011(Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(i)-2 - Amendment Agreement, dated March 13, 2018, between Western Power Distribution (East Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 and amended and restated on July 29, 2014 (Exhibit 10(b) to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 10(j)-1 - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (West Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011(Exhibit 10(j) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(j)-2 - Amendment Agreement, dated March 13, 2018, between Western Power Distribution (West Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 and amended and restated on July 29, 2014 (Exhibit 10(a) to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 10(k) - £210 million Multicurrency Revolving Credit Facility Agreement, dated January 13 2016, among Western Power Distribution plc and HSBC Bank PLC and Mizuho Bank, Ltd. as Joint Coordinators and Bookrunners, Mizuho Bank, Ltd. as Facility Agent and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated January 19, 2016)
- 10(l) - £100,000,000 Term Loan Agreement, dated May 24, 2016, between Western Power Distribution (East Midlands) plc and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 26, 2016)
- 10(m) - £5,000,000 Letter of Credit Facility entered into between Western Power Distribution (South West) plc and Svenska Handelsbanken AB dated as of February 20, 2018 (Exhibit 10(e) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)

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- 10(u) - £75,000,000 Facility Letter entered into between Western Power Distribution (South West) plc and Svenska Handelsbanken AB dated as of February 28, 2018 (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 10(v) - Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(w) - Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and Barclays Bank PLC (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(x) - Additional Confirmation of Forward Sale Transaction, dated May 10, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(y) - Additional Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and Barclays Bank PLC (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(z) - £50,000,000 Facility Agreement dated as of June 7, 2019, among Western Power Distribution plc, as the Borrower, National Westminster Bank plc as Original Lender, and National Westminster Bank plc as Agent (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2019)
- 110(t)-1 - Amended and Restated Directors Deferred Compensation Plan, dated June 12, 2000 (Exhibit 10(h) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2000)
- 110(t)-2 - Amendment No. 1 to said Directors Deferred Compensation Plan, dated December 18, 2002 (Exhibit 10(m)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- 110(t)-3 - Amendment No. 2 to said Directors Deferred Compensation Plan, dated December 4, 2003 (Exhibit 10(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- 110(t)-4 - Amendment No. 3 to said Directors Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
- 110(t)-5 - Amendment No. 4 to said Directors Deferred Compensation Plan, dated as of May 1, 2008 (Exhibit 10(x)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- 110(t)-6 - Amendment No. 5 to said Directors Deferred Compensation Plan, dated May 28, 2010 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2010)
- 110(t)-7 - Amendment No. 6 to said Directors Deferred Compensation Plan, dated as of April 15, 2015 (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2015)
- 110(u)-1 - PPL Corporation Directors Deferred Compensation Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee (Exhibit 10(hh)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)



- [ ]10(u)-2 - PPL Officers Deferred Compensation Plan, PPL Supplemental Executive Retirement Plan and PPL Supplemental Compensation Pension Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee (Exhibit 10(hh)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- [ ]10(u)-3 - PPL Revocable Employee Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [ ]10(u)-4 - PPL Employee Change in Control Agreements Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [ ]10(u)-5 - PPL Revocable Director Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(e) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [ ]10(v)-1 - Amended and Restated Officers Deferred Compensation Plan, dated December 8, 2003 (Exhibit 10(r) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- [ ]10(v)-2 - Amendment No. 1 to said Officers Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
- [ ]10(v)-3 - Amendment No. 2 to said Officers Deferred Compensation Plan, dated as of January 22, 2007 (Exhibit 10(bb)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- [ ]10(v)-4 - Amendment No. 3 to said Officers Deferred Compensation Plan, dated as of June 1, 2008 (Exhibit 10(z)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- [ ]10(v)-5 - Amendment No. 4 to said Officers Deferred Compensation Plan, dated as of February 15, 2012 (Exhibit 10(ff)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- [ ]10(v)-6 - Amendment No. 5 to said Executive Deferred Compensation Plan, dated as of May 8, 2014 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- [ ]10(v)-7 - Amendment No. 6 to said Executive Deferred Compensation Plan, dated as of December 16, 2015 (Exhibit [ ]10(q)-7 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2015)
- [ ]10(v)-8 - Amendment No. 7 to said Executive Deferred Compensation Plan, dated as of January 1, 2019 (Exhibit [ ]10(x)-8 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2018)
- [ ]10(w)-1 - Amended and Restated Supplemental Executive Retirement Plan, dated December 8, 2003 (Exhibit 10(s) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- [ ]10(w)-2 - Amendment No. 1 to said Supplemental Executive Retirement Plan, dated December 16, 2004 (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 17, 2004)

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- 10(w)-3 - Amendment No. 2 to said Supplemental Executive Retirement Plan, dated as of January 1, 2005 (Exhibit 10(ff)-3 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- 10(w)-4 - Amendment No. 3 to said Supplemental Executive Retirement Plan, dated as of January 22, 2007 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(w)-5 - Amendment No. 4 to said Supplemental Executive Retirement Plan, dated as of December 9, 2008 (Exhibit 10(aa)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- 10(w)-6 - Amendment No. 5 to said Supplemental Executive Retirement Plan, dated as of February 15, 2012 (Exhibit 10(gg)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- 10(w)-7 - Amendment No. 6 to the Amended and Restated Supplemental Executive Retirement Plan, dated March 23, 2018 (Exhibit 10(g) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 10(x)-1 - Amended and Restated Incentive Compensation Plan, effective January 1, 2003 (Exhibit 10(p) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
- 10(x)-2 - Amendment No. 1 to said Incentive Compensation Plan, dated as of January 1, 2005 (Exhibit 10(gg)-2 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- 10(x)-3 - Amendment No. 2 to said Incentive Compensation Plan, dated as of January 26, 2007 (Exhibit 10(dd)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- 10(x)-4 - Amendment No. 3 to said Incentive Compensation Plan, dated as of March 21, 2007 (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- 10(x)-5 - Amendment No. 4 to said Incentive Compensation Plan, effective December 1, 2007 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2008)
- 10(x)-6 - Amendment No. 5 to said Incentive Compensation Plan, dated as of December 16, 2008 (Exhibit 10(bb)-6 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2008)
- 10(x)-7 - Form of Stock Option Agreement for stock option awards under the Incentive Compensation Plan (Exhibit 10(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
- 10(x)-8 - Form of Restricted Stock Unit Agreement for restricted stock unit awards under the Incentive Compensation Plan (Exhibit 10(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
- 10(x)-9 - Form of Performance Unit Agreement for performance unit awards under the Incentive Compensation Plan (Exhibit 10(ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
- 10(y) - Amended and Restated Incentive Compensation Plan for Key Employees, effective October 25, 2018 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)
- 10(z) - Short-term Incentive Plan (Annex B to Proxy Statement of PPL Corporation, dated April 12, 2016)



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- [ 10(aa) - Employment letter, dated May 31, 2006, between PPL Services Corporation and William H. Spence (Exhibit 10(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- [ 10(bb) - Form of Retention Agreement entered into between PPL Corporation and Gregory N. Dudkin (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [ 10(cc)-1 - Form of Severance Agreement entered into between PPL Corporation and William H. Spence (Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- [ 10(cc)-2 - Amendment to said Severance Agreement (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2009)
- [ 10(dd) - Form of Change in Control Severance Protection Agreement entered into between PPL Corporation and Joseph P. Bergstein, Jr., Gregory N. Dudkin, Joanne H. Raphael, Vincent Sorgi, Philip Swift, and Paul W. Thompson (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- [ 10(ee)-1 - PPL Corporation Amended and Restated 2012 Stock Incentive Plan, effective October 25, 2018 (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)
- [ 10(ee)-2 - Form of Performance Unit Agreement for performance unit awards under the Stock Incentive Plan (Exhibit 10(tt)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- [ 10(ee)-3 - Form of Performance Contingent Restricted Stock Unit Agreement for restricted stock unit awards under the Stock Incentive Plan (Exhibit 10(tt)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- [ 10(ee)-4 - Form of Nonqualified Stock Option Agreement for stock option awards under the Stock Incentive Plan (Exhibit 10(tt)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- [ 10(ee)-5 - Form of Total Shareholder Return Performance Unit Agreement for performance units under the Amended and Restated 2012 Stock Incentive Plan (Exhibit 10(dd)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)
- [ 10(ee)-6 - Form of Return on Equity Performance Unit Agreement for performance units under the Amended and Restated 2012 Stock Incentive Plan (Exhibit 10(dd)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)
- [ 10(ff) - PPL Corporation Executive Severance Plan, effective as of July 26, 2012 (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- [ 10(gg) - Form of Western Power Distribution Phantom Stock Option Award Agreement for stock option awards under the Western Power Distribution Long-Term Incentive Plan (Exhibit [ 10(bbb)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2014)
- [ 10(hh) - Form of Grant Letter dated May 29, 2015 (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 1, 2015)
- [ 10(ii)-1 - Amended and Restated Personal Contract dated August 13, 2013, between Western Power Distribution (South West) plc and Philip Swift (Exhibit [ 10(kk)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2018)

- 10(i)-2 - Ill-Health Retirement Arrangement letter agreement dated March 2, 2016, between Western Power Distribution (South West) plc and Philip Swift (Exhibit 10(kk)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2018)
- 10(i)-3 - Pension Arrangement letter agreement dated March 2, 2016, between Western Power Distribution (South West) plc and Philip Swift (Exhibit 10(kk)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2018)
- \*21 - Subsidiaries of PPL Corporation
- \*23(a) - Consent of Deloitte & Touche LLP - PPL Corporation
- \*23(b) - Consent of Deloitte & Touche LLP - PPL Electric Utilities Corporation
- \*23(c) - Consent of Deloitte & Touche LLP - LG&E and KU Energy LLC
- \*23(d) - Consent of Deloitte & Touche LLP - Louisville Gas and Electric Company
- \*23(e) - Consent of Deloitte & Touche LLP - Kentucky Utilities Company
- \*24 - Power of Attorney
- \*31(a) - Certificate of PPL's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(b) - Certificate of PPL's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(c) - Certificate of PPL Electric's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(d) - Certificate of PPL Electric's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(e) - Certificate of LKE's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(f) - Certificate of LKE's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(g) - Certificate of LG&E's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31(h) - Certificate of LG&E's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

<u>*31(i)</u>	- Certificate of KU's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>*31(j)</u>	- Certificate of KU's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>*32(a)</u>	- Certificate of PPL's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<u>*32(b)</u>	- Certificate of PPL Electric's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<u>*32(c)</u>	- Certificate of LKE's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<u>*32(d)</u>	- Certificate of LG&E's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<u>*32(e)</u>	- Certificate of KU's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<u>*99(d)</u>	- PPL Corporation and Subsidiaries Long-term Debt Schedule
101.INS	- XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.SCH	- XBRL Taxonomy Extension Schema for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.CAL	- XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.DEF	- XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.LAB	- XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.PRE	- XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Corporation  
(Registrant)

By /s/ William H. Spence  
William H. Spence -  
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ William H. Spence  
William H. Spence -  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

/s/ Joseph P. Bergstein, Jr.  
Joseph P. Bergstein, Jr. -  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

/s/ Marlene C. Beers  
Marlene C. Beers -  
Vice President and Controller  
(Principal Accounting Officer)

Directors:

John W. Conway  
Steven G. Elliott  
Venkata Rajamannar Madabhushi  
Craig A. Rogerson  
William H. Spence

Natica von Althann  
Keith H. Williamson  
Phoebe A. Wood  
Armando Zagalo de Lima

/s/ William H. Spence  
William H. Spence, Attorney-in-fact

February 14, 2020



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PPL Electric Utilities Corporation**  
(Registrant)

By /s/ Gregory N. Dudkin

Gregory N. Dudkin -  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Gregory N. Dudkin

Gregory N. Dudkin -  
President  
(Principal Executive Officer)

/s/ Stephen K. Breininger

Stephen K. Breininger -  
Vice President-Finance and Regulatory Affairs and  
Controller  
(Principal Financial Officer and Principal Accounting  
Officer)

Directors:

/s/ Joseph P. Bergstein, Jr.

Joseph P. Bergstein, Jr.

/s/ Gregory N. Dudkin

Gregory N. Dudkin

/s/ Joanne H. Raphael

Joanne H. Raphael

/s/ Vincent Sorgi

Vincent Sorgi

/s/ William H. Spence

William H. Spence

Date: February 14, 2020

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**LG&E and KU Energy LLC**  
(Registrant)

By /s/ Paul W. Thompson  
Paul W. Thompson -  
Chairman of the Board, Chief Executive Officer  
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Paul W. Thompson  
Paul W. Thompson -  
Chairman of the Board, Chief Executive Officer  
and President  
(Principal Executive Officer)

/s/ Kent W. Blake  
Kent W. Blake -  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

Directors:

/s/ Lonnie E. Bellar  
Lonnie E. Bellar

/s/ William H. Spence  
William H. Spence

/s/ Kent W. Blake  
Kent W. Blake

/s/ Paul W. Thompson  
Paul W. Thompson

/s/ Vincent Sorgi  
Vincent Sorgi

/s/ Joseph P. Bergstein, Jr.  
Joseph P. Bergstein, Jr.

Date: February 14, 2020

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Louisville Gas and Electric Company  
(Registrant)

By /s/ Paul W. Thompson  
Paul W. Thompson -  
Chairman of the Board, Chief Executive Officer  
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Paul W. Thompson  
Paul W. Thompson -  
Chairman of the Board, Chief Executive Officer  
and President  
(Principal Executive Officer)

/s/ Kent W. Blake  
Kent W. Blake -  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

Directors:

/s/ Lonnie E. Bellar  
Lonnie E. Bellar

/s/ William H. Spence  
William H. Spence

/s/ Kent W. Blake  
Kent W. Blake

/s/ Paul W. Thompson  
Paul W. Thompson

/s/ Vincent Sorgi  
Vincent Sorgi

/s/ Joseph P. Bergstein, Jr.  
Joseph P. Bergstein, Jr.

Date: February 14, 2020

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Kentucky Utilities Company**  
(Registrant)

By /s/ Paul W. Thompson  
Paul W. Thompson -  
Chairman of the Board, Chief Executive Officer  
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Paul W. Thompson  
Paul W. Thompson -  
Chairman of the Board, Chief Executive Officer  
and President  
(Principal Executive Officer)

/s/ Kent W. Blake  
Kent W. Blake -  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

Directors:

/s/ Lonnie E. Bellar  
Lonnie E. Bellar

/s/ William H. Spence  
William H. Spence

/s/ Kent W. Blake  
Kent W. Blake

/s/ Paul W. Thompson  
Paul W. Thompson

/s/ Vincent Sorgi  
Vincent Sorgi

/s/ Joseph P. Bergstein, Jr.  
Joseph P. Bergstein, Jr.

Date: February 14, 2020



**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

PPL Corporation's common stock, par value \$0.1 per share (the "Common Stock"), is registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

***PPL Corporation Common Stock***

The description below is a summary of certain provisions of PPL Corporation's capital stock, including the Common Stock. The Pennsylvania Business Corporation Law, or BCL, and the Amended and Restated Articles of Incorporation (the "Articles") and bylaws of PPL Corporation (the "Bylaws") determine the rights and privileges of holders of PPL Corporation's capital stock. We encourage you to read such documents, which have been filed with the SEC, and the Pennsylvania law for more information regarding such capital stock, and any statement made herein with reference to the Articles, the Bylaws or the BCL is qualified in its entirety by such reference.

Defined terms used in this summary description of the Common Stock shall apply only to this summary description and the Common Stock.

**Authorized Capital**

The authorized capital stock of PPL Corporation consists of 1,560,000,000 shares of Common Stock, par value \$.01 per share, and 10,000,000 shares of preferred stock, par value \$.01 per share.

**Common Stock**

*Dividends.*

Dividends on the Common Stock will be paid if, when and as determined by the Board of Directors of PPL Corporation (the "Board") out of funds legally available for this purpose. The rate and timing of any such future dividends will depend upon the future earnings, financial condition, cash flows, financial and legal requirements of PPL Corporation and its subsidiaries and upon other relevant factors.

As a practical matter, the ability of PPL Corporation to pay dividends will be governed by the ability of PPL Corporation's operating subsidiaries to pay dividends to PPL Corporation. The subsidiaries have no obligation to pay dividends or distributions to PPL Corporation or to make funds available for such a payment. The subsidiaries' ability to pay dividends to PPL Corporation will be subject to the prior rights of the holders of such subsidiaries' outstanding debt and preferred securities, the availability of earnings and the needs of their businesses and may be restricted by their obligations to holders of their outstanding debt and other creditors, as well as any contractual or legal restrictions in effect at such time, including the requirements of state corporate law applicable to dividends and distributions and regulatory requirements, including restrictions on the ability of the utility subsidiaries to pay dividends under Section 305(a) of the Federal Power Act.

Neither PPL Corporation nor PPL Capital Funding may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on the 2007 Notes or the 2013 Notes. At December 31, 2019, no interest payments had been deferred on the 2007 Notes or the 2013 Notes.

*Voting Rights.*

*General.* Holders of Common Stock are entitled to one vote for each share held by them on matters presented to shareowners. Except as otherwise provided in the BCL, or the Articles or Bylaws, whenever any corporate action is to be taken by vote of PPL Corporation's shareowners, it shall be authorized upon receiving the affirmative vote of a majority of the votes cast by all shareowners entitled to vote thereon and, if any shareowners are entitled to vote thereon as a class, upon receiving the affirmative vote of a majority of the votes cast by the shareowners entitled to vote as a class. Certain provisions of Pennsylvania law would require a supermajority vote of the holders of Common Stock or a majority vote of disinterested directors to approve certain business combinations and other major transactions involving PPL Corporation.

*Election of Directors.* Pursuant to PPL Corporation's Articles, the holders of Common Stock will not have cumulative voting rights in the election of directors. The Articles provide that in uncontested elections of directors each share of a class or group of classes entitled to vote in an election of directors shall be entitled to vote for or against each candidate for election by the class or group, and that to be elected, a candidate for election to the Board must

receive the affirmative vote of a majority of the votes cast with respect to the election of that candidate. In contested elections, the candidates receiving the highest number of votes from each class or group of classes entitled to elect directors separately, up to the number of directors to be elected by the class or group of classes, shall be elected. The Bylaws provide that each director shall be elected for a one-year term and shall hold office until the next annual meeting and until a successor has been selected and qualified or until his or her earlier death, resignation or removal, and that no director may be removed except for cause.

#### *Advance Notice of Shareowner Nominations for Director.*

Owners of Common Stock have the right to make nominations for the election of directors provided that they satisfy the requirements specified in the Bylaws. A shareowner must follow the advance notice procedures set out in the Bylaws or, if the shareowner is seeking to call a special meeting of shareowners, the procedures in the Bylaws described under "Shareowners' Right to Call a Special Meeting." For notice to be timely, the shareowner must have given notice to PPL Corporation's secretary of its intent to make such nominations no later than, with respect to an election to be held at an annual meeting, 75 days in advance of such meeting (with a shorter period provided in the event less than 85 days' notice of the annual meeting is given to shareowners) and, with respect to an election at a special meeting, the close of business on the earlier of the seventh day after the day on which notice of such meeting is first given to shareowners or the fourth day prior to the meeting.

PPL Corporation's Bylaws provide that any such notice must include, among other specified requirements, (a) the name and address of the shareowner who intends to make the nomination and of the person or persons to be nominated, (b) a representation that the shareowner is a holder of record of stock of PPL Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, (c) such other information regarding each nominee proposed by such shareowner as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had proxies been solicited with respect to such nominee by the management or Board of PPL Corporation, (d) the consent of each nominee to serve as a director of PPL Corporation if so elected, (e) the class, series and number of shares of PPL Corporation that are owned, directly or indirectly, beneficially and of record by the nominating shareowner, any of its affiliates and/or any others acting in concert with any of the foregoing (collectively, the "Proponent Person"), any option, warrant or Derivative Instrument (as defined in the Bylaws) with respect to any shares of PPL Corporation directly or indirectly owned beneficially by the Proponent Person, any short interest (as defined in the Bylaws) in any security of PPL Corporation held by the Proponent Person and (f) such other information as is specified in the Bylaws or as PPL Corporation may reasonably require.

#### *Advance Notice of Shareowner Proposals of Other Business.*

Except as provided with respect to nominations of directors, under the Bylaws shareowners have the right to bring business to be transacted before an annual meeting only if the shareowners satisfy the requirements specified in the Bylaws. In order to bring business properly before an annual meeting, a shareowner must be the shareowner of record on the date of giving notice provided for in the Bylaws and on the record date for the determination of shareowners entitled to vote at such annual meeting, and must comply with the notice provisions set out in the Bylaws. For notice to be timely, it must be delivered to the secretary of PPL Corporation not later than 75 days in advance of the date of such meeting (with a shorter period provided in the event less than 85 days' notice of the annual meeting is given to shareowners).

PPL Corporation's Bylaws provide that any such notice must include, among other specified requirements, (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business, (b) the name and record address of the shareowner proposing such business, (c) the class, series and number of shares of PPL Corporation's stock beneficially owned by the shareowner, (d) a description of all arrangements or understandings between such shareowner and any other person or persons (including their names) in connection with the proposal of such business by such shareowner in such business, (e) all other information which would be required to be included in a proxy statement or other filing required to be filed with the Securities and Exchange Commission if, with respect to any such item of business, such shareowner were a participant in a solicitation subject to Regulation 14A under the Exchange Act and (f) a representation that such shareowner intends to appear in person or by proxy at the annual meeting to bring such business before the meeting. Except as provided with respect to nominations of directors, no business shall be conducted at any meeting of shareowners except in accordance with the procedures described above. The presiding officer of a meeting may, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of the Bylaws and any decision by such presiding officer made in good faith shall be conclusive and binding upon all shareowners for any purpose.

#### *Proxy Access.*

Pursuant to the Bylaws, a shareowner, or a group of up to 25 shareowners, owning 3% or more of PPL Corporation's outstanding Common Stock continuously for at least three years, have the right, subject to certain

exceptions specified in the Bylaws, to nominate, and include in PPL Corporation's proxy materials, directors constituting up to the greater of (a) 20% of the Board and (b) two directors, provided that the shareowner and the nominee satisfies the requirements specified in the Bylaws. For purposes of calculating the required shares, "ownership" shall be deemed, generally, to consist of and include only those shares comprising such person's "net long position," which is determined (a) in accordance with Rule 14e-4 under the Exchange Act or (b) if not covered by Rule 14e-4, the net long position shall be reduced by any shares of Common Stock subject to any "put equivalent position" as defined in Rule 16a-1(h) under the Exchange Act. The determination of the extent of "ownership" of shares for purposes of proxy access shall be made by the Board, which determination shall be conclusive and binding on PPL Corporation, its shareowners and all other parties.

To nominate a person for election and require PPL Corporation to include such nominee in its proxy materials, PPL Corporation must generally receive notice of proxy access nominations by shareowners not less than 120 nor more than 150 days prior to the first anniversary of the date on which PPL Corporation's definitive proxy statement was released to shareowners in connection with the prior year's annual meeting. Notice of proxy access nominations must include, or be accompanied by, among other specified requirements, (a) all of the information required with respect to nominations of directors referred to under "Advance Notice of Shareowner Nominations for Director" above, (b) requisite evidence that the nominating shareowner owns, and has continued to own for the preceding three years, the requisite number of shares required in order to make such a nomination and of the proposed nominees and (c) certain other information concerning, and representations and agreements of, the shareowner and the nominee. If any nominating shareowner or group has failed to comply with the provisions of the Bylaws, the Board or the chair of the meeting shall declare invalid the nominations made by such shareowner or group, and such nominations shall be disregarded.

#### *Shareowners' Right to Call a Special Meeting.*

PPL Corporation's Articles and Bylaws provide that shareowners have the right, subject to certain exceptions specified in its Bylaws, to call special meetings provided that the shareowners satisfy the requirements specified in the Bylaws. At any time, a special meeting of shareowners may be called by shareowners having a combined interest in at least 25% of the votes that all voting shareowners, voting as a single class, are entitled to cast at a particular special meeting, measured by such shareowners' net long beneficial ownership. "Net long beneficial ownership" means those shares of Common Stock of PPL Corporation as to which the requesting shareowner possesses (a) the sole power to vote or direct the voting, (b) the sole economic incidents of ownership (including the sole right to profits and the sole risk of loss) and (c) the sole power to dispose of or direct disposition; provided that the number of shares calculated in accordance with the preceding clauses (a), (b) and (c) shall not include any securities that, directly or indirectly, underlie any "derivative security" (as such term is defined in Rule 16a-1(c) under the Exchange Act) that constitutes a "call equivalent position" (as such term is defined in Rule 16a-1(b) under the Exchange Act) and that is, directly or indirectly, held or maintained by a requesting shareowner with respect to any shares of any class or series of shares of PPL Corporation.

PPL Corporation's Bylaws provide the procedures to be followed by shareowners to call a special meeting and require the requesting shareowner to deliver a written petition to the secretary of PPL Corporation that must include, among other specified requirements, (a) a brief description of the business to be conducted at the special meeting, (b) the names of any director nominees, (c) evidence of the class and number of shares of capital stock of PPL Corporation held of record and/or beneficially owned by each requesting shareowner, (d) a description of any agreement, arrangement or understanding (including without limitation, regardless of the form of settlement, any derivatives, long or short positions, profit interests, forwards, futures, swaps, options, warrants, convertible securities, stock appreciation or similar rights, hedging transactions and borrowed or loaned shares), the effect or intent of which is to create or mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of, the voting securities of PPL Corporation owned by any requesting shareowner that will be a "participant in a solicitation" (as such term is defined in Schedule 14A to Regulation 14A under the Exchange Act) with respect to the requested special meeting, (e) a representation that the requesting shareowner intends to appear in person or by proxy at the requested special meeting to bring the business specified in the special meeting request before the special meeting and (f) such other information as is specified in the Bylaws or as PPL Corporation may reasonably require. The Board shall determine in good faith whether the requirements set forth in the Bylaws have been satisfied.

The secretary of PPL Corporation shall set the record date for the special meeting not more than 90 days following the receipt of a special meeting request that complies with the Bylaws. A special meeting requested by a shareowner shall not be held under certain circumstances, including, among other circumstances, where the special meeting request relates to an item of business that is not a proper subject for shareowner action under applicable law or the special meeting request is received during the period that is 90 days prior to the first anniversary of the date of the immediately preceding annual meeting of shareowners and ending on the date of the next annual meeting of shareowners.

#### *Liquidation Rights.*

After satisfaction of the preferential liquidation rights of any preferred stock, the holders of Common Stock are entitled to receive any further dividends and shares upon liquidation, dissolution, winding up or distribution.

*Preemptive and Other Rights.*

The holders of Common Stock do not have preemptive rights as to additional issues of Common Stock or conversion rights.

*Other Matters.*

The shares of Common Stock are not subject to redemption or to any further calls or assessments and are not entitled to the benefit of any sinking fund provisions.

**Preferred Stock**

PPL Corporation's Board is authorized, without further shareowner action, to authorize the issuance of preferred stock from time to time in one or more classes or series, and to fix, at the time of issuance, the distinctive designations, terms, relative rights, privileges, qualifications, limitations, options, conversion rights, preferences and voting powers, and such prohibitions, restrictions and qualifications of voting or other rights and powers except as they are fixed and determined in the Articles. No shares of preferred stock have been issued.

**Possible Anti-Takeover Effects of the Articles and Bylaws**

Certain provisions of the Articles and Bylaws, including provisions requiring advance notice for shareowner nominations for directors or for bringing business before an annual meeting, the absence of cumulative voting in the election of directors and the ability of the Board to create and establish series of preferred stock and the terms thereof, could have the effect of discouraging unilateral tender offers or other attempts to take over and acquire the business of PPL Corporation. These provisions may limit the ability of individuals to bring matters before shareowner meetings, change the composition of the Board and pursue a merger, takeover, business combination or tender offer involving PPL Corporation, and, accordingly, under certain circumstances, could encourage a potentially interested purchaser to negotiate with the Board rather than pursue a non-negotiated takeover attempt, including one which shareowners might favor, and could reduce the market value of the Common Stock.

In addition to provisions in the Articles and Bylaws, the requirements of applicable law, including Pennsylvania corporation and utility regulatory laws, could make it difficult for a purchaser to acquire PPL Corporation.

**Listing**

The outstanding shares of Common Stock are listed on the New York Stock Exchange.

**Transfer Agents and Registrars**

The Transfer Agent and Registrar for the Common Stock is Equiniti Trust Company.



**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

PPL Capital Funding, Inc.'s Junior Subordinated Notes 2007 Series A due 2067, which are guaranteed as to payment of principal, interest and any premium by PPL Corporation (the "2007 Notes"), are registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

***PPL Capital Funding Junior Subordinated Notes 2007 Series A due 2067***

The following summary description sets forth certain terms and provisions of the 2007 Notes. Because this description is a summary, it does not describe every aspect of the 2007 Notes or the Subordinated Indenture under which the 2007 Notes were issued, as described below. The Subordinated Indenture and Supplemental Indenture No. 1 thereto relating to the 2007 Notes was filed by PPL Corporation as an exhibit to its Current Report on Form 8-K filed on March 20, 2007. The Subordinated Indenture and its associated documents contain the full legal text of the matters described in this section. This summary is subject to and qualified in its entirety by reference to all of the provisions of the 2007 Notes and the Subordinated Indenture, including definitions of certain terms used in the Subordinated Indenture. The Subordinated Indenture has been qualified under the Trust Indenture Act, and reference is made to the Trust Indenture Act for provisions that apply to the 2007 Notes.

Certain terms used below and not otherwise defined herein shall have the meaning assigned to such terms in the Subordinated Indenture. Defined terms used in this summary description of the 2007 Notes shall apply only to this summary description and the 2007 Notes.

**General**

PPL Capital Funding issued the 2007 Notes as a series of debt securities under a Subordinated Indenture, dated as of March 1, 2007 (as such indenture has been and may be amended and supplemented from time to time, the "Subordinated Indenture"), among PPL Capital Funding, PPL Corporation and The Bank of New York Mellon (formerly known as The Bank of New York), as trustee (the "Trustee"). The Subordinated Indenture does not limit the amount of securities that may be issued thereunder. The 2007 Notes and all other debt securities issued under the Subordinated Indenture are collectively referred to herein as the "Subordinated Indenture Securities."

The 2007 Notes are unsecured, subordinated obligations of PPL Capital Funding that rank junior to all of PPL Capital Funding's Senior Indebtedness (as defined below). The 2007 Notes are fully and unconditionally guaranteed by PPL Corporation as to payment of principal, interest and any premium pursuant to subordinated guarantees of PPL Corporation (the "Subordinated Guarantees") that rank junior to all of PPL Corporation's Senior Indebtedness. See "— Subordination" below. As used in this description of the 2007 Notes, the terms "we," "our," and "us" may, depending on the context, refer to PPL Capital Funding or to PPL Capital Funding together with PPL Corporation.

The 2007 Notes were issued in fully registered form only, without coupons. The 2007 Notes were initially represented by one or more fully registered global securities (the "Global Securities") deposited with the Trustee, as custodian for The Depository Trust Company ("DTC"), as depositary, and registered in the name of DTC or DTC's nominee. A beneficial interest in a Global Security will be shown on, and transfers or exchanges thereof will be effected only through, records maintained by DTC and its participants, as described below under "— Book-Entry Only Issuance — The Depository Trust Company." The authorized denominations of the 2007 Notes is \$1,000 and any larger amount that is an integral multiple of \$1,000. Except in limited circumstances described below, the 2007 Notes are not exchangeable for 2007 Notes in definitive certificated form.

The 2007 Notes were initially issued in one series in the principal amount of \$500,000,000. PPL Capital Funding may, without the consent of the holders of the 2007 Notes, increase the principal amount of the series and issue additional notes of such series having the same ranking, interest rate, maturity and other terms as the 2007 Notes. Any such additional notes may, together with the 2007 Notes, constitute a single series of securities under the Subordinated Indenture. The 2007 Notes and any additional notes of the same series having the same terms as the 2007 Notes subsequently issued under the Subordinated Indenture may be treated as a single class for all purposes under the Subordinated Indenture, including, without limitation, voting waivers and amendments.

**Maturity**

Unless an earlier redemption has occurred, the entire principal amount of the 2007 Notes will mature and become due and payable, together with any accrued and unpaid interest, on March 30, 2067 (the "stated maturity date").

## Interest

*Fixed Rate Period.* Upon issuance and prior to March 30, 2017, the 2007 Notes bore interest at a Fixed Rate of 6.70% per year.

*Floating Rate Period.* From March 30, 2017 to maturity (the "Floating Rate Period"), the 2007 Notes have borne, and will bear, interest at the Three-Month LIBOR Rate plus 266.5 basis points (2.665%), reset quarterly. Subject to PPL Capital Funding's right to defer interest payments as described below, during the Floating Rate Period interest is payable quarterly in arrears on March 30, June 30, September 30 and December 30 of each year (each, an "interest payment date" and also a "LIBOR Rate Reset Date"), beginning June 30, 2017. The LIBOR Rate Reset Dates are March 30, June 30, September 30 and December 30 of each year, commencing March 30, 2017. During the Floating Rate Period, the interest rate in effect on any LIBOR Rate Reset Date will be the applicable rate as reset on that date and the interest rate applicable to any other day will be the interest rate as reset on the immediately preceding LIBOR Rate Reset Date. If interest payments are deferred or otherwise not paid during the Floating Rate Period, they will accrue and compound until paid at the prevailing floating rate, to the extent permitted by law. The amount of interest payable for any quarterly interest period during the Floating Rate Period will be computed by multiplying the floating rate for that quarterly interest period by a fraction, the numerator of which will be the actual number of days elapsed during that quarterly interest period (determined by including the first day of the interest period and excluding the last day), and the denominator of which will be 360, and by multiplying the result by the aggregate principal amount of the 2007 Notes.

*General.* In this description of the 2007 Notes the term "interest" includes semi-annual interest payments during the Fixed Rate Period described above, quarterly interest payments during the Floating Rate Period, and applicable interest on interest payments accrued but not paid on the applicable interest payment date.

During the Floating Rate Period, if any interest payment date, other than a redemption date or the maturity date of the 2007 Notes, falls on a day that is not a business day, the interest payment date will be postponed to the next day that is a business day, except that if that business day is in the next succeeding calendar month, the interest payment date will be the immediately preceding business day. Also, if a redemption date or the maturity date of the 2007 Notes falls on a day that is not a business day, the payment of interest and principal will be made on the next succeeding business day, and no interest on such payment will accrue for the period from and after the redemption date or the maturity, if applicable.

During the Floating Rate Period, if any LIBOR Rate Reset Date falls on a day that is not a LIBOR Business Day, the LIBOR Rate Reset Date will be postponed to the next day that is a LIBOR Business Day, except that if that LIBOR Business Day is in the next succeeding calendar month, the LIBOR Rate Reset Date will be the immediately preceding LIBOR Business Day.

*Determining the Floating Rate.* The "Three-Month LIBOR Rate" for each interest period commencing on a LIBOR Rate Reset Date means the rate (expressed as a percentage per annum) for deposits in U.S. dollars for a three-month period commencing on the first day of that interest period and ending on the next interest payment date (the "relevant period") that appears on Reuters LIBOR01 Page as of 11:00 a.m. (London time) on the LIBOR Interest Determination Date for that interest period. If such rate does not appear on the Reuters LIBOR01 Page as of 11:00 a.m. (London Time) on the LIBOR Interest Determination Date for that interest period, the LIBOR rate will be determined on the basis of the rates at which deposits in U.S. dollars for the relevant period and in a principal amount of not less than \$1,000,000 are offered to prime banks in the London interbank market by four major banks in the London interbank market, which may include affiliates of one or more of the underwriters, selected by the calculation agent (after consultation with us), at approximately 11:00 a.m., London time on the LIBOR Interest Determination Date for that interest period. The calculation agent will request the principal London office of each such bank to provide a quotation of its rate. If at least two such quotations are provided, the Three-Month LIBOR Rate with respect to that interest period will be the arithmetic mean (rounded upward if necessary to the nearest whole multiple of 0.00001%) of such quotations. If fewer than two quotations are provided, the Three-Month LIBOR Rate with respect to that interest period will be the arithmetic mean (rounded upward if necessary to the nearest whole multiple of 0.00001%) of the rates quoted by three major banks in New York City, which may include affiliates of one or more of the underwriters, selected by the calculation agent (after consultation with us), at approximately 11:00 a.m., New York City time, on the first day of that interest period for loans in U.S. dollars to leading European banks for the relevant period and in a principal amount of not less than \$1,000,000. However, if fewer than three banks selected by the calculation agent to provide quotations are quoting as described above, the Three-Month LIBOR Rate for that interest period will be the same as the Three-Month LIBOR Rate as determined for the previous interest period or, in the case of the interest period beginning on March 30, 2017, the interest rate on the 2007 Notes will be 8.015%. The establishment of the Three-Month LIBOR Rate for each three-month interest period beginning on or after March 30, 2017 by the calculation agent shall (in the absence of manifest error) be final and binding.

*"Business day"* means any day, other than a Saturday or Sunday, that is not a day on which banking institutions or trust companies are generally authorized or required by law, regulation or executive order to close in The City of New York or other city in which any paying agent for the 2007 Notes is located.

*"Calculation agent"* means The Bank of New York Mellon, or other firm appointed by PPL Capital Funding to act as calculation agent for the 2007 Notes.

*"LIBOR Interest Determination Date"* means the second LIBOR Business Day preceding each LIBOR Rate Reset Date.

*"LIBOR Business Day"* means any business day on which dealings in deposits in U.S. Dollars are transacted in the London Inter-Bank Market.

*"Reuters page"* means the display on Reuters Money 3000 Service, or any successor service, on the Reuters LIBOR01 Page or any replacement page or pages on that service.

*"Reuters LIBOR01 Page"* means the display designated on page LIBOR01 on Reuters page (or such other page as may replace the LIBOR01 page on such service or such other service as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. Dollar deposits).

### **Option to Defer Interest Payments**

PPL Capital Funding may defer interest payments on the 2007 Notes, from time to time, for one or more periods (each, an "Optional Deferral Period") of up to 10 consecutive years per Optional Deferral Period. However, a deferral of interest payments cannot extend beyond the maturity date of the 2007 Notes. During an Optional Deferral Period, interest will continue to accrue on the 2007 Notes, compounded semi-annually or quarterly, as the case may be, and deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2007 Notes, to the extent permitted by applicable law. No interest will be due and payable on the 2007 Notes until the end of the Optional Deferral Period except upon a redemption of the 2007 Notes during the deferral period.

PPL Capital Funding may pay at any time all or any portion of the interest accrued to that point during an Optional Deferral Period. At the end of the Optional Deferral Period or on any redemption date, PPL Capital Funding will be obligated to pay all accrued and unpaid interest.

Once all accrued and unpaid interest on the 2007 Notes has been paid, PPL Capital Funding again can defer interest payments on the 2007 Notes as described above, provided that an Optional Deferral Period cannot extend beyond the maturity date of the 2007 Notes.

If PPL Capital Funding defers interest for a period of 10 consecutive years from the commencement of an Optional Deferral Period, PPL Capital Funding will be required to pay all accrued and unpaid interest at the conclusion of the 10-year period, and to the extent it does not do so, PPL Corporation will be required to make guarantee payments in accordance with the Subordinated Guarantees with respect thereto. If PPL Capital Funding fails to pay in full all accrued and unpaid interest at the conclusion of the 10-year period, such failure continues for 30 days and PPL Corporation fails to make guarantee payments with respect thereto, an event of default that gives rise to acceleration of principal and interest on the 2007 Notes will occur under the Subordinated Indenture. See "— Events of Default" and "— Remedies" herein.

During any interest deferral period, neither PPL Corporation nor PPL Capital Funding may:

- declare or pay any dividend or distribution on its capital stock, other than dividends paid in shares of its capital stock;
- redeem, purchase, acquire or make a liquidation payment with respect to any of its capital stock;
- pay any principal, interest or premium on, or repay, repurchase or redeem any debt securities that are equal or junior in right of payment with the 2007 Notes or the Subordinated Guarantees, as the case may be; or
- make any payments with respect to any guarantee of debt securities by PPL Corporation if such guarantee is equal or junior in right of payment to the 2007 Notes or the Subordinated Guarantees, as the case may be;

#### ***other than***

- purchases, redemptions or other acquisitions of its capital stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or agents or a stock purchase or dividend reinvestment plan, or the satisfaction of its obligations pursuant to any contract or security outstanding on the date that the payment of interest is deferred requiring it to purchase, redeem or acquire its capital stock;
- any payment, repayment, redemption, purchase, acquisition or declaration of a dividend as a result of a

reclassification of its capital stock or the exchange or conversion of all or a portion of one class or series of its capital stock for another class or series of its capital stock;

- the purchase of fractional interests in shares of its capital stock pursuant to the conversion or exchange provisions of its capital stock or the security being converted or exchanged, or in connection with the settlement of stock purchase contracts;
- dividends or distributions paid or made in its capital stock (or rights to acquire its capital stock), or repurchases, redemptions or acquisitions of capital stock in connection with the issuance or exchange of capital stock (or of securities convertible into or exchangeable for shares of its capital stock) and distributions in connection with the settlement of stock purchase contracts outstanding on the date that the payment of interest is deferred;
- redemptions, exchanges or repurchases of, or with respect to, any rights outstanding under a shareholder rights plan or the declaration or payment thereunder of a dividend or distribution of or with respect to rights in the future;
- payments under any preferred trust securities, subordinated debentures or junior subordinated debentures, or guarantees of the foregoing, in each case that rank equal in right of payment to the 2007 Notes, so long as the amount of payments made on account of such securities or guarantees is paid on all such securities and guarantees then outstanding on a pro rata basis in proportion to the full payment to which each series of such securities and guarantees is then entitled if paid in full.

## **Payment**

So long as the 2007 Notes are registered in the name of DTC, as depository for the 2007 Notes as described below under "Book-Entry Only Issuance — The Depository Trust Company," payments on the 2007 Notes will be made as described therein.

So long as the 2007 Notes remain in book-entry only form, the record date for each interest payment date will be the close of business on the business day immediately preceding the applicable interest payment date. If the 2007 Notes do not remain in book-entry only form, the record date for each interest payment date will be the close of business on the fifteenth calendar day immediately preceding the applicable interest payment date. If PPL Capital Funding defaults in paying interest on a 2007 Note, PPL Capital Funding will pay such interest either:

- on a special record date between 10 and 15 days before the payment; or
- in any other lawful manner of payment that is consistent with the requirements of any securities exchange on which the 2007 Notes may be listed for trading.

We will pay principal of and any interest and premium on the 2007 Notes at maturity upon presentation of the 2007 Notes at the office of The Bank of New York Mellon in New York, New York, as our paying agent. In our discretion, we may change the place of payment on the 2007 Notes, and we may remove any paying agent and may appoint one or more additional paying agents (including us or any of our affiliates).

## **Form; Transfers; Exchanges**

So long as the 2007 Notes are registered in the name of DTC, as depository for the 2007 Notes as described below under "Book-Entry Only Issuance — The Depository Trust Company," transfers and exchanges of beneficial interests in the 2007 Notes will be made as described therein. In the event that the book-entry only system is discontinued, and the 2007 Notes are issued in certificated form, holders of 2007 Notes may exchange or transfer 2007 Notes at the office of the Trustee. The Trustee acts as our agent for registering 2007 Notes in the names of holders and transferring debt securities. We may appoint another agent or act as our own agent for this purpose. The entity performing the role of maintaining the list of registered holders is called the "security registrar." It will also perform transfers. In our discretion, we may change the place for registration of transfer of the 2007 Notes and may remove and/or appoint one or more additional security registrars (including us or any of our affiliates).

There will be no service charge for any transfer or exchange of the 2007 Notes, but the holders of 2007 Notes may be required to pay a sum sufficient to cover any tax or other governmental charge payable in connection therewith. We may restrict the transfer or exchange of (1) 2007 Notes during a period of 15 days prior to giving any notice of redemption or (2) any 2007 Note selected for redemption in whole or in part, except the unredeemed portion of any 2007 Note being redeemed in part.

## **Subordination**

### ***Subordination of the 2007 Notes***



The 2007 Notes are subordinate and junior in right of payment to all Senior Indebtedness (as defined below) of PPL Capital Funding. No payment of the principal (including redemption payments) of, or interest or premium, if any, on the 2007 Notes may be made by PPL Capital Funding until all holders of Senior Indebtedness of PPL Capital Funding have been paid, if any of the following occurs:

- certain events of bankruptcy, insolvency or reorganization of PPL Capital Funding;
- any Senior Indebtedness of PPL Capital Funding is not paid when due (after the expiration of any applicable grace period) and that default continues without cure or waiver; or
- any other default has occurred and continues without cure or waiver (after the expiration of any applicable grace period) pursuant to which the holders of Senior Indebtedness of PPL Capital Funding are permitted to accelerate the maturity of such Senior Indebtedness.

### ***Subordinated Guarantees***

PPL Corporation fully and unconditionally guarantees the payment of principal of and any interest and premium on the 2007 Notes, when due and payable (and subject to PPL Capital Funding's right to defer interest payments as described above), whether at the stated maturity date, by declaration of acceleration, call for redemption or otherwise, in accordance with the terms of the 2007 Notes and the Subordinated Indenture. The Subordinated Guarantees will remain in effect until the entire principal of and interest and premium, if any, on the 2007 Notes has been paid in full or otherwise discharged in accordance with the provisions of the Subordinated Indenture.

The Subordinated Guarantees are subordinate and junior in right of payment to all Senior Indebtedness of PPL Corporation. No payment of the principal (including redemption payments) of, or interest or premium on, the 2007 Notes may be made by PPL Corporation under the Subordinated Guarantees until all holders of Senior Indebtedness of PPL Corporation have been paid, if any of the following occurs:

- certain events of bankruptcy, insolvency or reorganization of PPL Corporation;
- any Senior Indebtedness of PPL Corporation is not paid when due (after the expiration of any applicable grace period) and that default continues without cure or waiver; or
- any other default has occurred and continues without cure or waiver (after the expiration of any applicable grace period) pursuant to which the holders of Senior Indebtedness of PPL Corporation are permitted to accelerate the maturity of such Senior Indebtedness.

Upon any distribution of assets of PPL Capital Funding or PPL Corporation, as the case may be, to its creditors in connection with any insolvency, bankruptcy or similar proceeding, all principal of, and premium, if any, and interest due or to become due on all of its Senior Indebtedness must be paid in full before the holders of the 2007 Notes are entitled to receive or retain any payment from such distribution.

Senior Indebtedness, when used with respect to PPL Capital Funding or PPL Corporation, is defined in the Subordinated Indenture to include all obligations of PPL Capital Funding or PPL Corporation, as the case may be, whether existing presently or in the future, to pay principal, interest, premium, penalties, fees and any other payment in respect of any of the following:

- indebtedness for borrowed money, including, without limitation, such obligations as are evidenced by credit agreements, notes, debentures, bonds and similar instruments;
- our obligations under synthetic leases, finance leases and capitalized leases;
- our obligations for reimbursement under letters of credit, banker's acceptances, security purchase facilities or similar facilities issued for our account;
- any of our other obligations with respect to derivative contracts, including commodity contracts, interest rate, commodity and currency swap agreements, forward contracts and other similar agreements or arrangements; and
- all obligations of others of the kinds described in the preceding categories which we have assumed or guaranteed;

### ***other than***

- trade obligations incurred in the ordinary course of business, or
- any such obligation or guarantee that expressly provides that it is not senior to or equal in right of payment to the 2007 Notes or the Subordinated Guarantees, as the case may be.

The Subordinated Indenture does not limit the aggregate amount of Senior Indebtedness that may be issued. As of December 31, 2019, PPL Capital Funding had approximately \$3.6 billion principal amount of indebtedness for borrowed money constituting its Senior Indebtedness, and PPL Corporation had approximately \$3.6 billion principal amount (on an unconsolidated basis) of obligations constituting its Senior Indebtedness (including guarantees of indebtedness of PPL Capital Funding and certain of PPL Corporation's other subsidiaries).

Pursuant to the subordination provisions of the Subordinated Indenture, any payment or distribution, whether in cash, securities or other property, which would otherwise (but for the subordination provisions) be payable or deliverable in respect of the 2007 Notes by PPL Capital Funding or PPL Corporation will instead be paid or delivered directly to the holders of such Senior Indebtedness of PPL Capital Funding or PPL Corporation (or their respective representative or trustee), as the case may be, in accordance with the priorities then existing among such holders until all such Senior Indebtedness has been paid in full before any payment or distribution is made to the holders of 2007 Notes. In the event that, notwithstanding such subordination provisions, any payment or distribution of assets of any kind or character is made on the 2007 Notes by PPL Capital Funding or PPL Corporation before all such Senior Indebtedness is paid in full, the Trustee or the holders of 2007 Notes receiving such payment will be required to pay over such payment or distribution to the holders of such Senior Indebtedness.

The Subordinated Indenture provides that Senior Indebtedness will not be deemed to have been paid in full unless the holders thereof, as applicable, shall have received cash (or securities or other property satisfactory to such holders) in full payment of such Senior Indebtedness then outstanding. Upon the payment in full of all such Senior Indebtedness, the holders of the 2007 Notes shall be subrogated to all the rights of any holders of such Senior Indebtedness to receive any further payments or distributions of cash, property or securities of PPL Capital Funding or PPL Corporation, as applicable, applicable to such Senior Indebtedness until the 2007 Notes shall have been paid in full; and such payments or distributions of cash, property or securities received by the holders of the 2007 Notes, by reason of such subrogation, which otherwise would be paid or distributed to the holders of such Senior Indebtedness, shall, as between PPL Capital Funding or PPL Corporation, as applicable, and its creditors other than the holders of Senior Indebtedness, on the one hand, and the holders of the 2007 Notes on the other, be deemed to be a payment on account of such Senior Indebtedness, and not on account of the 2007 Notes or the Subordinated Guarantees, as the case may be.

The Subordinated Indenture provides that no present or future holder of any Senior Indebtedness of PPL Capital Funding or PPL Corporation, as the case may be, will be prejudiced in the right to enforce subordination of the indebtedness under the Subordinated Indenture by any act or failure to act on the part of PPL Capital Funding or PPL Corporation, as applicable.

### **Redemption**

PPL Capital Funding may redeem the 2007 Notes, in whole or in part on one or more occasions, at 100% of their principal amount plus any accrued and unpaid interest thereon to, but not including, the redemption date.

The 2007 Notes are not subject to a sinking fund or other mandatory redemption and are not repayable at the option of the holder prior to the stated maturity date.

The 2007 Notes will be redeemable upon notice by mail between 30 and 60 days prior to the redemption date. If less than all of the 2007 Notes of any series or any tranche thereof are to be redeemed, the Trustee will select the 2007 Notes to be redeemed. In the absence of any provision for selection, the Trustee will choose a method of random selection as it deems fair and appropriate.

The 2007 Notes will cease to bear interest on the redemption date and the redemption price and any accrued interest on each 2007 Note will be paid upon the surrender of such Note for redemption. If only part of a 2007 Note is redeemed, the Trustee will deliver a new Note of the same series for the remaining portion without charge.

PPL Capital Funding may make any redemption at its option conditional upon the receipt by the paying agent, on or prior to the date fixed for redemption, of money sufficient to pay the redemption price. If the paying agent has not received such money by the date fixed for redemption, we will not be required to redeem such 2007 Notes.

### **Events of Default**

An "Event of Default" with respect to the 2007 Notes will occur if

- we do not pay any interest on any 2007 Note within 30 days of the due date; provided that a valid extension or deferral of the interest period as described above under "Option to Defer Interest Payments" will not constitute an Event of Default;
- we do not pay principal or premium on any 2007 Note on its due date;

- the Subordinated Guarantees of the 2007 Notes cease to be effective (except in accordance with their terms); are found in any judicial proceeding to be unenforceable or invalid, or are denied or disaffirmed (except in accordance with their terms);
- PPL Corporation or PPL Capital Funding file for bankruptcy or certain other similar events in bankruptcy, insolvency, receivership or reorganization occur.

No Event of Default with respect to the 2007 Notes necessarily constitutes an Event of Default with respect to the Subordinated Indenture Securities of any other series issued under the Subordinated Indenture.

## **Remedies**

### ***Acceleration***

*Any One Series.* If an Event of Default occurs and is continuing with respect to any one series of Subordinated Indenture Securities, then either the Trustee or the holders of 25% in principal amount of the outstanding Subordinated Indenture Securities of such series may declare the principal amount of all of the Subordinated Indenture Securities of such series to be due and payable immediately.

*More Than One Series.* If an Event of Default occurs and is continuing with respect to more than one series of Subordinated Indenture Securities, then either the Trustee or the holders of 25% of the aggregate principal amount of the outstanding Subordinated Indenture Securities of all such series, considered as one class, may make such declaration of acceleration. Thus, if there is more than one series affected, the action by the holders of 25% of the aggregate principal amount of the outstanding Subordinated Indenture Securities of any particular series will not, in itself, be sufficient to make a declaration of acceleration.

### ***Rescission of Acceleration***

After the declaration of acceleration has been made and before the Trustee has obtained a judgment or decree for payment of the money due, such declaration and its consequences will be rescinded and annulled, if

(1) we pay or deposit with the Trustee a sum sufficient to pay

- all overdue interest;
- the principal of and any premium which have become due otherwise than by such declaration of acceleration and interest thereon;
- interest on overdue interest to the extent lawful; and
- all amounts due to the Trustee under the Subordinated Indenture; and

(2) all Events of Default, other than the nonpayment of the principal which has become due solely by such declaration of acceleration, have been cured or waived as provided in the Subordinated Indenture. For more information as to waiver of defaults, see “— Waiver of Default and of Compliance” below.

### ***Control by Holders; Limitations***

Subject to the Subordinated Indenture, if an Event of Default (or certain other defaults as discussed below), with respect to the Subordinated Indenture Securities of any one series occurs and is continuing, the holders of a majority in principal amount of the outstanding Subordinated Indenture Securities of that series will have the right to

- direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or
- exercise any trust or power conferred on the Trustee with respect to the Subordinated Indenture Securities of such series.

If an Event of Default (or certain other defaults as discussed below) is continuing with respect to more than one series of Subordinated Indenture Securities, the holders of a majority in aggregate principal amount of the outstanding Subordinated Indenture Securities of all such series, considered as one class, will have the right to make such direction, and not the holders of the Subordinated Indenture Securities of any one of such series.

These rights of holders to make direction are subject to the following limitations:

- the holders' directions may not conflict with any law or the Subordinated Indenture; and
- the holders' directions may not involve the Trustee in personal liability where the Trustee believes indemnity is not adequate.

The Trustee may also take any other action it deems proper which is consistent with the holders' direction. With respect to Events of Default and other defaults in the performance of, or breach of, covenants in the Subordinated Indenture that do not constitute Events of Default, if any such Event of Default or other default occurs and is continuing after any applicable notice and/or cure period, then the Trustee may in its discretion (and subject to the rights of the holders to control remedies as described above and certain other conditions specified in the Subordinated Indenture) bring such judicial proceedings as the Trustee shall deem appropriate or proper.

The Subordinated Indenture provides that no holder of any Subordinated Indenture Security will have any right to institute any proceeding, judicial or otherwise, with respect to the Subordinated Indenture for the appointment of a receiver or for any other remedy thereunder unless

- that holder has previously given the Trustee written notice of a continuing Event of Default (or other default under the Subordinated Indenture after any applicable notice and/or cure period);
- the holders of 25% in aggregate principal amount of the outstanding Subordinated Indenture Securities of all affected series, considered as one class, have made written request to the Trustee to institute proceedings in respect of that Event of Default (or other default under the Subordinated Indenture after any applicable notice and/or cure period) and have offered the Trustee reasonable indemnity against costs and liabilities incurred in complying with such request; and
- for 60 days after receipt of such notice, the Trustee has failed to institute any such proceeding and no direction inconsistent with such request has been given to the Trustee during such 60-day period by the holders of a majority in aggregate principal amount of outstanding Subordinated Indenture Securities of all affected series, considered as one class.

Furthermore, no holder will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other holders.

However, each holder has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right.

#### **Notice of Default**

The Trustee is required to give the holders of the 2007 Notes notice of any default under the Subordinated Indenture to the extent required by the Trust Indenture Act, unless such default has been cured or waived; provided, however, that in the case of a default in the performance of, or breach of, any covenant or warranty in the Subordinated Indenture (after any applicable notice and/or cure period) that does not result in an Event of Default, no such notice shall be given until at least 90 days after the occurrence thereof. The Trust Indenture Act currently permits the Trustee to withhold notices of default (except for certain payment defaults) if the Trustee in good faith determines the withholding of such notice to be in the interests of the holders.

PPL Capital Funding and PPL Corporation have agreed to furnish the Trustee with an annual statement as to their compliance with the conditions and covenants in the Subordinated Indenture.

#### **Waiver of Default and of Compliance**

The holders of a majority in aggregate principal amount of the outstanding 2007 Notes may waive, on behalf of the holders of all outstanding 2007 Notes, any past default under the Subordinated Indenture, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the Subordinated Indenture that cannot be amended without the consent of the holder of each outstanding Subordinated Indenture Security.

Compliance with certain covenants in the Subordinated Indenture or otherwise provided with respect to Subordinated Indenture Securities may be waived by the holders of a majority in aggregate principal amount of the affected Subordinated Indenture Securities, considered as one class.

#### **Consolidation, Merger and Conveyance of Assets as an Entirety; No Financial Covenants**

Subject to the provisions described in the next paragraph, each of PPL Capital Funding and PPL Corporation has agreed in the Subordinated Indenture to preserve its corporate existence.

PPL Capital Funding and PPL Corporation have each also agreed not to consolidate with or merge into any other entity or convey, transfer or lease our properties and assets substantially as an entirety to any entity unless:

- the entity formed by such consolidation or into which PPL Capital Funding or PPL Corporation, as the case may be, is merged or the entity which acquires or which leases its property and assets substantially as an entirety is a corporation or limited liability company organized and existing under the laws of the United States of America or any State thereof or the District of Columbia, and expressly assumes, by supplemental



indenture, the due and punctual payment of the principal, premium and interest on all the outstanding 2007 Notes and the performance of all of its covenants under the Subordinated Indenture, and

- immediately after giving effect to such transactions, no Event of Default (or other default under the Subordinated Indenture after any applicable notice and/or cure period), and no event which after notice or lapse of time or both would become an Event of Default (or such other default), will have occurred and be continuing.

The Subordinated Indenture does not prevent or restrict:

- any consolidation or merger after the consummation of which PPL Capital Funding or PPL Corporation would be the surviving or resulting entity;
- any consolidation of PPL Capital Funding with PPL Corporation or any other entity all of the outstanding voting securities of which are owned, directly or indirectly, by PPL Corporation; or any merger of any such entity into any other of such entities; or any conveyance or other transfer, or lease, or properties by any thereof to any other thereof;
- any conveyance or other transfer, or lease, of any part of the properties of PPL Capital Funding or PPL Corporation which does not constitute the entirety, or substantially the entirety, thereof; or
- the approval by PPL Capital Funding or PPL Corporation of, or the consent by PPL Capital Funding or PPL Corporation to, any consolidation or merger to which any direct or indirect subsidiary or affiliate of PPL Capital Funding or PPL Corporation, as the case requires, may be a party or any conveyance, transfer or lease by any such subsidiary or affiliate of any of its assets.

### **Modification of Subordinated Indenture**

*Without Holder Consent.* Without the consent of any holders of Subordinated Indenture Securities, PPL Capital Funding, PPL Corporation and the Trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another entity to PPL Capital Funding or PPL Corporation;
- to add one or more covenants or other provisions for the benefit of the holders of all or any series or tranche of Subordinated Indenture Securities, or to surrender any right or power conferred upon PPL Corporation or PPL Capital Funding;
- to add any additional Events of Default for all or any series of Subordinated Indenture Securities;
- to change or eliminate any provision of the Subordinated Indenture or to add any new provision to the Subordinated Indenture that does not adversely affect the interests of the holders;
- to provide security for the Subordinated Indenture Securities of any series;
- to establish the form or terms of Subordinated Indenture Securities of any series or tranche as permitted by the Subordinated Indenture;
- to provide for the issuance of bearer securities;
- to evidence and provide for the acceptance of appointment of a separate or successor Trustee;
- to provide for the procedures required to permit the utilization of a noncertificated system of registration for any series or tranche of Indenture Securities;
- to change any place or places where
  - we may pay principal, premium and interest,
  - Subordinated Indenture Securities may be surrendered for transfer or exchange, and
  - notices and demands to or upon PPL Capital Funding or PPL Corporation may be served; or
- to cure any ambiguity, defect or inconsistency or to make any other changes that do not adversely affect the interests of the holders in any material respect;

*provided, that,* we will not enter into any supplemental indenture with the Trustee to add any additional Event of Default with respect to the 2007 Notes without the consent of the holders of at least a majority in aggregate principal amount of

outstanding 2007 Notes.

If the Trust Indenture Act is amended after the date of the Subordinated Indenture so as to require changes to the Subordinated Indenture or so as to permit changes to, or the elimination of, provisions which, at the date of the Subordinated Indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the Subordinated Indenture, the Subordinated Indenture will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and PPL Capital Funding, PPL Corporation and the Trustee may, without the consent of any holders, enter into one or more supplemental indentures to effect or evidence such amendment.

*With Holder Consent.* Except as provided above, the consent of the holders of at least a majority in aggregate principal amount of the Subordinated Indenture Securities of all outstanding series, considered as one class, is generally required for the purpose of adding to, changing or eliminating any of the provisions of the Subordinated Indenture pursuant to a supplemental indenture. However, if less than all of the series of outstanding Subordinated Indenture Securities are directly affected by a proposed supplemental indenture, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding Subordinated Indenture Securities of all directly affected series, considered as one class. Moreover, if the Indenture Securities of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of Subordinated Indenture Securities of one or more, but less than all, of such tranches, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding Subordinated Indenture Securities of all directly affected tranches, considered as one class.

However, no amendment or modification may, without the consent of the holder of each outstanding Subordinated Indenture Security directly affected thereby,

- change the stated maturity date of the principal or interest on any Subordinated Indenture Security (other than pursuant to the terms thereof and, in the case of the 2007 Notes, as described above under "Option to Defer Interest Payments"), or reduce the principal amount, interest or premium payable or change the currency in which any Subordinated Indenture Security is payable, or impair the right to bring suit to enforce any payment;
- reduce the percentages of holders whose consent is required for any supplemental indenture or waiver or reduce the requirements for quorum and voting under the Subordinated Indenture; or
- modify certain of the provisions in the Subordinated Indenture relating to supplemental indentures and waivers of certain covenants and past defaults.

A supplemental indenture which changes or eliminates any provision of the Subordinated Indenture expressly included solely for the benefit of holders of Subordinated Indenture Securities of one or more particular series or tranches will be deemed not to affect the rights under the Subordinated Indenture of the holders of Subordinated Indenture Securities of any other series or tranche.

We will be entitled to set any day as a record date for the purpose of determining the holders of outstanding Subordinated Indenture Securities of any series entitled to give or take any demand, direction, consent or other action under the Subordinated Indenture, in the manner and subject to the limitations provided in the Subordinated Indenture. In certain circumstances, the Trustee also will be entitled to set a record date for action by holders. If such a record date is set for any action to be taken by holders of particular Subordinated Indenture Securities, such action may be taken only by persons who are holders of such Subordinated Indenture Securities at the close of business on the record date.

The Subordinated Indenture provides that certain Subordinated Indenture Securities, including those for which payment or redemption money has been deposited or set aside in trust as described under "Satisfaction and Discharge" below, will not be deemed to be "outstanding" in determining whether the holders of the requisite principal amount of the outstanding Subordinated Indenture Securities have given or taken any demand, direction, consent or other action under the Subordinated Indenture as of any date, or are present at a meeting of holders for quorum purposes.

### **Satisfaction and Discharge**

Any Subordinated Indenture Securities or any portion will be deemed to have been paid for purposes of the Subordinated Indenture, and at PPL Capital Funding's election, the entire indebtedness of PPL Capital Funding and PPL Corporation will be satisfied and discharged, if there shall have been irrevocably deposited with the Trustee or any paying agent (other than PPL Capital Funding or PPL Corporation), in trust:

- money sufficient,

- in the case of a deposit made prior to the maturity of such Subordinated Indenture Securities, non-redeemable Government Obligations (as defined in the Subordinated Indenture) sufficient, or
- a combination of items listed in the preceding two bullet points, which in total are sufficient,

to pay when due the principal of, and any premium, and interest due and to become due on such Subordinated Indenture Securities or portions thereof on and prior to the maturity thereof.

The Subordinated Indenture will be deemed satisfied and discharged when no Subordinated Indenture Securities remain outstanding and when we have paid all other sums payable by us under the Subordinated Indenture.

All moneys we pay to the Trustee or any paying agent on Subordinated Indenture Securities which remain unclaimed at the end of two years after payments have become due will be paid to or upon the order of PPL Capital Funding. Thereafter, the holder of such Subordinated Indenture Security may look only to us for payment.

#### **Agreement by Holders to Certain Tax Treatment**

Each holder of the 2007 Notes will, by accepting the 2007 Notes or a beneficial interest therein, be deemed to have agreed that the holder intends that the 2007 Notes constitute debt and will treat the 2007 Notes as debt for United States federal, state and local tax purposes.

#### **Resignation and Removal of the Trustee; Deemed Resignation**

The Trustee may resign at any time by giving written notice to us.

The Trustee may also be removed by act of the holders of a majority in principal amount of the then outstanding Subordinated Indenture Securities of any series.

No resignation or removal of the Trustee and no appointment of a successor trustee will become effective until the acceptance of appointment by a successor trustee in accordance with the requirements of the Subordinated Indenture.

Under certain circumstances, we may appoint a successor trustee and if the successor accepts, the Trustee will be deemed to have resigned.

#### **Notices**

Notices to holders of debt securities will be given by mail to the addresses of the holders as they may appear in the security register.

#### **Title**

PPL Capital Funding, PPL Corporation, the Trustee, and any agent of PPL Capital Funding, PPL Corporation or the Trustee, will treat the person or entity in whose name Subordinated Indenture Securities are registered as the absolute owner of those Subordinated Indenture Securities (whether or not the Subordinated Indenture Securities may be overdue) for the purpose of making payments and for all other purposes irrespective of notice to the contrary.

#### **Governing Law**

The Subordinated Indenture and the Subordinated Indenture Securities provide that they are governed by and construed in accordance with the laws of the State of New York, except to the extent the Trust Indenture Act shall be applicable.

#### **Regarding the Trustee**

The Trustee under the Subordinated Indenture is The Bank of New York Mellon ("BNY"). In addition to acting as Trustee, BNY also maintains various banking and trust relationships with PPL Capital Funding and PPL Corporation and some of their affiliates.

#### **Book-Entry Only Issuance — The Depository Trust Company**

DTC acts as the initial securities depository for the 2007 Notes. The 2007 Notes were issued in fully registered form and are evidenced by one or more global 2007 Notes registered in the name of DTC's nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The global 2007 Notes were deposited with the Trustee as custodian for DTC.

DTC is a New York limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered

pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities for its participants ("Direct Participants") and also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules that apply to DTC and those using its system are on file with the SEC.

Purchases of the 2007 Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 Notes on DTC's records. The ownership interest of each actual purchaser ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners should receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which they purchased 2007 Notes. Transfers of ownership interests on the 2007 Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2007 Notes, except in the event that use of the book-entry system for the 2007 Notes is discontinued.

To facilitate subsequent transfers, all 2007 Notes deposited by Direct Participants with DTC are registered in the name of DTC's nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. DTC's records reflect only the identity of the Participants to whose accounts the 2007 Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Notices will be sent to DTC.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2007 Notes unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns the voting or consenting rights of Cede & Co. to those Direct Participants to whose accounts the 2007 Notes are credited on the record date. PPL Capital Funding believes that these arrangements will enable the beneficial owners to exercise rights equivalent in substance to the rights that can be directly exercised by a registered holder of the 2007 Notes.

Payments of principal, interest and premium on the 2007 Notes will be made to Cede & Co. (or such other nominee of DTC). DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from us or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices and will be the responsibility of each Participant and not of DTC, the Trustee or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the price, principal and interest to Cede & Co. (or other such nominee of DTC) is our responsibility. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

A beneficial owner will not be entitled to receive physical delivery of the 2007 Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the 2007 Notes.

DTC may discontinue providing its services as securities depository with respect to the 2007 Notes at any time by giving us or the Trustee reasonable notice. In the event no successor securities depository is obtained, certificates for the 2007 Notes will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we do not take any responsibility for the accuracy of this information.



**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

PPL Capital Funding, Inc.'s Junior Subordinated Notes 2013 Series B due 2073, which are guaranteed as to payment of principal, interest and any premium by PPL Corporation (the "2013 Notes"), are registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

***PPL Capital Funding Junior Subordinated Notes 2013 Series B due 2073***

The following summary description sets forth certain terms and provisions of the 2013 Notes. Because this description is a summary, it does not describe every aspect of the 2013 Notes or the Subordinated Indenture under which the 2013 Notes were issued, as described below. The Subordinated Indenture was filed by PPL Corporation as an exhibit to its Current Report on Form 8-K filed on March 20, 2007 and the Supplemental Indenture No. 4 thereto relating to the 2013 Notes was filed as an exhibit to its Current Report on Form 8-K dated March 15, 2013. The Subordinated Indenture and its associated documents contain the full legal text of the matters described in this section. This summary is subject to and qualified in its entirety by reference to all of the provisions of the 2013 Notes and the Subordinated Indenture, including definitions of certain terms used in the Subordinated Indenture. The Subordinated Indenture has been qualified under the Trust Indenture Act, and reference is made to the Trust Indenture Act for provisions that apply to the 2013 Notes.

Certain terms used below and not otherwise defined herein shall have the meaning assigned to such terms in the Subordinated Indenture. Defined terms used in this summary description of the 2013 Notes shall apply only to this summary description and the 2013 Notes.

**General**

PPL Capital Funding issued the 2013 Notes as a series of debt securities under the Subordinated Indenture, dated as of March 1, 2007 (as such indenture may be amended and supplemented from time to time, the "Subordinated Indenture"), among PPL Capital Funding, PPL Corporation and The Bank of New York Mellon (formerly known as The Bank of New York), as trustee (the "Trustee"). The Subordinated Indenture does not limit the amount of securities that may be issued thereunder. The 2013 Notes and all other debt securities issued under the Subordinated Indenture are collectively referred to herein as the "Subordinated Indenture Securities."

The 2013 Notes are unsecured, subordinated obligations of PPL Capital Funding that rank junior to all of PPL Capital Funding's Senior Indebtedness (as defined below). The 2013 Notes are fully and unconditionally guaranteed by PPL Corporation as to payment of principal, interest and any premium pursuant to the subordinated guarantees of PPL Corporation (the "Subordinated Guarantees") that rank junior to all of PPL Corporation's Senior Indebtedness. See "Subordination" below.

The 2013 Notes were issued in fully registered form only, without coupons. The 2013 Notes were initially represented by one or more fully registered global securities (the "Global Securities") deposited with the Trustee, as custodian for The Depository Trust Company ("DTC"), as depository, and registered in the name of DTC or DTC's nominee. A beneficial interest in a Global Security will be shown on, and transfers or exchanges thereof will be effected only through, records maintained by DTC and its participants, as described below under "Book-Entry Only Issuance—DTC." The authorized denominations of the 2013 Notes is \$25 and integral multiples of \$25 in excess thereof. Except in limited circumstances described below, the 2013 Notes are not exchangeable for 2013 Notes in definitive certificated form.

The 2013 Notes were initially issued in one series in the aggregate principal amount of \$450,000,000. PPL Capital Funding may, without the consent of the holders of the 2013 Notes, increase the principal amount of the series and issue additional notes of such series having the same ranking, interest rate, maturity and other terms as the 2013 Notes offered hereby (other than differences in the price to public and interest accrued prior to the issue date of such additional notes); *provided* that if any such additional notes are not fungible with the 2013 Notes initially offered hereby for U.S. federal income tax purposes, such additional notes will have a separate CUSIP number. Any such additional notes may, together with the 2013 Notes, constitute a single series of securities under the Subordinated Indenture. The 2013 Notes and any additional notes of the same series having the same terms as the 2013 Notes offered hereby subsequently issued under the Subordinated Indenture may be treated as a single class for all purposes under the Subordinated Indenture, including, without limitation, voting, waivers and amendments.

**Maturity**

Unless an earlier redemption has occurred, the entire principal amount of the 2013 Notes will mature and become due and payable, together with any accrued and unpaid interest, on April 30, 2073.

### **Interest and Payment**

PPL Capital Funding will pay interest quarterly on the 2013 Notes at the rate of 5.90% per year. PPL Capital Funding will pay interest on the 2013 Notes on January 30, April 30, July 30 and October 30 of each year, each such date referred to as an "interest payment date," until maturity or earlier redemption. The regular record date for interest payable on any interest payment date on the 2013 Notes shall be the close of business (1) on the business day immediately preceding such interest payment date so long as all of the 2013 Notes remain in book-entry only form, or (2) on the 15th calendar day immediately preceding each interest payment date if any of the 2013 Notes do not remain in book-entry only form. See "—Book-Entry Only Issuance." Interest on the 2013 Notes will accrue from, and including, the first date of original issuance to, but excluding, the first interest payment date. Thereafter, interest on each 2013 Note will accrue from, and including, the last interest payment date to which PPL Capital Funding has paid, or duly provided for the payment of, interest on that Note to, but excluding, the next succeeding interest payment date. No interest will accrue on a 2013 Note for the day that the 2013 Note matures. The amount of interest payable for any full quarterly period will be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of interest payable for any period shorter than a full quarterly period for which interest is computed will be computed on the basis of the actual number of days in the period using 30-day calendar months. If any date on which interest, principal or premium is payable on the 2013 Notes falls on a day that is not a business day, then payment of the interest, principal or premium payable on that date will be made on the next succeeding day which is a business day, and no interest or payment will be paid in respect of the delay. A "business day" is any day that is not a Saturday, a Sunday, or a day on which banking institutions or trust companies in New York City are generally authorized or required by law or executive order to remain closed.

In this description of the 2013 Notes the term "interest" includes quarterly interest payments and applicable interest on interest payments accrued but not paid on the applicable interest payment date.

### **Redemption**

PPL Capital Funding may redeem the 2013 Notes at its option, in whole at any time or in part from time to time at a redemption price equal to 100% of the principal amount of the 2013 Notes being redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of Notes to be redeemed at such holder's registered address. If less than all of the 2013 Notes of any series or any tranche thereof are to be redeemed, the Trustee will select the 2013 Notes to be redeemed. In the absence of any provision for selection, the Trustee will choose a method of random selection as it deems fair and appropriate. PPL Capital Funding will pay the redemption price and any accrued interest once holders surrender the 2013 Note for redemption. If only part of a 2013 Note is redeemed, the Trustee will deliver to the holders a new Note of the same series for the remaining portion without charge.

PPL Capital Funding may make any redemption at its option conditional upon the receipt by the paying agent, on or prior to the date fixed for redemption, of money sufficient to pay the redemption price. If the paying agent has not received such money by the date fixed for redemption, PPL Capital Funding will not be required to redeem such Notes.

The 2013 Notes will not be entitled to the benefit of a sinking fund or be subject to redemption at the option of the holder.

### **Option to Defer Interest Payments**

So long as there is no event of default under the Subordinated Indenture, PPL Capital Funding may defer interest payments on the 2013 Notes, from time to time, for one or more periods (each, an "Optional Deferral Period," which will be deemed to begin on the most recent interest payment date on which interest on the 2013 Notes was paid) of up to 10 consecutive years per Optional Deferral Period. However, a deferral of interest payments cannot extend beyond the maturity date of the 2013 Notes. During an Optional Deferral Period, interest will continue to accrue on the 2013 Notes, and deferred interest payments will accrue additional interest at a rate equal to the interest rate on the 2013 Notes, compounded on each interest payment date, to the extent permitted by applicable law. No interest will be due and payable on the 2013 Notes until the end of the Optional Deferral Period except upon a redemption of the 2013 Notes during the deferral period.

PPL Capital Funding may pay at any time all or any portion of the interest accrued to that point during an Optional Deferral Period. At the end of the Optional Deferral Period or on any redemption date, PPL Capital Funding will be obligated to pay all accrued and unpaid interest.

Once all accrued and unpaid interest on the 2013 Notes has been paid, PPL Capital Funding again can defer interest payments on the 2013 Notes as described above, provided that an Optional Deferral Period cannot extend beyond the maturity date of the 2013 Notes.

If PPL Capital Funding defers interest for a period of 10 consecutive years from the commencement of an Optional Deferral Period, such deferred interest will become due on the interest payment date falling on the tenth anniversary of the commencement of such Optional Deferral Period. PPL Capital Funding will be required to pay all accrued and unpaid interest on such interest payment date, and to the extent it does not do so, PPL Corporation will be required to make guarantee payments in accordance with the Subordinated Guarantees. If PPL Capital Funding and PPL Corporation fail to pay in full all accrued and unpaid interest within 30 days of such interest payment date, an event of default that permits acceleration of principal and interest on the 2013 Notes will occur under the Subordinated Indenture. See “—Events of Default.”

During any period in which PPL Capital Funding defers interest payments on the 2013 Notes, neither PPL Corporation nor PPL Capital Funding may:

- declare or pay any dividend or distribution on any of their respective capital stock, other than dividends paid in shares of their respective capital stock;
- redeem, purchase, acquire or make a liquidation payment with respect to any of PPL Corporation's or PPL Capital Funding's capital stock;
- pay any principal, interest or premium on, or repay, repurchase or redeem any of PPL Corporation's or PPL Capital Funding's debt securities that are equal or junior in right of payment with the 2013 Notes or the Subordinated Guarantees, as the case may be; or
- make any payments with respect to any PPL Corporation or PPL Capital Funding guarantee of debt securities if such guarantee is equal or junior in right of payment to the 2013 Notes or the Subordinated Guarantees, as the case may be (other than payments under the Subordinated Guarantees),

**other than**

- purchases, redemptions or other acquisitions of PPL Corporation's or PPL Capital Funding's capital stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or agents or a stock purchase or dividend reinvestment plan, or the satisfaction of its obligations pursuant to any contract or security outstanding on the date that the payment of interest is deferred requiring it to purchase, redeem or acquire its capital stock;
- any payment, repayment, redemption, purchase, acquisition or declaration of a dividend as a result of a reclassification of PPL Corporation's or PPL Capital Funding's capital stock or the exchange or conversion of all or a portion of one class or series of its capital stock for another class or series of its capital stock or any class or series of its indebtedness for any class or series of its capital stock;
- the purchase of fractional interests in shares of PPL Corporation's or PPL Capital Funding's capital stock pursuant to the conversion or exchange provisions of its capital stock or the security being converted or exchanged, or in connection with the settlement of contracts entered into by PPL Corporation to sell shares of its capital stock (“stock purchase contracts”);
- dividends or distributions paid or made in PPL Corporation's or PPL Capital Funding's capital stock (or rights to acquire its capital stock), or repurchases, redemptions or acquisitions of capital stock in connection with the issuance or exchange of capital stock (or of securities convertible into or exchangeable for shares of its capital stock) and distributions in connection with the settlement of stock purchase contracts;
- redemptions, exchanges or repurchases of, or with respect to, any rights outstanding under a shareholder rights plan or the declaration or payment thereunder of a dividend or distribution of or with respect to rights in the future;
- payments under any preferred trust securities, subordinated debentures or junior subordinated debentures, or guarantees of the foregoing, in each case that rank equal in right of payment to the 2013 Notes or the Subordinated Guarantees, so long as the amounts paid, the amounts set aside at such time for payment of such securities and guarantees on the immediately following regularly scheduled interest payment dates therefor and the amounts paid or set aside at such time for payment on the 2013 Notes on the immediately following interest payment date for the 2013 Notes, are in the same proportion to the full payment to which each series of such securities and guarantees (including the 2013 Notes) is then, or on such immediately following regularly scheduled interest payment dates will be, entitled if paid in full;
- dividends or distributions by PPL Capital Funding on its capital stock to the extent owned by PPL

Corporation; and

- redemptions, purchases, acquisitions or liquidation payments by PPL Capital Funding with respect to its capital stock to the extent owned by PPL Corporation.

## **Subordination**

### ***Subordination of the 2013 Notes***

The 2013 Notes are subordinate and junior in right of payment to all Senior Indebtedness of PPL Capital Funding. No payment of the principal (including redemption payments) of, or interest or premium, if any, on the 2013 Notes may be made by PPL Capital Funding until all holders of Senior Indebtedness of PPL Capital Funding have been paid, if any of the following occurs:

- certain events of bankruptcy, insolvency or reorganization of PPL Capital Funding;
- any Senior Indebtedness of PPL Capital Funding is not paid when due (after the expiration of any applicable grace period) and that default continues without cure or waiver; or
- any other default has occurred and continues without cure or waiver (after the expiration of any applicable grace period) pursuant to which the holders of Senior Indebtedness of PPL Capital Funding are permitted to accelerate the maturity of such Senior Indebtedness.

### ***Subordinated Guarantees***

PPL Corporation fully and unconditionally guarantees the payment of principal of and any interest and premium on the 2013 Notes, when due and payable (and subject to PPL Capital Funding's right to defer interest payments as described above), whether at the stated maturity date, by declaration of acceleration, call for redemption or otherwise, in accordance with the terms of the 2013 Notes and the Subordinated Indenture. The Subordinated Guarantees will remain in effect until the entire principal of and interest and premium, if any, on the 2013 Notes has been paid in full or otherwise discharged in accordance with the provisions of the Subordinated Indenture.

The Subordinated Guarantees are subordinate and junior in right of payment to all Senior Indebtedness of PPL Corporation. No payment of the principal (including redemption payments) of, or interest or premium on, the 2013 Notes may be made by PPL Corporation under the Subordinated Guarantees until all holders of Senior Indebtedness of PPL Corporation have been paid, if any of the following occurs:

- certain events of bankruptcy, insolvency or reorganization of PPL Corporation;
- any Senior Indebtedness of PPL Corporation is not paid when due (after the expiration of any applicable grace period) and that default continues without cure or waiver; or
- any other default has occurred and continues without cure or waiver (after the expiration of any applicable grace period) pursuant to which the holders of Senior Indebtedness of PPL Corporation are permitted to accelerate the maturity of such Senior Indebtedness.

Upon any distribution of assets of PPL Capital Funding or PPL Corporation, as the case may be, to its creditors in connection with any insolvency, bankruptcy or similar proceeding, all principal of, and premium, if any, and interest due or to become due on all of its Senior Indebtedness must be paid in full before the holders of the 2013 Notes are entitled to receive or retain any payment from such distribution.

"Senior Indebtedness," when used with respect to PPL Capital Funding or PPL Corporation, is defined in the Subordinated Indenture to include all of PPL Capital Funding's or PPL Corporation's obligations, as the case may be, whether presently existing or from time to time hereafter incurred, created, assumed or existing, to pay principal, interest, premium, penalties, fees and any other payment in respect of any of the following:

- indebtedness for borrowed money, including, without limitation, such obligations as are evidenced by credit agreements, notes, debentures, bonds and similar instruments;
- PPL Capital Funding's or PPL Corporation's obligations under synthetic leases, finance leases and capitalized leases;
- PPL Capital Funding's or PPL Corporation's obligations for reimbursement under letters of credit, banker's acceptances, security purchase facilities or similar facilities issued for PPL Capital Funding's or PPL Corporation's account;
- any of PPL Capital Funding's or PPL Corporation's other obligations with respect to derivative contracts, including commodity contracts, interest rate, commodity and currency swap agreements, forward contracts



and other similar agreements or arrangements; and

- all obligations of others of the kinds described in the preceding categories which PPL Capital Funding or PPL Corporation has assumed or guaranteed,

**other than**

- trade obligations incurred in the ordinary course of business, or
- any such obligation or guarantee that expressly provides that it is not senior to or is equal in right of payment to the 2013 Notes or the Subordinated Guarantees, as the case may be (including PPL Capital Funding's 2007 Series A Junior Subordinated Notes due 2067, and PPL Corporation's respective Subordinated Guarantees thereof).

The Subordinated Indenture does not limit the aggregate amount of Senior Indebtedness that may be issued. As of December 31, 2019, PPL Capital Funding had approximately \$3.6 billion principal amount of indebtedness for borrowed money constituting its Senior Indebtedness, and PPL Corporation had approximately \$3.6 billion principal amount (on an unconsolidated basis) of obligations constituting its Senior Indebtedness (including guarantees of indebtedness of PPL Capital Funding and certain of PPL Corporation's other subsidiaries).

Pursuant to the subordination provisions of the Subordinated Indenture, any payment or distribution, whether in cash, securities or other property, which would otherwise (but for the subordination provisions) be payable or deliverable in respect of the 2013 Notes by PPL Capital Funding or PPL Corporation will instead be paid or delivered directly to the holders of such Senior Indebtedness of PPL Capital Funding or PPL Corporation (or their respective representative or Trustee), as the case may be, in accordance with the priorities then existing among such holders until all such Senior Indebtedness has been paid in full before any payment or distribution is made to the holders of Notes. In the event that, notwithstanding such subordination provisions, any payment or distribution of assets of any kind or character is made on the 2013 Notes by PPL Capital Funding or PPL Corporation before all such Senior Indebtedness is paid in full, the Trustee or the holders of Notes receiving such payment will be required to pay over such payment or distribution to the holders of such Senior Indebtedness.

The Subordinated Indenture provides that Senior Indebtedness will not be deemed to have been paid in full unless the holders thereof, as applicable, shall have received cash (or securities or other property satisfactory to such holders) in full payment of such Senior Indebtedness then outstanding. Upon the payment in full of all such Senior Indebtedness, the holders of the 2013 Notes shall be subrogated to all the rights of any holders of such Senior Indebtedness to receive any further payments or distributions of cash, property or securities of PPL Capital Funding or PPL Corporation, as applicable, applicable to such Senior Indebtedness until the 2013 Notes shall have been paid in full, and such payments or distributions of cash, property or securities received by the holders of the 2013 Notes, by reason of such subrogation, which otherwise would be paid or distributed to the holders of such Senior Indebtedness, shall, as between PPL Capital Funding or PPL Corporation, as applicable, and its creditors other than the holders of Senior Indebtedness, on the one hand, and the holders of the 2013 Notes, on the other, be deemed to be a payment on account of such Senior Indebtedness, and not on account of the 2013 Notes or the Subordinated Guarantees, as the case may be.

The Subordinated Indenture provides that no present or future holder of any Senior Indebtedness of PPL Capital Funding or PPL Corporation, as the case may be, will be prejudiced in the right to enforce subordination of the indebtedness under the Subordinated Indenture by any act or failure to act on the part of PPL Capital Funding or PPL Corporation, as applicable.

**Events of Default**

Each of the following constitutes an "Event of Default" under the Subordinated Indenture with respect to the 2013 Notes:

- default in the payment of any interest on any 2013 Note within 30 days following the due date; provided that failure to pay interest during an Optional Deferral Period will not constitute an Event of Default;
- default in the payment of the principal or premium on any 2013 Note on its due date;
- PPL Corporation's Subordinated Guarantees of the 2013 Notes cease to be effective (except in accordance with their terms), are found in any judicial proceeding to be unenforceable or invalid, or are denied or disaffirmed (except in accordance with their terms); or
- PPL Corporation or PPL Capital Funding files for bankruptcy or certain other similar events in bankruptcy, insolvency, receivership or reorganization occur.

No Event of Default with respect to the 2013 Notes necessarily constitutes an Event of Default with respect to the Subordinated Indenture Securities of any other series issued under the Subordinated Indenture.

**Acceleration. Any One Series.** If an Event of Default occurs and is continuing with respect to any one series of Subordinated Indenture Securities, then either the Trustee or the holders of 25% in principal amount of the outstanding Subordinated Indenture Securities of such series may declare the principal amount of all of the Subordinated Indenture Securities of such series immediately to be due and payable.

**More Than One Series.** If an Event of Default occurs and is continuing with respect to more than one series of Subordinated Indenture Securities, then either the Trustee or the holders of 25% of the aggregate principal amount of the outstanding Subordinated Indenture Securities of all such series, considered as one class, may make such declaration of acceleration. Thus, if there is more than one series affected, the action by the holders of 25% of the aggregate principal amount of the outstanding Subordinated Indenture Securities of any particular series will not, in itself, be sufficient to make a declaration of acceleration.

**Rescission of Acceleration.** After a declaration of acceleration has been made and before the Trustee has obtained a judgment or decree for payment of the money due, such declaration and its consequences will be rescinded and annulled, if:

(1) PPL Corporation or PPL Capital Funding pays or deposits with the Trustee a sum sufficient to pay:

- all overdue interest;
- the principal of and any premium which have become due otherwise than by such declaration of acceleration and interest thereon;
- interest on overdue interest to the extent lawful; and
- all amounts due to the Trustee under the Subordinated Indenture; and

(2) all Events of Default, other than the nonpayment of the principal which has become due solely by such declaration of acceleration, have been cured or waived as provided in the Subordinated Indenture. For more information as to waiver of defaults, see “—Waiver of Default and of Compliance.”

**Control by Holders; Limitations.** Subject to the Subordinated Indenture, if an Event of Default (or certain other defaults as discussed below), with respect to the Subordinated Indenture Securities of any one series occurs and is continuing, the holders of a majority in principal amount of the outstanding Subordinated Indenture Securities of that series will have the right to:

- direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or
- exercise any trust or power conferred on the Trustee with respect to the Subordinated Indenture Securities of such series.

If an Event of Default (or certain other defaults as discussed below) is continuing with respect to more than one series of Subordinated Indenture Securities, the holders of a majority in aggregate principal amount of the outstanding Subordinated Indenture Securities of all such series, considered as one class, will have the right to make such direction, and not the holders of the Subordinated Indenture Securities of any one of such series.

These rights of holders to make direction are subject to the following limitations:

- the holders' directions may not conflict with any law or the Subordinated Indenture; and
- the holders' directions may not involve the Trustee in personal liability where the Trustee believes indemnity is not adequate.

The Trustee may also take any other action it deems proper which is consistent with the holders' direction. With respect to Events of Default and other defaults in the performance of, or breach of, covenants in the Subordinated Indenture that do not constitute Events of Default, if any such Event of Default or other default occurs and is continuing after any applicable notice and/or cure period, then the Trustee may in its discretion (and subject to the rights of the holders to control remedies as described above and certain other conditions specified in the Subordinated Indenture) bring such judicial proceedings as the Trustee shall deem appropriate or proper.

The Subordinated Indenture provides that no holder of any Subordinated Indenture Security will have any right to institute any proceeding, judicial or otherwise, with respect to the Subordinated Indenture for the appointment of a receiver or for any other remedy thereunder unless:

- that holder has previously given the Trustee written notice of a continuing Event of Default (or other default under the Subordinated Indenture after any applicable notice and/or cure period);

- the holders of 25% in aggregate principal amount of the outstanding Subordinated Indenture Securities of all affected series, considered as one class, have made written request to the Trustee to institute proceedings in respect of that Event of Default (or other default under the Subordinated Indenture after any applicable notice and/or cure period);
- such holder or holders shall have offered the Trustee reasonable indemnity against costs and liabilities incurred in complying with such request;
- for 60 days after receipt of such notice, the Trustee has failed to institute any such proceeding; and
- no direction inconsistent with such request has been given to the Trustee during such 60-day period by the holders of a majority in aggregate principal amount of outstanding Subordinated Indenture Securities of all affected series, considered as one class.

Furthermore, no holder will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other holders.

However, each holder has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right.

#### **Notice of Default**

The Trustee is required to give the holders of the 2013 Notes notice of any default under the Subordinated Indenture to the extent required by the Trust Indenture Act, unless such default has been cured or waived; provided, however, that in the case of a default in the performance of, or breach of, any covenant or warranty in the Subordinated Indenture (after any applicable notice and/or cure period) that does not result in an Event of Default, no such notice shall be given until at least 90 days after the occurrence thereof. The Trust Indenture Act currently permits the Trustee to withhold notices of default (except for certain payment defaults) if the Trustee in good faith determines the withholding of such notice to be in the interests of the holders.

PPL Capital Funding and PPL Corporation have agreed to furnish the Trustee with an annual statement as to their compliance with the conditions and covenants in the Subordinated Indenture.

#### **Waiver of Default and of Compliance**

The holders of a majority in aggregate principal amount of the outstanding Notes may waive, on behalf of the holders of all outstanding Notes, any past default under the Subordinated Indenture, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the Subordinated Indenture that cannot be amended without the consent of the holder of each outstanding Subordinated Indenture Security.

Compliance with certain covenants in the Subordinated Indenture or otherwise provided with respect to Subordinated Indenture Securities may be waived by the holders of a majority in aggregate principal amount of the affected Subordinated Indenture Securities, considered as one class.

#### **Consolidation, Merger and Conveyance of Assets as an Entirety; No Financial Covenants**

Subject to the provisions described in the next paragraph, each of PPL Capital Funding and PPL Corporation has agreed in the Subordinated Indenture to preserve its corporate existence.

PPL Capital Funding and PPL Corporation have each also agreed not to consolidate with or merge into any other entity or convey, transfer or lease its properties and assets substantially as an entirety to any entity unless:

- the entity formed by such consolidation or into which PPL Capital Funding or PPL Corporation, as the case may be, is merged or the entity which acquires or which leases its property and assets substantially as an entirety is a corporation or limited liability company organized and existing under the laws of the United States of America or any State thereof or the District of Columbia, and expressly assumes, by supplemental indenture, the due and punctual payment of the principal, premium and interest on all the outstanding Notes and the performance of all of its covenants under the Subordinated Indenture, and
- immediately after giving effect to such transactions, no Event of Default (or other default under the Subordinated Indenture after any applicable notice and/or cure period), and no event which after notice or lapse of time or both would become an Event of Default (or such other default), will have occurred and be continuing.

The Subordinated Indenture does not prevent or restrict:

- any consolidation or merger after the consummation of which PPL Capital Funding or PPL Corporation would be the surviving or resulting entity;

- any consolidation of PPL Capital Funding with PPL Corporation or any other entity all of the outstanding voting securities of which are owned, directly or indirectly, by PPL Corporation; or any merger of any such entity into any other of such entities; or any conveyance or other transfer, or lease, or properties by any thereof to any other thereof;
- any conveyance or other transfer, or lease, of any part of the properties of PPL Capital Funding or PPL Corporation which does not constitute the entirety, or substantially the entirety, thereof; or
- the approval by PPL Capital Funding or PPL Corporation of, or the consent by PPL Capital Funding or PPL Corporation to, any consolidation or merger to which any direct or indirect subsidiary or affiliate of PPL Capital Funding or PPL Corporation, as the case requires, may be a party or any conveyance, transfer or lease by any such subsidiary or affiliate of any of its assets.

### **Modification of Subordinated Indenture**

*Without Holder Consent.* Without the consent of any holders of Subordinated Indenture Securities, PPL Capital Funding, PPL Corporation and the Trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another entity to PPL Capital Funding or PPL Corporation;
- to add one or more covenants or other provisions for the benefit of the holders of all or any series or tranche of Subordinated Indenture Securities, or to surrender any right or power conferred upon PPL Capital Funding or PPL Corporation;
- to add any additional Events of Default for all or any series of Subordinated Indenture Securities;
- to change or eliminate any provision of the Subordinated Indenture or to add any new provision to the Subordinated Indenture that does not adversely affect the interests of the holders;
- to provide security for the Subordinated Indenture Securities of any series;
- to establish the form or terms of Subordinated Indenture Securities of any series or tranche as permitted by the Subordinated Indenture;
- to provide for the issuance of bearer securities;
- to evidence and provide for the acceptance of appointment of a separate or successor Trustee;
- to provide for the procedures required to permit the utilization of a noncertificated system of registration for any series or tranche of Indenture Securities;
- to change any place or places where:
  - principal, premium and interest may be payable,
  - Subordinated Indenture Securities may be surrendered for transfer or exchange, and
  - notices and demands to or upon PPL Capital Funding or PPL Corporation may be served; or
- to cure any ambiguity, defect or inconsistency or to make any other changes that do not adversely affect the interests of the holders in any material respect;

*provided* that PPL Capital Funding and PPL Corporation will not enter into any supplemental indenture with the Trustee to add any additional Event of Default with respect to the 2013 Notes without the consent of the holders of at least a majority in aggregate principal amount of outstanding Notes.

If the Trust Indenture Act is amended so as to require changes to the Subordinated Indenture or so as to permit changes to, or the elimination of, provisions which, at the date of the Subordinated Indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the Subordinated Indenture, the Subordinated Indenture will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and PPL Capital Funding, PPL Corporation and the Trustee may, without the consent of any holders, enter into one or more supplemental indentures to effect or evidence such amendment.

*With Holder Consent.* Except as provided above, the consent of the holders of at least a majority in aggregate principal amount of the Subordinated Indenture Securities of all outstanding series, considered as one class, is generally required for the purpose of adding to, changing or eliminating any of the provisions of the Subordinated



Indenture pursuant to a supplemental indenture. However, if less than all of the series of outstanding Subordinated Indenture Securities are directly affected by a proposed supplemental indenture, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding Subordinated Indenture Securities of all directly affected series, considered as one class. Moreover, if the Indenture Securities of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of Subordinated Indenture Securities of one or more, but less than all, of such tranches, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding Subordinated Indenture Securities of all directly affected tranches, considered as one class.

However, no amendment or modification may, without the consent of the holder of each outstanding Subordinated Indenture Security directly affected thereby,

- change the stated maturity date of the principal or interest on any Subordinated Indenture Security (other than pursuant to the terms thereof and, in the case of the 2013 Notes, as described above under "Option to Defer Interest Payments"), or reduce the principal amount, interest or premium payable or change the currency in which any Subordinated Indenture Security is payable, or impair the right to bring suit to enforce any payment;
- reduce the percentages of holders whose consent is required for any supplemental indenture or waiver or reduce the requirements for quorum and voting under the Subordinated Indenture; or
- modify certain of the provisions in the Subordinated Indenture relating to supplemental indentures and waivers of certain covenants and past defaults.

A supplemental indenture which changes or eliminates any provision of the Subordinated Indenture expressly included solely for the benefit of holders of Subordinated Indenture Securities of one or more particular series or tranches will be deemed not to affect the rights under the Subordinated Indenture of the holders of Subordinated Indenture Securities of any other series or tranche.

PPL Capital Funding will be entitled to set any day as a record date for the purpose of determining the holders of outstanding Subordinated Indenture Securities of any series entitled to give or take any demand, direction, consent or other action under the Subordinated Indenture, in the manner and subject to the limitations provided in the Subordinated Indenture. In certain circumstances, the Trustee also will be entitled to set a record date for action by holders. If such a record date is set for any action to be taken by holders of particular Subordinated Indenture Securities, such action may be taken only by persons who are holders of such Subordinated Indenture Securities at the close of business on the record date.

The Subordinated Indenture provides that certain Subordinated Indenture Securities, including those for which payment or redemption money has been deposited or set aside in trust as described under "Satisfaction and Discharge" below, will not be deemed to be "outstanding" in determining whether the holders of the requisite principal amount of the outstanding Subordinated Indenture Securities have given or taken any demand, direction, consent or other action under the Subordinated Indenture as of any date, or are present at a meeting of holders for quorum purposes.

#### **Satisfaction and Discharge**

Any Subordinated Indenture Securities or any portion will be deemed to have been paid for purposes of the Subordinated Indenture, and at PPL Capital Funding's election, the entire indebtedness of PPL Capital Funding and PPL Corporation will be satisfied and discharged, if there shall have been irrevocably deposited with the Trustee or any paying agent (other than PPL Capital Funding or PPL Corporation), in trust:

- money sufficient,
- in the case of a deposit made prior to the maturity of such Subordinated Indenture Securities, nonredeemable Government Obligations (as defined in the Subordinated Indenture), sufficient, or
- a combination of items listed in the preceding two bullet points, which in total are sufficient,

to pay when due the principal of, and any premium, and interest due and to become due on such Subordinated Indenture Securities or portions thereof on and prior to the maturity thereof.

The Subordinated Indenture will be deemed satisfied and discharged when no Subordinated Indenture Securities remain outstanding and when all other sums payable by PPL Capital Funding or PPL Corporation have been paid under the Subordinated Indenture.

All moneys deposited with the Trustee or any paying agent, or then held by PPL Capital Funding, in trust for the payment of principal, premium or interest on Subordinated Indenture Securities which remain unclaimed at the end of

two years after payments have become due will be paid to or upon the order of PPL Capital Funding. Thereafter, the holder of such Subordinated Indenture Security may look only to PPL Capital Funding and PPL Corporation for payment.

### **Agreement by Holders to Certain Tax Treatment**

Each holder of the 2013 Notes will, by accepting the 2013 Notes or a beneficial interest therein, be deemed to have agreed that the holder intends that the 2013 Notes constitute debt and will treat the 2013 Notes as debt for United States federal, state and local tax purposes.

### **Resignation and Removal of the Trustee; Deemed Resignation**

The Trustee may resign at any time by giving written notice to PPL Capital Funding and PPL Corporation.

The Trustee may also be removed by act of the holders of a majority in principal amount of the then outstanding Subordinated Indenture Securities of any series.

No resignation or removal of the Trustee and no appointment of a successor Trustee will become effective until the acceptance of appointment by a successor Trustee in accordance with the requirements of the Subordinated Indenture.

Under certain circumstances, PPL Capital Funding may appoint a successor Trustee and if the successor accepts, the Trustee will be deemed to have resigned.

### **Notices**

Notices to holders of the 2013 Notes will be given by mail to the addresses of the holders as they may appear in the security register.

### **Title**

PPL Capital Funding, PPL Corporation, the Trustee, and any agent of PPL Capital Funding, PPL Corporation or the Trustee, will treat the person or entity in whose name Notes are registered as the absolute owner of those Notes (whether or not the 2013 Notes may be overdue) for the purpose of making payments and for all other purposes irrespective of notice to the contrary.

### **Governing Law**

The Subordinated Indenture and the 2013 Notes provide that they are governed by and construed in accordance with the laws of the State of New York, except to the extent the Trust Indenture Act shall be applicable.

### **Regarding the Trustee**

The Trustee is The Bank of New York Mellon ("BNYM"). In addition to acting as Trustee, BNYM also maintains various banking and trust relationships with PPL Capital Funding and PPL Corporation and some of their affiliates.

### **Book-Entry Only Issuance**

The 2013 Notes settled through DTC. The 2013 Notes are represented by one or more global certificates and registered in the name of Cede & Co., DTC's nominee. Upon the initial issuance of the 2013 Notes, DTC or its nominee initially credited, on its book-entry registration and transfer system, the principal amount of the 2013 Notes represented by such global securities to the accounts of institutions that have an account with DTC or its participants. The accounts so credited were designated by the underwriters. Ownership of beneficial interests in the global securities is limited to participants or persons that may hold interests through participants. The global certificates were deposited with the Trustee as custodian for DTC.

Investors may hold interests in a global security through DTC, Clearstream Banking, société anonyme ("Clearstream"), or Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), directly if they are participants in such systems, or indirectly through organizations which are participants in such systems. Clearstream and Euroclear will hold interests on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories, which in turn will hold such interests in customers' securities accounts in the depositories' names on DTC's books.

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of securities in certificated form. These laws may impair the ability to transfer beneficial interests in the 2013 Notes so long as the 2013 Notes are represented by global security certificates.

*DTC.* DTC is a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered under Section 17A of the Exchange Act. DTC holds securities for its participants. DTC also

facilitates the post-trade settlement of securities transactions among its participants through electronic computerized book-entry transfers and pledges in the participants' accounts. This eliminates the need for physical movement of securities certificates. The participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly. The rules that apply to DTC and those using its system are on file with the SEC.

Purchases of the 2013 Notes within the DTC system must be made through participants, who will receive a credit for the 2013 Notes on DTC's records. The beneficial ownership interest of each purchaser will be recorded on the appropriate participant's records. Beneficial owners will not receive written confirmation from DTC of their purchases, but beneficial owners should receive written confirmations of the transactions, as well as periodic statements of their holdings, from the participants through whom they purchased Notes. Transfers of ownership in the 2013 Notes are to be accomplished by entries made on the books of the participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates for their Notes, except if use of the book-entry system for the 2013 Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by participants with DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of the 2013 Notes with DTC and their registration in the name of Cede & Co. effects no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the 2013 Notes. DTC's records reflect only the identity of the participants to whose accounts such Notes are credited. These participants may or may not be the beneficial owners. Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to participants, and by participants to beneficial owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of Notes may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2013 Notes, such as redemptions, tenders, defaults and proposed amendments to the Subordinated Indenture. Beneficial owners of the 2013 Notes may wish to ascertain that the nominee holding the 2013 Notes has agreed to obtain and transmit notices to the beneficial owners.

Redemption notices will be sent to Cede & Co., as registered holder of the 2013 Notes. If less than all of the 2013 Notes are being redeemed, DTC's practice is to determine by lot the amount of Notes of each participant to be redeemed.

Neither DTC nor Cede & Co. will itself consent or vote with respect to Notes, unless authorized by a participant in accordance with DTC's procedures. Under its usual procedures, DTC would mail an omnibus proxy to PPL Capital Funding as soon as possible after the record date. The omnibus proxy assigns the consenting or voting rights of Cede & Co. to those participants to whose accounts the 2013 Notes are credited on the record date. PPL Capital Funding and PPL Corporation believe that these arrangements will enable the beneficial owners to exercise rights equivalent in substance to the rights that can be directly exercised by a registered holder of the 2013 Notes.

Payments of redemption proceeds, principal of, and interest on the 2013 Notes will be made to Cede & Co., or such other nominee as may be requested by DTC. DTC's practice is to credit participants' accounts upon DTC's receipt of funds and corresponding detail information from PPL Capital Funding or its agent, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices. Payments will be the responsibility of participants and not of DTC, the Trustee, PPL Capital Funding or PPL Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by DTC) is the responsibility of PPL Capital Funding. Disbursement of payments to participants is the responsibility of DTC, and disbursement of payments to the beneficial owners is the responsibility of participants.

Except as provided in the prospectus supplement relating to the 2013 Notes, a beneficial owner will not be entitled to receive physical delivery of the 2013 Notes. Accordingly, each beneficial owner must rely on the procedures of DTC to exercise any rights under the 2013 Notes.

DTC may discontinue providing its services as securities depository with respect to the 2013 Notes at any time by giving reasonable notice to PPL Capital Funding. In the event no successor securities depository is obtained, certificates for the 2013 Notes will be printed and delivered. PPL Capital Funding and PPL Corporation may decide to replace DTC or any successor depository. Additionally, subject to the procedures of DTC, PPL Capital Funding and PPL Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor

depository) with respect to some or all of the 2013 Notes. In that event, certificates for such Notes will be printed and delivered. If certificates for Notes are printed and delivered,

- the 2013 Notes will be issued in fully registered form without coupons;
- a holder of certificated Notes would be able to exchange those Notes, without charge, for an equal aggregate principal amount of Notes of the same series, having the same issue date and with identical terms and provisions; and
- a holder of certificated Notes would be able to transfer those Notes without cost to another holder, other than for applicable stamp taxes or other governmental charges.

However, PPL Capital Funding shall not be required to make transfers or exchanges of certificated Notes for a period of 15 days next preceding any notice identifying Notes to be redeemed, and PPL Capital Funding shall not be required to make transfers or exchanges of any certificated Notes designated in whole or in part for redemption, except the unredeemed portion of any 2013 Note being redeemed in part.

*Clearstream.* Clearstream is incorporated under the laws of Luxembourg as a professional depository. Clearstream holds securities for its participating organizations ("Clearstream Participants") and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector, also known as *Commission de Surveillance du Secteur Financier*. Clearstream Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Distributions with respect to interests in the 2013 Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream Participants in accordance with Clearstream's rules and procedures, to the extent received by DTC for Clearstream.

*Euroclear.* Euroclear was created in 1968 to hold securities for participants of Euroclear ("Euroclear Participants") and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. ("Euroclear Operator"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly. Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the terms and conditions governing use of Euroclear and the related operating procedures of Euroclear, and applicable Belgian law, which are referred to collectively as the Terms and Conditions. The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no records of or relationship with persons holding through Euroclear Participants.

Investors that acquire, hold and transfer interests in the 2013 Notes by book-entry through accounts with Euroclear or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the global securities.

*Global Clearance and Settlement Procedures.* Initial settlement for the 2013 Notes was made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's same-day funds settlement system. Secondary market trading between Clearstream Participants and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear, as applicable.



Cross-market transfers between persons holding directly or indirectly through DTC on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, will be effected through DTC in accordance with DTC's rules; however, such cross-market transactions will require delivery of instructions to Clearstream and Euroclear, as applicable, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines, in European time.

Because of time-zone differences, credits of the 2013 Notes received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in the 2013 Notes settled during such processing will be reported to the relevant Clearstream Participant or Euroclear Participants on such following business day. Cash received in Clearstream or Euroclear as a result of sales of the 2013 Notes by or through a Clearstream Participant or a Euroclear Participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the interests in the global 2013 Notes certificates among participants of DTC, Clearstream and Euroclear, DTC, Clearstream and Euroclear are under no obligation to perform or continue to perform such procedures and such procedures may be changed or discontinued at any time. Neither PPL Corporation nor PPL Capital Funding will have any responsibility for the performance by DTC, Clearstream and Euroclear or their direct participants or indirect participants under the rules and procedures governing DTC, Clearstream or Euroclear, as the case may be.

The information in this section concerning DTC, DTC's book-entry system, Clearstream, Clearstream's book-entry system, Euroclear and Euroclear's book-entry system has been obtained from sources that PPL Capital Funding and PPL Corporation believe to be reliable. Neither PPL Capital Funding nor PPL Corporation take any responsibility for the accuracy of this information.

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

PPL Electric Utilities Corporation's common stock (the "Common Stock") is registered under Section 12 of the Securities Exchange Act of 1934, as amended.

**Common Stock**

The following description of PPL Electric Utilities Corporation's common stock and the related provisions of its Amended and Restated Articles of Incorporation and Bylaws are summaries and are qualified by reference to its Amended and Restated Articles of Incorporation and Bylaws, which have been previously filed with the Securities and Exchange Commission ("SEC") and incorporated by reference as exhibits to this registration statement, as well as to applicable Pennsylvania law.

*General.* PPL Electric Utilities Corporation (the "Company") is authorized to issue up to 190,629,936 shares, of which 170,000,000 shares are shares of Common Stock, without nominal or par value (the "Common Stock"). PPL Corporation, the Company's parent, owns and holds all 170,000,000 shares of the Company's outstanding Common Stock. The Board of Directors has the full authority permitted by law to divide the authorized and unissued shares into classes or series, or both, and to determine for any such class or series its designation and the number of shares of the class or series and the voting rights, preferences, limitations and special rights, if any, of the shares of the class or series. There are no shares of preferred stock outstanding.

*Dividends.* Subject to the restrictions referred to below and to the preferential rights of any preferred stock, dividends on the Common Stock will be paid if, when and as determined by the board of directors of the Company out of funds legally available for this purpose. The Company is subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has not been clarified under the Federal Power Act. The Company believes, however, that this statutory restriction, as applied to its circumstances, would not be construed or applied by the Federal Energy Regulatory Commission to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes.

*Voting Rights.* Holders of the Company's Common Stock are entitled to one vote per share on all matters presented to shareholders. Except as otherwise provided in the Articles of Incorporation, Bylaws or the Pennsylvania Business Corporation Law, whenever any corporate action is to be taken by vote of the shareholders, it shall be authorized upon receiving the affirmative vote of a majority of the votes cast by all shareholders entitled to vote thereon and, if any shareholders are entitled to vote thereon as a class, upon receiving the affirmative vote of a majority of the votes cast by the shareholders entitled to vote as a class.

In the election of directors, each shareholder entitled to vote shall have the right to multiply the number of votes to which he may be entitled by the total number of directors to be elected in the same election by the holders of the class of shares of which his shares are a part, and he may cast the whole number of such votes for one candidate or he may distribute them among any two or more candidates. The Company's Bylaws provide that the number of directors shall be fixed from time to time by resolution of the board of directors. Each director holds office until the expiration of the term for which he or she was selected and until a successor shall have been elected and qualified or until his or her earlier death, resignation or removal. Any director may be removed from office by vote of shareholders only upon the affirmative vote of the shareholders entitled to cast at least two-thirds of the votes which all shareholders would be entitled to cast at any annual election of directors and upon any additional vote of shareholders that may be required by law.

The Company's Bylaws also provide for certain notice requirements for shareholder nominations and proposals at annual and special meetings.

*Liquidation Rights.* After satisfaction of the preferential liquidation rights of any preferred stock, the holders of Common Stock are entitled to receive all further dividends and shares upon liquidation, dissolution, winding up or distribution.

*Preemptive and Other Rights.* The holders of Common Stock do not have preemptive rights as to additional issues of Common Stock or conversion rights. The shares of Common Stock are not subject to redemption or to any further calls or assessments and are not entitled to the benefit of any sinking fund provisions.

**12 August 2019**  
**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**  
(as Issuers)

**HSBC CORPORATE TRUSTEE COMPANY**  
**(UK) LIMITED**  
(as Note Trustee)

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**AMENDED AND RESTATED TRUST DEED**

related to

**the £4,000,000,000 Euro Medium Term Note Programme of the Issuers**

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**LATHAM & WATKINS**

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**THIS AMENDED AND RESTATED TRUST DEED** is made on 12 August 2019

**BETWEEN:**

- (1) **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** (each an “**Issuer**” and together the “**Issuers**”); and
- (2) **HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED** (the “**Note Trustee**”, which expression, where the context so admits, includes any other trustee or the trustees for the time being of this Trust Deed).

**WHEREAS:**

- (A) The Issuers have established a note programme pursuant to which the Issuers propose to issue from time to time euro medium term notes in an aggregate nominal amount outstanding at any one time not exceeding the Programme Limit in accordance with the Dealer Agreement (the “**Programme**”). Notes issued by each Issuer are obligations solely of that Issuer (the “**Relevant Issuer**”) and are without any recourse whatsoever to any other Issuer.
- (B) The Issuers have made applications to the United Kingdom Financial Conduct Authority (the “**FCA**”) for Notes issued under the Programme to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange plc. The Regulated Market of the London Stock Exchange plc is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments, as amended or superseded (“**MIFID**”). The Notes may be admitted to trading on other regulated markets (as defined in MIFID). Notes may also be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or that they will be admitted to listing, trading and/or quotation on such unregulated markets as may be agreed with the Relevant Issuer (“**Exempt Notes**”).
- (C) In connection with the Programme, the Issuers have prepared a prospectus dated 12 August 2019. The Prospectus has been approved by the FCA as competent authority under Regulation (EU) 2017/1129, as amended or superseded (the “**Prospectus Regulation**”). The FCA has neither approved nor reviewed the information contained in the Prospectus in connection with the Exempt Notes.
- (D) 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 below) of the Notes will (other than in the case of Exempt Notes) be set out in a separate document containing the final terms for that Tranche (the “**Final Terms**”). 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**”).
- (E) In connection with the Programme, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc and the Note Trustee entered into an amended and restated trust deed dated 14 August 2018 (the “**Original Trust Deed**”). The Issuers and the Note Trustee wish to amend and restate the Original Trust Deed.

- (F) The Original Trust Deed shall be amended and restated on the terms of this Trust Deed. Except as provided below, any Notes issued on or after the date of this Trust Deed shall be issued pursuant to this Trust Deed. This does not affect any Notes issued prior to the date of this Trust Deed or any Notes issued on or after the date of this Trust Deed so as to be consolidated and form a single Series issued prior to the date of this Trust Deed. Subject to such amendment and restatement, the Original Trust Deed shall continue in full force and effect. The Original Trust Deed as amended by this Amended and Restated Trust Deed is referred to herein as the **"Trust Deed"**.
- (G) The Note Trustee has agreed to act as trustee of this Trust Deed on the following terms and conditions.

**THIS DEED WITNESSES AND IT IS DECLARED** as follows:

**1. INTERPRETATION**

1.1 Definitions

In this Trust Deed:

**"Agency Agreement"** means the amended and restated agency agreement relating to the Programme dated 10 September 2013 between the Issuers, the Note Trustee, the Issuing and Paying Agent and the other agents mentioned in it.

**"Agents"** means the Issuing and Paying Agent, the Paying Agents, the Calculation Agent, the Registrar, the Transfer Agents or any of them.

**"Applicable Law"** means any law or regulation including, but not limited to (a) any statute or regulation, (b) any rule or practice of any authority by which the Relevant Issuer is bound or with which it is accustomed to comply, (c) any agreement between any authorities and (d) any customary agreement between any authority and any party.

**"Bearer Note"** means a Note that is in bearer form, and includes any replacement Bearer Note issued pursuant to the Conditions and any temporary Global Note or permanent Global Note.

**"Calculation Agent"** means, in relation to the Notes of any Series, the person named as such in the Conditions or any Successor Calculation Agent.

**"Certificate"** means a registered certificate representing one or more Registered Notes of the same Series and, save as provided in the Conditions, comprising the entire holding by a Noteholder of his Registered Notes of that Series and, save in the case of Global Certificates, being substantially in the form set out in Schedule 3.

**"CGN"** means a temporary Global Note in the form set out in Part 1 of Schedule 1 (*Form of CGN Temporary Global Note*) or a permanent Global Note in the form set out in Part 2 of Schedule 1 (*Form of CGN Permanent Global Note*).

**"Clearstream, Luxembourg"** means Clearstream Banking S.A.

**"Common Safekeeper"** means, in relation to a Series where the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the common safekeeper for Euroclear and Clearstream, Luxembourg appointed in respect of such Notes.

**"Conditions"** means in respect of the Notes of each Series, the terms and conditions applicable thereto which shall be substantially in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) or in such other form as may be agreed between the Relevant Issuer, the Issuing and

Paying Agent, the Note Trustee and the Relevant Dealer as modified, with respect to any Notes represented by a Global Certificate or a Global Note, by the provisions of such Global Certificate or Global Note, and shall incorporate any additional provisions forming part of such terms and conditions set out in Part A of the Final Terms relating to the Notes of that Series and shall be endorsed on the Definitive Notes and any reference to a particularly numbered Condition shall be construed accordingly.

**“Contractual Currency”** means, in relation to any payment obligation of any Note, the currency in which that payment obligation is expressed and, in relation to Clause 11 (*Provisions supplemental to the Trustee Act 1925 and the Trustee Act 2000*), pounds sterling or such other currency as may be agreed between the Relevant Issuer and the Note Trustee from time to time.

**“Coupons”** means the bearer coupons relating to interest bearing Bearer Notes or, as the context may require, a specific number of them and includes any replacement Coupons issued pursuant to the Conditions.

**“Dealer Agreement”** means the amended and restated Dealer Agreement relating to the Programme dated 12 August 2019 between the Issuers, NatWest Markets Plc and the other dealers and arrangers named in it.

**“Definitive Note”** means a Bearer Note in definitive form having, where appropriate, Coupons and/or a Talon attached on issue and, unless the context requires otherwise, means a Certificate (other than a Global Certificate) and includes any replacement Note or Certificate issued pursuant to the Conditions.

**“Euroclear”** means Euroclear Bank SA/NV.

**“Eurosystem-eligible NGN”** means a NGN which is intended to be held in a manner which would allow Eurosystem eligibility, as stated in the applicable Final Terms.

**“Event of Default”** means an event described in Condition 12 (*Events of Default*) of the Conditions that, if so required by that Condition, has been certified by the Note Trustee to be, in its opinion, materially prejudicial to the interests of the Noteholders.

**“Extraordinary Resolution”** has the meaning set out in Schedule 7 (*Provisions for Meetings of Noteholders*).

**“Final Terms”** means, in relation to a Tranche, the Final Terms issued specifying the relevant issue details of such Tranche, substantially in the form of Schedule C (*Form of Final Terms*) to the Dealer Agreement.

**“FSMA”** means the Financial Services and Markets Act 2000.

**“Global Certificate”** means a Certificate substantially in the form set out in Part 5 of Schedule 1 (*Form of Global Certificate*) representing Registered Notes of one or more Tranches of the same Series.

**“Global Note”** means a temporary Global Note and/or, as the context may require, a permanent Global Note, a CGN and/or a NGN, as the context may require.

**“holder”** in relation to a Note, Coupon or Talon, and **“Couponholder”** and **“Noteholder”** have the meanings given to them in the Conditions.

**“Issuing and Paying Agent”** means the person named as such in the Conditions or any Successor Issuing and Paying Agent in each case at its specified office.

**“Liabilities”** means in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings, or other liabilities whatsoever including legal fees and Taxes and penalties incurred by that person (but, for the avoidance of doubt, in each case, excluding tax on net income, profits or gains), together with any irrecoverable VAT charged or chargeable in respect of any sums referred to in this definition.

**“Market”** means the regulated market of the London Stock Exchange.

**“Moody’s”** means Moody’s Investors Service Limited or any of its subsidiaries and their successors.

**“NGN” or “New Global Note”** means a temporary Global Note in the form set out in Part 3 of Schedule 1 (*Form of NGN Temporary Global Note*) or a permanent Global Note in the form set out in Part 4 of Schedule 1 (*Form of NGN Permanent Global Note*).

**“NSS”** means the new safekeeping structure which applies to Registered Notes held in global form by a Common Safekeeper for Euroclear and Clearstream, Luxembourg and which is required for such Registered Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations.

**“Non-eligible NGN”** means a NGN which is not intended to be held in a manner which would allow Eurosystem eligibility, as stated in the applicable Final Terms.

**“Notes”** means the euro medium term notes to be issued by the Issuers pursuant to the Dealer Agreement, constituted by this Trust Deed and for the time being outstanding or, as the context may require, a specific number of them and, in respect of an Issuer shall only refer to the Notes issued by it.

**“outstanding”** means, in relation to the Notes, all the Notes issued except (a) those that have been redeemed in accordance with this Trust Deed, (b) those that have been redeemed in accordance with the Conditions, (c) those in respect of which the date for redemption has occurred and the redemption moneys (including all interest accrued on such Notes to the date for such redemption and any interest payable after such date) have been duly paid to the Note Trustee or to the Issuing and Paying Agent as provided in Clause 2 (*Issue of Notes and Covenant to pay*) and in the manner provided in the Agency Agreement and remain available for payment against presentation and surrender of Notes, Certificates and/or Coupons, as the case may be in accordance with the Conditions, (d) those that have become void or in respect of which claims have become prescribed, (e) those that have been purchased and cancelled as provided in the Conditions and notice of the cancellation of which has been given to the Note Trustee, (f) those mutilated or defaced Bearer Notes that have been surrendered or cancelled in exchange for replacement Bearer Notes, (g) (for the purpose only of determining how many Notes are outstanding and without prejudice to their status for any other purpose) those Bearer Notes alleged to have been lost, stolen or destroyed and in respect of which replacement Notes have been issued, (h) any temporary Global Note to the extent that it shall have been exchanged for a permanent Global Note and any Global Note to the extent that it shall have been exchanged for one or more Definitive Notes, in either case pursuant to its provisions provided that for the purposes of (1) ascertaining the right to attend and vote at any meeting of the Noteholders, (2) the determination of how many Notes are outstanding for the purposes of Conditions 12 (*Events of Default*) and 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*) Schedule 7 (*Provisions for Meetings of Noteholders*), (3) the exercise of any discretion, power or authority that the Note Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Noteholders and (4) the certification (where relevant) by the Note Trustee as to whether an Event of Default is in its opinion materially prejudicial to the interests of the Noteholders, those Notes that are beneficially held by or on behalf of the Relevant Issuer and



not cancelled shall (unless no longer so held) be deemed not to remain outstanding. Save for the purposes of the proviso herein, in the case of each NGN, the Note Trustee shall rely on the records of Euroclear and Clearstream, Luxembourg in relation to any determination of the nominal amount outstanding of each NGN.

**"Offering Circular"** means the offering circular relating to the Notes (which term shall include those documents incorporated by reference into it in accordance with its terms and save as provided therein) as from time to time amended, supplemented or replaced and, in relation to each Tranche, the applicable Pricing Supplement.

**"Paying Agents"** means the persons (including the Issuing and Paying Agent) referred to as such in the Conditions or any Successor Paying Agents in each case at their respective specified offices.

**"permanent Global Note"** means a Global Note representing Bearer Notes of one or more Tranches of the same Series, either on issue or upon exchange of a temporary Global Note, or part of it, and which shall be substantially in the form set out in Part 2 (*Form of CGN Temporary Global Note*) or Part 4 (*Form of CGN Temporary Global Note*) of Schedule 1, as the case may be.

**"Pricing Supplement"** means, in relation to any Tranche of Exempt Notes, the pricing supplement issued specifying the relevant issue details of such Tranche, substantially in the form of Schedule D (*Form of Pricing Supplement*) to the Dealer Agreement.

**"Procedures Memorandum"** means administrative procedures and guidelines relating to the settlement of issues of Notes as shall be agreed upon from time to time by the Issuers, the Note Trustee, the Permanent Dealers (as defined in the Dealer Agreement) and the Issuing and Paying Agent and which, at the date of this Trust Deed, are set out in Schedule A (*Procedures Memorandum*) to the Dealer Agreement.

**"Programme Limit"** means the maximum aggregate nominal amount of Notes that may be issued and outstanding at any time under the Programme, as such limit may be increased pursuant to the Dealer Agreement.

**"Put Event"** has the meaning given to it in Condition 6 (*Redemption, Purchase and Options*).

**"Put Option"** has the meaning given to it in Condition 6 (*Redemption, Purchase and Options*).

**"Redemption Amount"** means the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, all as defined in the Conditions.

**"Register"** means the register maintained by the Registrar at its specified office.

**"Registered Note"** means a Note in registered form.

**"Registrar"** means the person named as such in the Conditions or any Successor Registrar in each case at its specified office.

**"S&P"** means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors.

**"Series"** means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

“**specified office**” means, in relation to a Paying Agent, the Registrar or a Transfer Agent the office identified with its name at the end of the Conditions or any other office approved by the Note Trustee and notified to Noteholders pursuant to Clause 9(n) (*Change in Agents*).

“**Successor**” means, in relation to an Agent such other or further person as may from time to time be appointed by the Issuers as such Agent with the written approval of, and on terms approved in writing by, the Note Trustee and notice of whose appointment is given to Noteholders pursuant to Clause 9(n) (*Change in Agents*).

“**Talons**” mean talons for further Coupons or, as the context may require, a specific number of them and includes any replacement Talons issued pursuant to the Conditions.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System or any successor thereto.

“**Tax**” shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same, but excluding taxes on net income, profits or gains) imposed or levied by or on behalf of any Tax Authority in the jurisdiction of the Relevant Issuer and **Taxes** shall be construed accordingly.

“**Tax Authority**” means any government, state or municipality or any local, state, federal or other authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function (including, without limitation, Her Majesty’s Revenue and Customs).

“**temporary Global Note**” means a Global Note representing Bearer Notes of one or more Tranches of the same Series on issue and which shall be substantially in the form set out in Part 1 of Schedule 1 (*Form of CGN Temporary Global Note*) or Part 3 of Schedule 1 (*Form of NGN Temporary Global Note*), as the case may be.

“**Tranche**” means, in relation to a Series, those Notes of that Series that are issued on the same date at the same issue price and in respect of which the first payment of interest is identical.

“**Transfer Agents**” means the persons (including the Registrar) referred to as such in the Conditions or any Successor Transfer Agents in each case at their specified offices.

“**trust corporation**” means a trust corporation (as defined in the Law of Property Act 1925) or a corporation entitled to act as a trustee pursuant to applicable foreign legislation relating to trustees.

“**VAT**” means value added tax provided for in the VAT Legislation and any other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of or in addition to value added tax) or elsewhere.

“**VAT Legislation**” means the Value Added Tax Act 1994.

## 1.2 Construction of Certain References

References to:

- (a) the records of Euroclear and Clearstream, Luxembourg shall be to the records that each of Euroclear and Clearstream, Luxembourg holds for its customers which reflect the amount of such customers’ interests in the Notes;

- (b) costs, charges, remuneration or expenses include any value added, turnover or similar tax charged in respect thereof; and
- (c) an action, remedy or method of judicial proceedings for the enforcement of creditors' rights include references to the action, remedy or method of judicial proceedings in jurisdictions other than England as shall most nearly approximate thereto.

### 1.3 Headings

Headings shall be ignored in construing this Trust Deed.

### 1.4 Offering Circular and Pricing Supplement

1.5 In this Trust Deed, all references to "**Final Terms**" shall be deemed to include references to "**Pricing Supplement**", and all references to "**Prospectus**" in this Agreement shall be deemed to include references to the "**Offering Circular**", unless the context requires otherwise.

### 1.6 Legislation

Any reference in this Trust Deed to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

### 1.7 Contracts

References in this Trust Deed to this Trust Deed or any other document are to this Trust Deed or those documents as amended, supplemented or replaced from time to time in relation to the Programme and include any document that amends, supplements or replaces them.

### 1.8 Schedules

The Schedules are part of this Trust Deed and have effect accordingly.

### 1.9 Alternative Clearing System

References in this Trust Deed to Euroclear and/or Clearstream, Luxembourg shall, wherever the context so permits, be deemed to include reference to any additional or alternative clearing system approved by the Issuers, the Note Trustee and the Issuing and Paying Agent. In the case of NGNs or Global Certificates held under the NSS, such alternative clearing system must also be authorised to hold such Notes as eligible collateral for Eurosystem monetary policy and intra-day credit operations.

### 1.10 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Trust Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Trust Deed except and to the extent (if any) that this Trust Deed expressly provides for such Act to apply to any of its terms.

### 1.11 Final Terms

In the event of any inconsistency between the Trust Deed and the Final Terms, the Final Terms shall prevail.

### 1.12 Regulated markets

Any reference in this Trust Deed to a regulated market shall be construed as a reference to a regulated market within the meaning given in MIFID.

### 1.13 Amendment and Restatement

The Original Trust Deed shall be amended and restated on the terms of this Trust Deed. Except as provided below, any Notes issued on or after the date of this Trust Deed shall be issued pursuant to this Trust Deed. This does not affect any Notes issued prior to the date of this Trust Deed or any Notes issued on or after the date of this Trust Deed so as to be consolidated and form a single series with Notes issued prior to the date of this Trust Deed. Subject to such amendment and restatement, the Original Trust Deed shall continue in full force and effect.

## 2. ISSUE OF NOTES AND COVENANT TO PAY

### 2.1 Issue of Notes

Each Issuer may from time to time issue Notes in Tranches of one or more Series on a continuous basis with no minimum issue size in an aggregate nominal amount of up to the Programme Limit in accordance with the Dealer Agreement. Before issuing any Tranche, the Relevant Issuer shall give written notice or procure that it is given to the Note Trustee of the proposed issue of such Tranche, specifying the details to be included in the relevant Final Terms. Upon the issue by the Relevant Issuer of any Notes expressed to be constituted by this Trust Deed, such Notes shall forthwith be constituted by this Trust Deed without any further formality and irrespective of whether or not the issue of such debt securities contravenes any covenant or other restriction in this Trust Deed or the Programme Limit.

### 2.2 Separate Series

The Notes of each Series shall form a separate series of Notes and accordingly, unless the Note Trustee in its absolute discretion shall otherwise determine, the provisions of this Trust Deed shall apply *mutatis mutandis* separately and independently to the Notes of each Series and in such Clauses and Schedule the expressions “**Noteholders**”, “**Certificates**”, “**Coupons**”, “**Couponholders**” and “**Talons**”, together with all other terms that relate to Notes or their Conditions, shall be construed as referring to those of the particular Series in question and not of all Series unless expressly so provided, so that each Series shall be constituted by a separate trust pursuant to Subclause 2.3 (*Covenant to Pay*) and that, unless expressly provided, events affecting one Series shall not affect any other. Each Issuer shall be at liberty from time to time (but subject always to the provisions of this Trust Deed) without the consent of the Noteholders or Couponholders to create and issue further Notes (whether in bearer or registered form) having terms and conditions the same as the Notes of any Tranche (or the same in all respects save for the Issue Date, Interest Commencement Date (as defined in the Conditions) and Issue Price (as defined in the Conditions)) and so that the same shall be consolidated and form a single Series with the outstanding Notes of a particular Tranche.

### 2.3 Covenant to Pay

Each Relevant Issuer covenants with the Note Trustee that it, in relation to itself only, shall on any date when any Notes become due to be redeemed, in whole or in part, or any principal of the Notes of any Series or any of them becomes due to be repaid in accordance with the Conditions, unconditionally pay to or to the order of the Note Trustee in the Contractual Currency, in the case of any Contractual Currency other than euro, in the principal financial centre for the Contractual Currency and in the case of euro, in a city in which banks have access to the TARGET System, in same day funds the Redemption Amount of the Notes becoming due for redemption on that date together with any applicable premium and shall (subject to the Conditions and except



in the case of Zero Coupon Notes) until such payment (both before and after judgment) unconditionally so pay to or to the order of the Note Trustee interest in respect of the nominal amount of the Notes outstanding as set out in the Conditions (subject to Subclause 2.6 (*Rate of interest After a Default*)) provided that (1) subject to the provisions of Clause 2.5 (*Payment after a Default*) payment of any sum due in respect of the Notes or any of them made to the Issuing and Paying Agent, or as the case may be, the Registrar as provided in the Agency Agreement shall, to that extent, satisfy such obligation except to the extent that there is failure in its subsequent payment to the relevant Noteholders or Couponholders (as the case may be) under the Conditions, (2) a payment made after the due date or as a result of the Note becoming repayable following an Event of Default shall be deemed to have been made when the full amount due has been received by the Issuing and Paying Agent or the Note Trustee and notice to that effect has been given to the Noteholders (if required under Clause 9(1) (*Notice of Late Payment*)), except to the extent that there is failure in its subsequent payment to the relevant Noteholders or Couponholders (as the case may be) under the Conditions; and (3) in any case where payment of the whole or any part of the principal amount due in respect of any Note is improperly withheld or refused upon due presentation of the relevant Note or (if so provided for in the Conditions) interest shall accrue on the whole or such part of such principal amount from the date of such withholding or refusal until the date either on which such principal amount due is paid to the relevant Noteholders or, if earlier, the seventh day after which notice is given to the relevant Noteholders in accordance with the Conditions that the full amount payable in respect of the said principal amount is available for collection by the relevant Noteholders provided that on further due presentation of the relevant Note or (if so provided for in the Conditions) the relevant Note Certificate such payment is in fact made. This covenant shall only have effect each time Notes are issued and outstanding, when the Note Trustee shall hold the benefit of this covenant and the covenant in Clause 8 (*Covenant to comply with the Trust Deed*) on trust for the Noteholders and Couponholders of the relevant Series.

#### 2.4 Discharge

Subject to Subclause 2.5 (*Payment after a Default*), any payment to be made in respect of the Notes or the Coupons by the Relevant Issuer or the Note Trustee may be made as provided in the Conditions and any payment so made shall (subject to Subclause 2.5 (*Payment after a Default*)) to that extent be a good discharge to the Relevant Issuer or the Note Trustee, as the case may be (including, in the case of Notes represented by a NGN whether or not the corresponding entries have been made in the records of Euroclear and Clearstream, Luxembourg), except to the extent that there is failure in its subsequent payment to the relevant Noteholders or Couponholders under the Conditions.

#### 2.5 Payment after a Default

At any time after an Event of Default has occurred in relation to a particular Series the Note Trustee may:

- (a) by notice in writing to the Relevant Issuer, the Paying Agents and the other Agents, require the Paying Agents and the other Agents, or any of them until notified by the Note Trustee to the contrary, so far as permitted by Applicable Law:
  - (i) to act thereafter until otherwise instructed by the Note Trustee as Agents of the Note Trustee under this Trust Deed and the Notes of such Series on the terms of the Agency Agreement (with consequential amendments as necessary and except that the Note Trustee's liability for the indemnification, remuneration and expenses of the Paying Agents and the Transfer Agents shall be limited to the amounts for the time being held by the Note Trustee in respect of such Series on the terms of this Trust Deed and available for that purpose) and thereafter to

hold all Notes, Certificates, Coupons and Talons of such Series and all moneys, documents and records held by them in respect of Notes, Certificates, Coupons and Talons of such Series on behalf of or to the order of the Note Trustee; and/or

(ii) to deliver all Notes, Certificates, Coupons and Talons of such Series and all moneys, documents and records held by them in respect of the Notes, Certificates, Coupons and Talons of such Series to the Note Trustee or as the Note Trustee directs in such notice provided that, such notice shall be deemed not to apply to any document or record which the relevant Agent is obliged not to release by any law or regulation; and

(b) by notice in writing to the Relevant Issuer require the Relevant Issuer to make all subsequent payments in respect of the Notes, Coupons and Talons of such Series to or to the order of the Note Trustee and not to the Issuing and Paying Agent with effect from the issue of any such notice to the Relevant Issuer; and from then until such notice is withdrawn, proviso (1) to Clause 2.3 (*Covenant to Pay*) above shall cease to have effect.

## 2.6 Rate of interest After a Default

If the Notes bear interest at a floating or other variable rate and they become immediately due and repayable under the Conditions, the rate and/or amount of interest payable in respect of them shall continue to be calculated by the Calculation Agent at such interest as if they had not become due and repayable in accordance with the Conditions (with consequential amendments as necessary) except that the rates of interest need not be published unless the Note Trustee otherwise requires. The first period in respect of which interest shall be so calculable shall commence on the expiry of the Interest Period during which the Notes become so due and repayable.

## 3. FORM OF THE NOTES

### 3.1 Global Notes

(a) The Notes of each Tranche will initially be represented by a single temporary Global Note or a single permanent Global Note, as indicated in the applicable Final Terms. Each temporary Global Note shall be exchangeable, upon request as described therein, for either Definitive Notes together with, where applicable, Coupons (except in the case of Zero Coupon Notes) and, where applicable, Talons attached, or a permanent Global Note in each case in accordance with the provisions of such temporary Global Note. Each permanent Global Note shall be exchangeable for Definitive Notes together with, where applicable, Coupons (except in the case of Zero Coupon Notes) and, where applicable, Talons attached, in accordance with the provisions of such permanent Global Note. All Global Notes shall be prepared, completed and delivered to a common depositary (in the case of a CGN) or Common Safekeeper (in the case of a NGN) for Euroclear and Clearstream, Luxembourg in accordance with the provisions of the Dealer Agreement or to another appropriate depositary in accordance with any other agreement between the Relevant Issuer and the relevant Dealer(s) and, in each case, the Agency Agreement.

(b) Each temporary Global Note shall be printed or typed in the form or substantially in the form set out in Part 1 of Schedule 1 (*Form of CGN Temporary Global Note*) or Part 3 of Schedule 1 (*Form of NGN Temporary Global Note*), as the case may be and may be a facsimile. Each temporary Global Note shall have annexed thereto a copy of the applicable Final Terms and shall be signed manually or in facsimile by a person duly authorised by the Relevant Issuer on behalf of the Relevant Issuer and shall be authenticated by or on behalf of the Issuing and Paying Agent and shall, in the case of

a Eurosystem-eligible NGN or in the case of a Non-eligible NGN in respect of which the Relevant Issuer has notified the Issuing and Paying Agent that effectuation is to be applicable, be effectuated by the Common Safekeeper acting on the instructions of the Issuing and Paying Agent. Each temporary Global Note so executed and authenticated shall be a binding and valid obligation of the Relevant Issuer and title thereto shall pass by delivery.

- (c) Each permanent Global Note shall be printed or typed in the form or substantially in the form set out in Part 2 of Schedule 1 (*Form of CGN Temporary Global Note*) or Part 4 of Schedule 1 (*Form of NGN Permanent Global Note*), as the case may be and may be a facsimile. Each permanent Global Note shall have annexed thereto a copy of the applicable Final Terms and shall be signed manually or in facsimile by a person duly authorised by the Relevant Issuer on behalf of the Relevant Issuer and shall be authenticated by or on behalf of the Issuing and Paying Agent and shall, in the case of a Eurosystem-eligible NGN or in the case of a Non-eligible NGN in respect of which the Relevant Issuer has notified the Issuing and Paying Agent that effectuation is to be applicable, be effectuated by the Common Safekeeper acting on the instructions of the Issuing and Paying Agent. Each permanent Global Note so executed and authenticated shall be a binding and valid obligation of the Relevant Issuer and title thereto shall pass by delivery.

### 3.2 Global Certificates

- (a) The Registered Notes of each Tranche will initially be represented by a Global Certificate. Global Certificates shall be deposited with a common depository for, and registered in the name of a nominee of such common depository for, Euroclear and Clearstream, Luxembourg.
- (b) Each Global Certificate, and each interest represented by a Global Certificate, shall be exchangeable and transferable only in accordance with the provisions of such Global Certificate, the Dealer Agreement, the Agency Agreement and the rules and operating procedures for the time being of Euroclear and Clearstream, Luxembourg (as the case may be).
- (c) Each Global Certificate shall be printed or typed in the form or substantially in the form set out in Part 5 of Schedule 1 (*Form of Global Certificate*) and may be a facsimile. Each Global Certificate shall have annexed thereto a copy of the applicable Final Terms and shall be signed manually or in facsimile by a person duly authorised by the Relevant Issuer on behalf of the Relevant Issuer and shall be authenticated manually by or on behalf of the Registrar. The Registrar shall also instruct the Common Safekeeper to effectuate the same. Each Global Certificate so executed, authenticated and effectuated shall be a binding and valid obligation of the Relevant Issuer.

### 3.3 The Definitive Notes

The Definitive Notes, Coupons and Talons shall be security printed and the Certificates shall be printed, in each case in accordance with applicable legal and stock exchange requirements substantially in the forms set out in Schedule 2 (*Form of Definitive Bearer Note*). The Notes and Certificates (other than Global Certificates) shall be endorsed with the Conditions.

### 3.4 Signature

The Notes, Certificates, Coupons and Talons shall be signed manually or in facsimile by a duly authorised signatory of the Relevant Issuer, the Notes shall be authenticated by or on behalf of

the Issuing and Paying Agent and the Certificates shall be authenticated by or on behalf of the Registrar. The Relevant Issuer may use the facsimile signature of a person who at the date of this Trust Deed is such a duly authorised signatory even if at the time of issue of any Notes, Certificates, Coupons or Talons he is no longer so authorised. In the case of a Global Note which is a NGN or a Global Certificate which is held under the NSS, the Issuing and Paying Agent or the Registrar shall also instruct the Common Safekeeper to effectuate the same. Notes, Certificates, Coupons and Talons so executed and authenticated (and effectuated, if applicable) shall be or, in the case of Certificates, represent binding and valid obligations of the Relevant Issuer.

### 3.5 Entitlement to treat holder as owner

The Relevant Issuer, the Note Trustee and any Agent may deem and treat the holder of any Bearer Note or Certificate as the absolute owner of such Bearer Note or Certificate, free of any equity, set-off or counterclaim on the part of the Relevant Issuer against the original or any intermediate holder of such Bearer Note or Certificate (whether or not such Bearer Note or the Registered Note represented by such Certificate shall be overdue and notwithstanding any notation of ownership or other writing thereon or any notice of previous loss or theft of such Bearer Note or Certificate) for all purposes and, except as ordered by a court of competent jurisdiction or as required by Applicable Law, the Relevant Issuer, the Note Trustee and the Issuing and Paying Agent shall not be affected by any notice to the contrary. All payments made to any such holder shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the liability for the moneys payable upon the Notes.

## 4. STAMP DUTIES AND TAXES

### 4.1 Stamp Duties

Each Relevant Issuer (in respect of itself only) shall pay any stamp, issue, regulatory, documentary or other similar taxes and duties, including interest and penalties, payable in the United Kingdom and the country of each Contractual Currency in respect of the creation, issue and offering of the Notes, Certificates, Coupons and Talons and the execution or delivery of this Trust Deed. Each Relevant Issuer (on a several (and not joint) basis) shall also pay to the Note Trustee, the Noteholders or the Couponholders (as applicable), an amount equal to any stamp, issue, documentary or other similar taxes paid by them in any jurisdiction in connection with any action taken by or on behalf of the Note Trustee or, as the case may be, the Noteholders or the Couponholders to enforce the Relevant Issuer's obligations under this Trust Deed or the Notes, Certificates, Coupons or Talons.

### 4.2 Change of Taxing Jurisdiction

If an Issuer becomes subject generally to the taxing jurisdiction of a territory or a taxing authority of or in that territory with power to tax other than or in addition to the United Kingdom or any such authority of or in such territory then the Relevant Issuer shall (unless the Note Trustee otherwise agrees) give the Note Trustee an undertaking satisfactory to the Note Trustee in terms corresponding to the terms of Condition 10 (*Taxation*) with the substitution for, or (as the case may require) the addition to, the references in that Condition to the United Kingdom of references to that other or additional territory or authority to whose taxing jurisdiction the Relevant Issuer has become so subject. In such event this Trust Deed and the Notes, Certificates, Coupons and Talons shall be read accordingly.

## 5. APPLICATION OF MONEYS RECEIVED BY THE NOTE TRUSTEE

### 5.1 Declaration of Trust



All moneys received by the Note Trustee in respect of the Notes or amounts payable under this Trust Deed shall, despite any appropriation of all or part of them by the Relevant Issuer, be held by the Note Trustee on trust to apply them (subject to Clause 5.2 (*Accumulation*)):

- (a) first, in payment of all costs, charges, expenses and Liabilities incurred by the Note Trustee (including remuneration payable to it) in carrying out its functions under this Trust Deed;
- (b) secondly, in payment of any amounts owing in respect of the Notes or Coupons *pari passu* and rateably (and where interest and principal is due and payable in respect of the Notes it shall be applied *pari passu* between each Series unless in respect of a specific Series only); and
- (c) thirdly, in payment of any balance to the Relevant Issuer for itself.

If the Note Trustee holds any moneys in respect of Notes or Coupons that have become void or in respect of which claims have become prescribed, the Note Trustee shall hold them on these trusts.

## 5.2 Accumulation

The Note Trustee may retain such investments and accumulate the resulting income until the investments and the accumulations, together with any other funds for the time being under its control and available for such payment, amount to at least 10 per cent. of the nominal amount of the Notes then outstanding and then such investments, accumulations and funds (after deduction of, or provision for, any applicable taxes) shall be applied as specified in Subclause 5.1 (*Declaration of Trust*). For the avoidance of doubt, the Note Trustee shall in no circumstances have any discretion to invest any moneys referred to in this Subclause 5.2 (*Accumulation*) in any investments or other assets.

## 5.3 Investment

Moneys held by the Note Trustee may at its election be placed on deposit into an account bearing a market rate interest (and, for the avoidance of doubt, the Note Trustee shall not be required to obtain best rates, be responsible for any loss occasioned by such deposit or exercise any other form of investment discretion with respect to such deposits) in its name or under its control in any investments or other assets anywhere whether or not they produce income or deposited in its name or under its control at such bank or other financial institution in such currency as the Note Trustee may, in its absolute discretion, think fit. If that bank or institution is the Note Trustee or a subsidiary, holding or associated company of the Note Trustee, it need only account for an amount of interest equal to the standard amount of interest payable by it on such a deposit to an independent customer.

## 6. ENFORCEMENT AND PUT EVENT

### 6.1 Proceedings brought by the Note Trustee

At any time after the occurrence of an Event of Default which is continuing, and, in the case of paragraph (ii) of Condition 12 (*Event of Default*), where the Note Trustee has certified (where applicable) (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 take such proceedings as it may think fit against the Relevant Issuer to enforce the terms of the Trust Deed, the Notes and the Coupons.

### 6.2 Proof of default

Should the Note Trustee take legal proceedings against the Relevant Issuer to enforce any of the provisions of this Trust Deed:

- (a) proof therein that as regards any specified Note the Relevant Issuer has made default in paying any principal, premium or interest due in respect of such Note shall (unless the contrary be proved) be sufficient evidence that the Relevant Issuer has made the like default as regards all other Notes which are then due and repayable; and
- (b) proof therein that as regards any specified Coupon the Relevant Issuer has made default in paying any interest due in respect of such Coupon shall (unless the contrary be proved) be sufficient evidence that the Relevant Issuer has made the like default as regards all other Coupons which are then due and payable.

### 6.3 Put Event

At any time upon the Note Trustee becoming aware that a Put Event has occurred, the Note Trustee may, and if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding shall, give notice to the Noteholders in accordance with Condition 18 (*Notice*) specifying the nature of the Put Event and the procedure for exercising the Put Option.

## 7. PROCEEDINGS

### 7.1 Action taken by Note Trustee

The Note Trustee shall not be bound to take any such proceedings as are mentioned in Clause 6.1 (*Proceedings brought by the Note Trustee*) unless respectively directed or requested to do so (i) by an Extraordinary Resolution or (ii) in writing by the holders of at least one-quarter in nominal amount of the Notes of the relevant Series then outstanding and in either case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all costs, charges, damages and expenses which it may incur by so doing.

### 7.2 Note Trustee only to enforce

Only the Note Trustee may enforce the provisions of this Trust Deed. No holder shall be entitled to proceed directly against the Relevant Issuer to enforce the performance of any of the provisions of this Trust Deed unless the Note Trustee having become bound as aforesaid to take proceedings fails to do so within a reasonable period and such failure shall be continuing.

## 8. COVENANT TO COMPLY WITH THE TRUST DEED

### 8.1 Covenant to comply with the Trust Deed

The Relevant Issuer covenants with the Note Trustee to comply with those provisions of this Trust Deed, the Conditions and the other Programme documents which are expressed to be binding on it and to perform and observe the same. The Notes and the Coupons are subject to the provisions contained in this Trust Deed, all of which shall be binding upon the Relevant Issuer, the Noteholders, the Couponholders and all persons claiming through or under them respectively.

### 8.2 Note Trustee may enforce Conditions

The Note Trustee shall itself be entitled to enforce the obligations of the Relevant Issuer under the Notes and the Conditions as if the same were set out and contained in this Trust Deed which shall be read and construed as one document with the Notes.

## 9. COVENANTS

So long as any Note is outstanding, each Relevant Issuer severally (and not jointly) covenants with the Note Trustee that it shall:

- (a) **Books of Account:** at all times keep such books of account as may be necessary to comply with all Applicable Law and so as to enable the financial statements of the Relevant Issuer to be prepared and allow the Note Trustee and anyone appointed by it, access to its books of account at all reasonable times during normal business hours and to discuss the same with responsible officers of the Relevant Issuer;
- (b) **Notice of Events of Default:** notify the Note Trustee in writing immediately on becoming aware of the occurrence of any Event of Default and without waiting for the Note Trustee to take any further action;
- (c) **Information:** So long as any of the Notes remains outstanding, the Relevant Issuer covenants with the Note Trustee that it shall give or procure to be given to the Note Trustee such opinions, certificates, information and evidence as it shall require and in such form as it shall require (including without limitation the procurement by the Relevant Issuer of all such certificates called for by the Note Trustee pursuant to Clause 11.4 (*Certificate Signed by directors*)) for the purpose of the discharge or exercise of the duties, trusts, powers, authorities and discretions vested in it under this Trust Deed or any other Programme document or by operation of law;
- (d) **Requests by the Trustee:** So long as any of the Notes remains outstanding, the Relevant Issuer covenants with the Note Trustee that it shall, within ten Business Days (as defined in the Conditions) of a written request by the Note Trustee, supply to the Note Trustee such forms, documents and other information relating to it, its operations or the Notes which the Note Trustee may reasonably request for the purposes of the Note Trustee's compliance with Applicable Law, and shall notify the Note Trustee reasonably promptly in the event that it becomes aware that any of such information is (or becomes) inaccurate in any material respect; provided, however, the Relevant Issuer shall not be required to provide any such forms, documents or other information pursuant to this Clause to the extent that (i) any such form, documentation or other information (or the information required to be provided on such form or documentation) is not reasonably available to the Relevant Issuer and cannot be obtained by the Relevant Issuer using reasonable efforts; or (ii) doing so would or might in the reasonable opinion of the Relevant Issuer constitute a breach of any Applicable Law, fiduciary duty or duty of confidentiality;
- (e) **Accounts in relation to Principal Subsidiaries:** ensure that such accounts are prepared as may be necessary to determine which subsidiaries are its Principal Subsidiaries and procure that two directors of the Relevant Issuer prepare and deliver to the Note Trustee at the time of issue of every audited consolidated balance sheet of it and at any other time upon the request of the Note Trustee a certificate or report specifying the Principal Subsidiaries at the date of such balance sheet or request;
- (f) **Certificate relating to Principal Subsidiaries:** give to the Note Trustee, as soon as reasonably practicable after the acquisition or disposal of any company which thereby becomes or ceases to be a Principal Subsidiary or after any transfer is made to any Subsidiary which thereby becomes a Principal Subsidiary, a certificate by two directors of the Relevant Issuer to such effect;
- (g) **Financial Statements etc:** send to the Note Trustee and the Issuing and Paying Agent at the time of their issue, and, in the case of annual financial statements in any event

within 180 days of the end of each financial year, electronic copies in English of every balance sheet, profit and loss account, report or other notice, statement or circular issued, or that legally or contractually should be issued, to its members or creditors (or any class of them) or any holding company thereof generally in their capacity as such and procure that the same are made available for inspection by Noteholders and Couponholders at the specified offices of the Paying Agents as soon as practicable thereafter;

- (h) **Certificate of Directors:** send to the Note Trustee promptly following (i) publication of its annual audited financial statements being made available to its members, and in any event not later than 180 days after the end of its financial year and (ii) any request by the Note Trustee, a certificate signed by any two of its directors certifying that, having made all reasonable enquiries, to the best of the knowledge, information and belief as at a date not more than five days before the date of the certificate (the "**Certification Date**") the Relevant Issuer has complied with its obligations under this Trust Deed (or, if such is not the case, giving details of such non-compliance) and that as at such date there did not exist nor had there existed at any time prior thereto since the Certification Date in respect of the previous such certificate (or, in the case of the first such certificate, since the date of this Trust Deed) any Event of Default or Restructuring Event or (if such is not the case) specifying the same;
- (i) **Certificate of Notes Held:** send to the Note Trustee as soon as practicable after being so requested by the Note Trustee a certificate of the Relevant Issuer signed by any two of its directors setting out the total number of Notes which, at the date of such certificate, were held by or on behalf of that Relevant Issuer or any Subsidiary;
- (j) **Notices to Noteholders:** send to the Note Trustee not less than five Business Days prior to the date of publication, for the Note Trustee's approval the form of each notice to be given to Noteholders in accordance with the Conditions and not publish such notice without such approval and, once given, two copies of each such notice (such approval, unless so expressed, not to constitute approval for the purposes of section 21 of the FSMA of any such notice which is a communication within the meaning of section 21 of the FSMA);
- (k) **Further Acts:** so far as permitted by Applicable Law, do such further things and execute all such further documents as may be necessary in the opinion of the Note Trustee to give effect to this Trust Deed;
- (l) **Notice of Late Payment:** forthwith give notice to the Noteholders of any unconditional payment to the Issuing and Paying Agent or the Note Trustee of any sum due in respect of the Notes or Coupons made after the due date for such payment;
- (m) **Listing and Trading:** if the Notes are so listed and traded, use reasonable endeavours to maintain the listing and trading of the Notes on the Market but, if it is unable to do so, having used such endeavours, or if the maintenance of such listing or trading is agreed by the Note Trustee to be unduly onerous and the Note Trustee is satisfied that the interests of the Noteholders would not be thereby materially prejudiced, instead use reasonable endeavours to obtain and maintain a listing of the Notes on another stock exchange and the admission to trading of the Notes on another market (such market being a market which is a regulated market for the purposes of MIFID), in each case approved in writing by the Note Trustee;
- (n) **Change in Agents:** give at least 14 days' prior notice to the Noteholders of any future appointment, resignation or removal of an Agent or of any change by an Agent of its



specified office and not make any such appointment or removal without the Note Trustee's written approval;

- (o) **Provision of Legal Opinions:** procure the delivery of legal opinions addressed to the Note Trustee dated the date of such delivery, in form and content acceptable to the Note Trustee:
- (i) from Latham & Watkins LLP as to the laws of England on the date of any update of the Programme and on the date of any amendment to this Trust Deed;
  - (ii) from legal advisers reasonably acceptable to the Note Trustee as to such law as may reasonably be requested by the Note Trustee on the date of any update of the Programme and on the issue date for the Notes in the event of a proposed issue of Notes of such a nature and having such features as might lead the Note Trustee to conclude (acting reasonably (and only in circumstances where, in the reasonable opinion of the Note Trustee, a legal opinion has not previously been issued in respect of Notes having such features and/or a relevant material change in law has occurred)) that it would be prudent, having regard to such nature and features, to obtain such legal opinion(s) or in the event that the Note Trustee considers it prudent (acting reasonably) in view of a change (or proposed change) in (or in the interpretation or application of) any Applicable Law, regulation or circumstance affecting it, the Note Trustee, the Notes, the Certificates, the Coupons, the Talons, this Trust Deed or the Agency Agreement; and
  - (iii) on each occasion on which a legal opinion is given to any Dealer in relation to any Notes pursuant to the Dealer Agreement from the legal adviser giving such opinion;
- (p) **Notification of redemption or payment:** not less than the number of days specified in the relevant Condition prior to the redemption or payment date in respect of any Note or Coupon give to the Note Trustee notice in writing of the amount of such redemption or payment pursuant to the Conditions and duly proceed to redeem or pay such Notes or Coupons accordingly;
- (q) **Tax or optional redemption:** if the Relevant Issuer gives notice to the Note Trustee that it intends to redeem the Notes pursuant to Conditions 6(c) (*Redemption for Taxation Reasons*), 6(d) (*Redemption for Indexation Reasons*) and 6(e) (*Redemption at the Option of the Relevant Issuer*) the Relevant Issuer shall, prior to giving such notice to the Noteholders, provide such information to the Note Trustee as the Note Trustee reasonably requires in order to satisfy itself of the matters referred to in such Condition;
- (r) **Change of taxing jurisdiction:** if the Relevant Issuer shall become subject generally to the taxing jurisdiction of any territory or any political sub-division thereof or any authority therein or thereof having power to tax other than or in addition to Relevant Issuer's taxing jurisdiction, immediately upon becoming aware thereof notify the Note Trustee of such event and (unless the Note Trustee otherwise agrees) enter forthwith into a trust deed supplemental hereto, giving to the Note Trustee an undertaking or covenant in form and manner satisfactory to the Note Trustee in terms corresponding to the terms of Condition 10 (*Taxation*) with the substitution for (or, as the case may be, the addition to) the references therein to Relevant Issuer's taxing jurisdiction of references to that other or additional territory to whose taxing jurisdiction, or that of a political subdivision thereof or an authority therein or thereof, the Relevant Issuer shall have become subject as aforesaid, such trust deed also to modify Condition 10 (*Taxation*) so that such Condition shall make reference to that other or additional territory;

- (s) **Authorised Signatories:** upon the execution hereof and thereafter forthwith upon any change of the same, deliver to the Note Trustee (with a copy to the Issuing and Paying Agent) a list of the Authorised Signatories of the Relevant Issuer, together with certified specimen signatures of the same;
- (t) **Payments:** pay moneys payable by it to the Note Trustee hereunder without set off, counterclaim, deduction or withholding, unless otherwise compelled by law and in the event of any deduction or withholding compelled by law pay such additional amount as will result in the payment to the Note Trustee of the amount which would otherwise have been payable by it to the Note Trustee hereunder (save that, for the avoidance of doubt, this shall not apply to any payments of interest or principal in respect of the Notes or the Coupons, any additional amounts to be paid in respect of such sums to be instead determined in accordance with Condition 10 (*Taxation*));
- (u) **Obligations of Agents:** enforce its rights as against the Agents and the Registrar under the Agency Agreement and notify the Note Trustee immediately upon it becoming aware of any material breach or failure by an Agent in relation to the Notes or Coupons;
- (v) **Notice of Put Event:** notify the Note Trustee in writing immediately on becoming aware of the occurrence of any Put Event; and
- (w) **Cancellation of Notes:** procure the delivery of a certificate of cancellation to the Note Trustee detailing all Notes redeemed, converted or purchased by the Relevant Issuer upon which the Note Trustee can rely as conclusive evidence of repayment or discharge of the relevant Notes.

## 10. REMUNERATION AND INDEMNIFICATION OF THE NOTE TRUSTEE

### 10.1 Normal Remuneration

So long as any Note is outstanding each Relevant Issuer shall pay the Note Trustee as remuneration for its services as Note Trustee such sum on such dates in each case as the Note Trustee and the Relevant Issuer may agree in writing. Such remuneration shall accrue from day to day from the date of this Trust Deed. However, if any payment to a Noteholder or Couponholder of moneys due in respect of any Note or Coupon is improperly withheld or refused, such remuneration shall again accrue as from the date of such withholding or refusal until payment to such Noteholder or Couponholder is duly made.

### 10.2 Extra Remuneration

If an Event of Default (or an event has occurred which has led the Note Trustee, acting reasonably, to take steps to determine whether an Event of Default has occurred) shall have occurred in relation to a Relevant Issuer, such Relevant Issuer hereby agrees that the Note Trustee shall be entitled to be paid additional remuneration calculated at its normal hourly rates in force from time to time. In any other case, if the Note Trustee finds it expedient or necessary or is requested by such Relevant Issuer to undertake duties that they both agree to be of an exceptional nature or otherwise outside the scope of the Note Trustee's normal duties under this Trust Deed, such Relevant Issuer shall pay such additional remuneration as they may agree (and which may be calculated by reference to the Note Trustee's normal hourly rates in force from time to time) or, failing agreement as to any of the matters in this Subclause (or as to such sums referred to in Subclause 10.1 (*Normal Remuneration*)), as determined by a financial institution or person (acting as an expert) selected by the Note Trustee and approved by that Relevant Issuer or, failing such approval, nominated by the President for the time being of The Law Society of England and Wales. The expenses involved in such nomination and such financial institution's fee shall

be borne by such Relevant Issuer. The determination of such financial institution or person shall be conclusive and binding on the Relevant Issuer, the Note Trustee, the Noteholders and the Couponholders.

### 10.3 Expenses

Each Relevant Issuer shall (on a several (and not joint) basis only) pay or discharge all costs, charges, Liabilities and expenses properly incurred by the Note Trustee and (if applicable) any receiver in relation to the preparation and execution of, the exercise of its powers and the performance of its duties under, and in any other manner in relation to, this Trust Deed and the other Programme documents including, but not limited to, legal and travelling expenses and any stamp, issue, registration, documentary or other taxes or duties paid by the Note Trustee in connection with any action taken or contemplated by or on behalf of the Note Trustee for enforcing or resolving any doubt concerning this Trust Deed, the Notes, the Coupons, the Talons or any other Programme document. Such costs, charges, Liabilities and expenses shall:

- (a) in the case of payments made by the Note Trustee before such demand, carry interest from the date of the demand at the rate of 2 per cent. per annum over the base rate of the Bank of England on the date on which the Note Trustee made such payments and
- (b) in other cases, carry interest at such rate from 30 days after the date of the demand or (where the demand specifies that payment is to be made on an earlier date) from such earlier date.

### 10.4 Value Added Tax

The Relevant Issuer shall in addition pay to the Note Trustee an amount equal to the amount of any value added tax or similar tax chargeable in respect of its remuneration (including extra remuneration and expenses) under this Trust Deed.

### 10.5 Indemnity

Without prejudice to the right of indemnity given by law to trustees, the Relevant Issuer will indemnify the Note Trustee and every receiver, attorney, manager, agent or other person appointed by the Note Trustee hereunder and keep it or him indemnified against all liabilities and expenses (including any VAT payable) to which it or he may become subject or which may be incurred by it or him in the negotiation and preparation of this Trust Deed and the other Programme documents and the execution or purported execution or exercise of any of its or his trusts, duties, rights, powers, authorities and discretions under this Trust Deed or any other Programme document or its or his functions under any such appointment or in respect of any other matter or thing done or omitted in any way relating to this Trust Deed or any other Programme document or any such appointment (including, without limitation, liabilities incurred in disputing or defending any of the foregoing).

### 10.6 Continuing Effect

Unless otherwise specifically stated in any discharge of this Trust Deed, the provisions of this Clause 10 shall continue in full force and effect notwithstanding such discharge and whether or not the Note Trustee is then the trustee of this Trust Deed.

## 11. PROVISIONS SUPPLEMENTAL TO THE TRUSTEE ACT 1925 AND THE TRUSTEE ACT 2000

### 11.1 Advice

The Note Trustee may act on the advice, opinion or report of or any information obtained from any lawyer, valuer, accountant (including the auditors), surveyor, banker, broker, auctioneer, or other expert (whether obtained by the Relevant Issuer, the Note Trustee or otherwise, whether or not addressed to the Note Trustee, and whether or not the advice, opinion, report or information, or any engagement letter or other related document, contains a monetary or other limit on liability or limits the scope and/or basis of such advice, opinion, report or information). The Note Trustee will not be responsible to anyone for any liability occasioned by so acting. Any such advice, opinion or information may be sent or obtained by letter, telex, fax or electronic communication and the Note Trustee shall not be liable for acting in good faith on any advice, opinion or information purporting to be conveyed by such means even if it contains an error or is not authentic.

#### 11.2 Note Trustee to Assume Performance

The Note Trustee need not notify anyone of the execution of this Trust Deed or do anything to find out if a Restructuring Event or an Event of Default has occurred. Until it has actual knowledge or express notice to the contrary, the Note Trustee may assume that no such event has occurred and that the Relevant Issuer is performing all its obligations under this Trust Deed, the Notes, the Coupons and the Talons.

#### 11.3 Resolutions of Noteholders

The Note Trustee shall not be responsible for having acted on a resolution purporting to be a Written Resolution or to have been passed at a meeting of Noteholders in respect of which minutes have been made and signed or a direction of a specified percentage of Noteholders even if it is later found that there was a defect in the constitution of the meeting or the passing of the resolution or the making of the directions or that the resolution was not valid or binding on the Noteholders or Couponholders.

#### 11.4 Certificate Signed by directors

If the Note Trustee, in the exercise of its functions, requires to be satisfied or to have information as to any fact or the expediency of any act, it may call for and accept as sufficient evidence of that fact or the expediency of that act a certificate signed by any two directors of the Relevant Issuer as to that fact or to the effect that, in their opinion, that act is expedient and the Note Trustee need not call for further evidence and shall not be responsible for any Liability occasioned by acting on such a certificate.

#### 11.5 Certificate of Auditors

A certificate of the Auditors that in their opinion a Subsidiary is or is not or was or was not at any particular time or during any particular period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Relevant Issuer, the Note Trustee, the Noteholders and the Couponholders;

#### 11.6 Delivery of Certificate

The Note Trustee shall have no Liability whatsoever for any loss, cost, damages or expenses directly or indirectly suffered or incurred by the Relevant Issuer, any Noteholder, or any other person as a result of the delivery by the Note Trustee to the Relevant Issuer of a certificate as to material prejudice pursuant to Condition 12 (*Events of Default*) on the basis of an opinion formed by it in good faith.

#### 11.7 Deposit of Documents



The Note Trustee may appoint as custodian, on any terms, any bank or entity whose business includes the safe custody of documents or any lawyer or firm of lawyers believed by it to be of good repute and may deposit this Trust Deed and any other documents with such custodian and pay all sums due in respect thereof. The Note Trustee is not obliged to appoint a custodian of securities payable to bearer.

#### 11.8 Discretion

The Note Trustee shall have absolute and uncontrolled discretion as to the exercise of its functions and shall not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience that may result from their exercise or non-exercise.

#### 11.9 Note Trustee's consent

Any consent given by the Note Trustee for the purposes of this Trust Deed may be given on such terms and subject to such conditions (if any) as the Note Trustee may require.

#### 11.10 Agents

Whenever it considers it expedient in the interests of the Noteholders, the Note Trustee (using due skill, care and attention) may, in the conduct of its trust business, instead of acting personally, employ on any terms and pay an agent selected by it, whether or not a lawyer or other professional person, to transact or conduct, or concur in transacting or conducting, any business and to do or concur in doing all acts required to be done by the Note Trustee (including the receipt and payment of money) and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

#### 11.11 Delegation

Whenever it considers it expedient in the interests of the Noteholders, the Note Trustee (using due skill, care and attention) may delegate to any person on any terms (including power to sub-delegate) all or any of its functions and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

#### 11.12 Nominees

In relation to any asset held by it under this Trust Deed, the Note Trustee (using due skill, care and attention) may appoint any person to act as its nominee on any terms and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

#### 11.13 Forged Notes

The Note Trustee shall not be liable to any of the Issuers or any Noteholder or Couponholder by reason of having accepted as valid or not having rejected any Note, Certificate, Coupon or Talon purporting to be such and later found to be forged or not authentic.

#### 11.14 Confidentiality

Unless ordered to do so by a court of competent jurisdiction, the Note Trustee shall not be required to disclose to any Noteholder or Couponholder any confidential financial or other information made available to the Note Trustee by the Relevant Issuer.

11.15 Determinations Conclusive

As between itself and the Noteholders and Couponholders, the Note Trustee may determine all questions and doubts arising in relation to any of the provisions of this Trust Deed. Such determinations, whether made upon such a question actually raised or implied in the acts or proceedings of the Note Trustee, shall be conclusive and shall bind the Note Trustee, the Noteholders and the Couponholders.

11.16 Currency Conversion

Where it is necessary or desirable to convert any sum from one currency to another, it shall (unless otherwise provided hereby or required by law) be converted at such rate or rates, in accordance with such method and as at such date as may reasonably be specified by the Note Trustee but having regard to current rates of exchange, if available. Any rate, method and date so specified shall be binding on the Relevant Issuer, the Noteholders and the Couponholders.

11.17 Events of Default etc.

The Note Trustee shall not be bound to give notice to any person of the execution of this Trust Deed or to take any steps to ascertain whether any Event of Default has happened and, until it shall have actual knowledge or express notice to the contrary, the Note Trustee shall be entitled to assume that no such Event of Default has happened and that the Relevant Issuer is observing and performing all the obligations on its part contained in the Notes and Coupons and under this Trust Deed and no event has happened as a consequence of which any of the Notes may become repayable. Without prejudice to the foregoing, the Note Trustee may determine whether or not an Event of Default is in its opinion capable of remedy and/or materially prejudicial to the interests of the Noteholders. Any such determination shall be conclusive and binding on the Relevant Issuer, the Noteholders and the Couponholders.

11.18 Payment for and Delivery of Notes

The Note Trustee shall not be responsible for the receipt or application by the Relevant Issuer of the proceeds of the issue of the Notes, any exchange of Notes or the delivery of Notes to the persons entitled to them.

11.19 Notes Held by the Relevant Issuer etc.

In the absence of knowledge or express notice to the contrary, the Note Trustee may assume without enquiry (other than requesting a certificate under Clause 9(i) (*Certificate of Notes Held*)) that no Notes are for the time being held by or on behalf of the Relevant Issuer or its Subsidiaries.

11.20 Legal Opinions

The Note Trustee shall not be responsible to any person for failing to request, require or receive any legal opinion relating to any Notes or for checking or commenting upon the content of any such legal opinion.

11.21 Programme Limit

The Note Trustee shall not be concerned, and need not enquire, as to whether or not any Notes are issued in breach of the Programme Limit.

11.22 Responsibility for agents etc.

The Note Trustee will not have any obligation to supervise any custodian, agent, delegate or nominee appointed under this clause (an "Appointee") or be responsible for any Liability incurred by reason of the Appointee's misconduct or default or the misconduct or default of any substitute appointed by the Appointee.

11.23 Reliance on certification of clearing system

The Note Trustee may call for any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system in relation to any matter. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's Cedcom system) in accordance with its usual procedures and in which the holder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Note Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any such certificate or other document purporting to be issued by Euroclear or Clearstream, Luxembourg or any other relevant clearing system and subsequently found to be forged or not authentic.

11.24 Noteholders as a class

Whenever in this Trust Deed the Note Trustee is required in connection with any exercise of its powers, trusts, authorities or discretions to have regard to the interests of the Noteholders, it shall have regard to the interests of the Noteholders as a class and in particular, but without prejudice to the generality of the foregoing, shall not be obliged to have regard to the consequences of such exercise for any individual Noteholder resulting from his or its being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

11.25 Note Trustee not responsible for investigations

The Note Trustee shall not be responsible for, or for investigating any matter which is the subject of, any recital, statement, representation, warranty or covenant of any person contained in this Trust Deed, the Notes or any other agreement or document relating to the transactions herein or therein contemplated or for the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence thereof.

11.26 No obligation to monitor

The Note Trustee shall be under no obligation to monitor or supervise the functions of any other person under the Notes or any other agreement or document relating to the transactions herein or therein contemplated and shall be entitled, in the absence of actual knowledge of a breach of obligation, to assume that each such person is properly performing and complying with its obligations.

11.27 Entry on the Register

The Note Trustee shall not be liable to the Relevant Issuer or any Noteholder by reason of having accepted as valid or not having rejected any entry on the Register later found to be forged or not authentic and can assume for all purposes in relation hereto that any entry on the Register is correct.

11.28 Interests of accountholders or participants

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.

#### 11.29 Note Trustee not Responsible

The Note Trustee shall not be responsible for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of this Trust Deed or any other document relating thereto and shall not be liable for any failure to obtain or maintain any rating of Notes (where required), any licence, consent or other authority for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, performance, enforceability or admissibility in evidence of this Trust Deed or any other document relating thereto. In addition the Note Trustee shall not be responsible for the effect of the exercise of any of its powers, duties and discretions hereunder.

#### 11.30 Freedom to Refrain

Notwithstanding anything else herein contained, the Note Trustee may refrain from doing anything which would or might in its opinion be contrary to any law of any jurisdiction or any directive or regulation of any agency or any state or which would or might otherwise render it liable to any person and may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

#### 11.31 Right to Deduct or Withhold

Notwithstanding anything contained in this Trust Deed, to the extent required by any Applicable Law, if the Note Trustee is or will be required to make any deduction or withholding from any distribution or payment made by it hereunder or if the Note Trustee is or will be otherwise charged to, or is or will become liable to, tax as a consequence of performing its duties hereunder whether as principal, agent or otherwise, and whether by reason of any assessment, prospective assessment or other imposition of liability to taxation of whatsoever nature and whensoever made upon the Note Trustee, and whether in connection with or arising from any sums received or distributed by it or to which it may be entitled under this Trust Deed (other than in connection with its remuneration as provided for herein) or any investments or deposits from time to time representing the same, including any income or gains arising therefrom or any action of the Note Trustee in connection with the trusts of this Trust Deed (other than the remuneration herein specified) or otherwise, then the Note Trustee shall be entitled to make such deduction or withholding or, as the case may be, to retain out of sums received by it an amount sufficient to discharge any liability to tax which relates to sums so received or distributed or to discharge any such other liability of the Note Trustee to tax from the funds held by the Note Trustee upon the trusts of this Trust Deed.

#### 11.32 Error of judgment

The Note Trustee shall not be liable for any error of judgment made in good faith by any officer or employee of the Note Trustee assigned by the Note Trustee to administer its corporate trust matters.

#### 11.33 Professional charges

Any trustee being a banker, lawyer, broker or other person engaged in any profession or business shall be entitled to charge and be paid all usual professional and other charges for business transacted and acts done by him or his partner or firm on matters arising in connection with the



trusts of this Trust Deed and also his properly incurred charges in addition to disbursements for all other work and business done and all time spent by him or his partner or firm on matters arising in connection with this Trust Deed, including matters which might or should have been attended to in person by a trustee not being a banker, lawyer, broker or other professional person.

#### 11.34 Expenditure by the Note Trustee

Nothing contained in this Trust Deed or any other Programme document shall require the Note Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder if it has grounds for believing the repayment of such funds or adequate indemnity against, or security for, or prefunding against, such risk or liability is not reasonably assured to it.

#### 11.35 Regulatory Position

Notwithstanding anything in the Trust Deed or any other Programme document to the contrary, the Note Trustee shall not do, or be authorised or required to do, anything which might constitute a regulated activity for the purpose of FSMA, unless it is authorised under FSMA to do so.

The Note Trustee shall have the discretion at any time:

- (a) to delegate any of the functions which fall to be performed by an authorised person under FSMA to any other agent or person which also has the necessary authorisations and licences; and
- (b) to apply for authorisation under FSMA and perform any or all such functions itself if, in its absolute discretion, it considers it necessary, desirable or appropriate to do so.

Nothing in this Trust Deed shall require the Note Trustee to assume an obligation of the Relevant Issuers arising under any provisions of the listing, prospectus, disclosure or transparency rules (or equivalent rules of any other competent authority besides the Financial Conduct Authority).

#### 11.36 Not Bound to Act

In relation to any discretion to be exercised or action to be taken by the Note Trustee under any Programme document, the Note Trustee may, at its discretion and without further notice or shall, if it has been so directed by an extraordinary resolution of the Noteholders of any Series or so requested in writing by the holders of at least 25 per cent. in principal amount of Notes of any Series, exercise such discretion or take such action, provided that, in either case, the Note Trustee shall not be obliged to exercise such discretion or take such action unless it shall have been indemnified, secured and/or prefunded to its satisfaction against all liabilities and provided that the Note Trustee shall not be held liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual noteholders.

#### 11.37 Personal Data

Notwithstanding the other provisions of the Programme documents, the Note Trustee may collect, use and disclose personal data about the parties (if any are an individual) or individuals associated with the Relevant Issuer and/or other parties, so that the Note Trustee can carry out its obligations to the Relevant Issuer and the other parties and for other related purposes, including auditing, monitoring and analysis of its business, fraud and crime prevention, money laundering, legal and regulatory compliance and the marketing by the Note Trustee or members of the Note Trustee's corporate group of other services. The Note Trustee will keep the personal data up to date. The Note Trustee may also transfer the personal data to any country (including countries

outside the European Economic Area where there may be less stringent data protection laws) to process information on the Note Trustee's behalf. Wherever it is processed, the personal data will be protected by a strict code of secrecy and security to which all members of the Note Trustee's corporate group, their staff and any third parties are subject, and will only be used in accordance with the Note Trustee's instructions.

## **12. NOTE TRUSTEE LIABLE FOR NEGLIGENCE**

Section 1 of the Trustee Act 2000 shall not apply to any function of the Note Trustee where there are any inconsistencies between the Trustee Acts and the provisions of this Trust Deed, the provisions of this Trust Deed shall, to the extent allowed by law, prevail and, in the case of any such inconsistency with the Trustee Act 2000, the provisions of this Trust Deed shall constitute a restriction or exclusion for the purposes of that Act.

Subject to Sections 750 and 751 of the Companies Act 2006 (if applicable) and notwithstanding anything to the contrary the Programme documents, the Note Trustee shall not be liable to any person for any matter or thing done or omitted in any way in connection with or in relation to the Programme documents, save in connection with its own gross negligence, wilful default or fraud.

Any liability of the Note Trustee arising under the Programme documents shall be limited to the amount of actual loss suffered (such loss shall be determined as at the date of default of the Note Trustee or, if later, the date on which the loss arises as a result of such default) but without reference to any special conditions or circumstances known to the Note Trustee at the time of entering into the Programme documents, or at the time of accepting any relevant instructions, which increase the amount of the loss. In no event shall the Note Trustee be liable for any loss of profits, goodwill, reputation, business opportunity or anticipated saving, or for special, punitive or consequential damages, whether or not the Note Trustee has been advised of the possibility of such loss or damages. This clause shall not apply in the event that a court with jurisdiction determines that the Note Trustee has acted fraudulently or to the extent the limitation of such liability would be precluded by virtue of Sections 750 and 751 of the Companies Act 2006.

## **13. WAIVER**

The Note Trustee may, without the consent or sanction of the Noteholders or Couponholders and without prejudice to its rights in respect of any subsequent breach, condition, event or act from time to time and at any time, if in its opinion the interests of the Noteholders will not be materially prejudiced thereby, waive or authorise, on such terms and conditions as seem expedient to it, any breach or proposed breach by the Relevant Issuer of this Trust Deed or the Conditions or the Notes or Coupons or determine that an Event of Default shall not be treated as such for the purposes of this Trust Deed provided that the Note Trustee shall not do so in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to Condition 12 (*Events of Default*). No such direction or request shall affect a previous waiver, authorisation or determination. Any such waiver, authorisation or determination shall be binding on the Noteholders and the Couponholders and, if the Note Trustee so requires the Relevant Issuer shall cause such waiver, authorisation or determination to be notified to the Noteholders as soon as practicable in accordance with the Conditions.

## **14. FREEDOM TO ACT**

None of the Note Trustee or its directors and officers should be precluded from entering into transactions in the ordinary course of business with any of the other parties or be accountable for the same (including any profit therefrom) to Noteholders or any person.

## 15. MODIFICATION AND SUBSTITUTION

### 15.1 Modification

The Note Trustee may agree without the consent of the Noteholders or Couponholders to any modification to this Trust Deed or the Conditions or the Notes or Coupons which is, in its opinion, of a formal, minor or technical nature or to correct a manifest error. The Note Trustee may also so agree to any modification to this Trust Deed or the Notes that is in its opinion not materially prejudicial to the interests of the Noteholders, but such power does not extend to any such modification as is mentioned in the proviso to paragraph 2 of Schedule 7 (*Provisions for Meetings of Noteholders*). Any such modification shall be binding on the Noteholders and the Couponholders and, unless the Note Trustee otherwise agrees, the Relevant Issuer shall cause such modification to be notified to the Noteholders as soon as practicable thereafter in accordance with the Conditions.

### 15.2 Substitution

- (a) The Note Trustee may, without the consent of the Noteholders or Couponholders, agree to the substitution of the Relevant Issuer's successor in business (the "**Substituted Obligor**") in place of the Relevant Issuer (or of any previous substitute under this Subclause) as the principal debtor under this Trust Deed, the Notes, the Coupons and the Talons provided that:
- (i) a deed is executed or undertaking given by the Substituted Obligor to the Note Trustee, in form and manner satisfactory to the Note Trustee, agreeing to be bound by this Trust Deed, the Notes, the Coupons and the Talons (with consequential amendments as the Note Trustee may deem appropriate, including any necessary change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed) as if the Substituted Obligor had been named in this Trust Deed, the Notes, the Certificates, the Coupons and the Talons as the principal debtor in place of the Relevant Issuer or any previous substitute under this Subclause;
  - (ii) the Note Trustee is satisfied that (i) the Substituted Obligor has obtained all governmental and regulatory approvals and consents necessary for its assumption of liability as principal debtor in respect of the Notes and the Coupons in place of the Relevant Issuer (or such previous substitute as aforesaid) and (ii) such approvals and consents are at the time of substitution in full force and effect;
  - (iii) the Note Trustee may request legal opinions in a form and manner acceptable to it in relation to the Substituted Obligor;
  - (iv) without prejudice to the rights of reliance of the Note Trustee under Subclause 15.2(b) the Note Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;
  - (v) Moody's and S&P have confirmed in writing to the Note Trustee that the substitution of the Substituted Obligor will not result in a downgrading of the then current credit rating of such rating agencies applicable to the class of debt represented by the Notes;
  - (vi) if the Substituted Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory to the taxing jurisdiction of which (or to any

such authority of or in which) the Relevant Issuer is subject generally (the “**Issuer’s Territory**”), the Substituted Obligor shall (unless the Note Trustee otherwise agrees) give to the Note Trustee an undertaking satisfactory to the Note Trustee in terms corresponding to Condition 10 (*Taxation*) with the substitution for the references in that Condition to the Relevant Issuer’s Territory of references to the Substituted Territory whereupon the Trust Deed, the Notes, the Certificates, the Coupons and the Talons shall be read accordingly;

- (vii) if any two directors of the Substituted Obligor certify that it will be solvent immediately prior to such substitution, the Note Trustee need not have regard to the Substituted Obligor’s financial condition, profits or prospects or compare them with those of the Relevant Issuer or any previous substitute under this Subclause;
- (viii) the Relevant Issuer, and the Substituted Obligor comply with such other requirements as the Note Trustee may direct in the interests of the Noteholders and the Couponholders; and
- (ix) (unless the Relevant Issuer’s successor in business is the Substituted Obligor) the obligations of the Substituted Obligor under this Trust Deed, the Notes and the Coupons are guaranteed by the Relevant Issuer to the Note Trustee’s satisfaction.

**(b) Release of Substituted Issuer**

An agreement by the Note Trustee pursuant to this Clause 15.2 shall, if so expressed, release the Relevant Issuer (or a previous substitute) from any or all of its obligations under this Trust Deed, the Notes, the Coupons and the Talons. Notice of the substitution shall be given to the Noteholders within 14 days of the execution of such documents and compliance with such requirements.

**(c) Completion of Substitution**

On completion of the formalities set out in this Clause 15.2, the Substituted Obligor shall be deemed to be named in this Trust Deed, the Notes, the Certificates, the Coupons and the Talons as the principal debtor in place of the Relevant Issuer (or of any previous substitute) and this Trust Deed, the Notes, the Certificates, the Coupons and the Talons shall be deemed to be amended as necessary to give effect to the substitution.

**16. APPOINTMENT, RETIREMENT AND REMOVAL OF THE NOTE TRUSTEE**

**16.1 Appointment**

Subject as provided in Clause 16.2 (*Retirement and Removal*), each Relevant Issuer has the power of appointing new trustees but no one may be so appointed in relation to a Series of Notes unless previously approved by an Extraordinary Resolution of the Noteholders of such Series of Notes. A trust corporation shall at all times be a Note Trustee and may be the sole Note Trustee. Any appointment of a new Note Trustee shall be notified by the Relevant Issuer to the Agents and to the Noteholders as soon as practicable.

**16.2 Retirement and Removal**

Any Note Trustee may retire at any time on giving at least three calendar months’ written notice to the Issuers without giving any reason or being responsible for any costs occasioned by such retirement and the Noteholders of any Series may by Extraordinary Resolution remove any Note



Trustee in relation to such Series provided that the retirement or removal of a sole trust corporation shall not be effective until a trust corporation is appointed as successor Note Trustee. If a sole trust corporation gives notice of retirement or an Extraordinary Resolution is passed for its removal, the Relevant Issuer shall use all reasonable endeavours to procure that another trust corporation be appointed as Note Trustee but if it fails to do so within 30 days of the expiry of such three month notice period, the Note Trustee shall have the power to appoint a new Note Trustee.

### 16.3 Co-Note Trustees

The Note Trustee may, despite Subclause 16.1 (*Appointment*), by written notice to the Relevant Issuer (with a copy to Moody's and S&P) appoint anyone to act as an additional Note Trustee jointly with the Note Trustee:

- (a) if the Note Trustee considers the appointment to be in the interests of the Noteholders and/or the Couponholders; or
- (b) to conform with a legal requirement, restriction or condition in a jurisdiction in which a particular act is to be performed; or
- (c) to obtain a judgment or to enforce a judgment or any provision of this Trust Deed in any jurisdiction.

Subject to the provisions of this Trust Deed the Note Trustee may confer on any person so appointed such functions as it thinks fit. The Note Trustee may by written notice to each Relevant Issuer and that person remove that person. At the Note Trustee's request, each Relevant Issuer shall forthwith do all things as may be required to perfect such appointment or removal and each Relevant Issuer irrevocably appoints the Note Trustee as its attorney in its name and on its behalf to do so.

### 16.4 Competence of a Majority of Note Trustees

If there are more than two Note Trustees the majority of them shall be competent to perform the Note Trustee's functions provided the majority includes a trust corporation.

### 16.5 Merger

Any corporation into which the Note Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Note Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Note Trustee, shall be the successor of the Note Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Clause, without the execution or filing of any paper or any further act on the part of any of the parties thereto.

## 17. NOTES HELD IN CLEARING SYSTEMS AND COUPONHOLDERS

### 17.1 Notes Held in Clearing Systems

So long as any Global Note is, or any Notes represented by a Global Certificate are, held on behalf of a clearing system, in considering the interests of Noteholders, the Note Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders or participants with entitlements to any such Global Note or the Registered Notes and may consider such interests on the basis that such accountholders or participants were the holder(s) thereof.

17.2 Couponholders

No notices need be given to Couponholders. They shall be deemed to have notice of the contents of any notice given to Noteholders. Even if it has express notice to the contrary, in exercising any of its functions by reference to the interests of the Noteholders, the Note Trustee shall assume that the holder of each Note is the holder of all Coupons and Talons relating to it.

**18. CURRENCY INDEMNITY**

18.1 Currency of Account and Payment

The Contractual Currency is the sole currency of account and payment for all sums payable by the Relevant Issuer under or in connection with this Trust Deed, the Notes and the Coupons, including damages.

18.2 Extent of Discharge

An amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Relevant Issuer or otherwise), by the Note Trustee or any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Relevant Issuer shall only discharge the Relevant Issuer to the extent of the Contractual Currency amount that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

18.3 Indemnity

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under this Trust Deed, the Notes or the Coupons, each Relevant Issuer (on a several (and not joint) basis only) shall indemnify it against any Liabilities sustained by it as a result. In any event, each Relevant Issuer (on a several (and not joint) basis only) shall indemnify the recipient against the cost of making any such purchase.

18.4 Indemnity Separate

The indemnities in this Clause 18 (*Currency Indemnity*) and in Subclause 10.5 (*Indemnity*) constitute separate and independent obligations from the other obligations in this Trust Deed, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by the Note Trustee and/or any Noteholder or Couponholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under this Trust Deed, the Notes and/or the Coupons or any other judgment or order. Any such Liability as referred to in Subclause 18.3 (*Indemnity*) shall be deemed to constitute a Liability suffered by the Note Trustee, the Noteholders and the Couponholders and no proof or evidence of any actual Liability shall be required by the Relevant Issuer or its liquidator(s).

**19. COMMUNICATIONS**

19.1 Method

Each communication under this Trust Deed shall be made in English by fax, electronic communication or otherwise in writing. Each communication or document to be delivered to any party under this Trust Deed shall be sent to that party at the fax number, postal address or electronic address, and marked for the attention of the person (if any), from time to time designated

by that party to each other party for the purpose of this Trust Deed. The initial fax number, postal address, electronic address and person so designated by the parties under this Trust Deed are set out in the Procedures Memorandum.

#### 19.2 Deemed Receipt

Any communication from any party to any other under this Trust Deed shall be effective, (if by fax) when the relevant delivery receipt is received by the sender, (if in writing) when delivered and (if by electronic communication) when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Trust Deed which is to be sent by fax or electronic communication will be written legal evidence.

#### 19.3 No Notice to Couponholders

Neither the Note Trustee nor the Relevant Issuer shall be required to give any notice to the Couponholders for any purpose under this Trust Deed and the Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with Condition 18 (*Notices*).

### 20. SEVERAL OBLIGATIONS AND NO CROSS-DEFAULT

Notwithstanding any other provision of this Trust Deed (or any other document entered into in connection with the issue of the Notes), the obligations of each Issuer are several and if a misrepresentation, breach, default or event of default (or anything analogous thereto) (a "**Default**") occurs as a result of any act or omission or state of affairs which, in each case, relates only to an Issuer, such Default shall be deemed not to have occurred in relation to the other Issuers (the "**Other Issuers**") and, accordingly, no liability, right, action, remedy, demand, claim, acceleration of any liability or other enforcement or remedied action may be taken against the Other Issuers.

### 21. FURTHER PROVISIONS

#### 21.1 Partial Invalidity

If, at any time, any provision of this Trust Deed is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

#### 21.2 Counterparts

This Trust Deed may be executed manually or by facsimile in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of this Trust Deed.

### 22. GOVERNING LAW AND JURISDICTION

#### 22.1 Governing Law

This Trust Deed, the Notes and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with English law.

## 22.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with this Trust Deed, the Notes, the Coupons or the Talons and accordingly any legal action or proceedings arising out of or in connection with this Trust Deed, the Notes, the Coupons or the Talons ("**Proceedings**") may be brought in such courts. The Issuers irrevocably submit to the jurisdiction of such courts and waive any objections to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Clause is for the benefit of each of the Note Trustee, the Noteholders and the Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

## 22.3 Service of process

Each Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to such Issuer at Avonbank, Feeder Road, Bristol BS2 0TB (for the attention of Ian Williams, Treasurer), or to such other person with an address in England or Wales and/or at such other address in England or Wales as such Issuer may specify by notice in writing to the Note Trustee and the Noteholders. Nothing in this paragraph shall affect the right of the Note Trustee or any of the Noteholders to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.



**SCHEDULE 1  
FORM OF GLOBAL NOTES**

**PART 1  
FORM OF CGN TEMPORARY GLOBAL NOTE**

**[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]**

**(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])**

**EURO MEDIUM TERM NOTE PROGRAMME**

**TEMPORARY GLOBAL NOTE**

**Temporary Global Note No. [•]**

This temporary Global Note is issued in respect of the Notes (the “Notes”) of the Tranche and Series specified in Part A of the Second Schedule hereto of [ISSUER] (the “Issuer”).

**Interpretation and Definitions**

References in this temporary Global Note to the “Conditions” are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the “Trust Deed”) dated 12 August 2019 between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this temporary Global Note (including the supplemental definitions and any modifications or additions set out in Part A of the Second Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this temporary Global Note shall have the meanings given to them in the Conditions or the Trust Deed. If the Second Schedule hereto specifies that the applicable TEFRA exemption is either “C Rules” or “not applicable”, this temporary Global Note is a “C Rules Note”, otherwise this temporary Global Note is a “D Rules Note”.

**Aggregate Nominal Amount**

The aggregate nominal amount from time to time of this temporary Global Note shall be an amount equal to the aggregate nominal amount of the Notes as shall be shown by the latest entry in the fourth column of the First Schedule hereto, which shall be completed by or on behalf of the Issuing and Paying Agent upon (i) the issue of Notes represented hereby, (ii) the exchange of the whole or a part of this temporary Global Note for a corresponding interest in a permanent Global Note or, for Definitive Notes and/or (iii) the redemption or purchase and cancellation of Notes represented hereby, all as described below.

**Promise to Pay**

Subject as provided herein, the Issuer, for value received, promises to pay to the bearer of this temporary Global Note, upon presentation and (when no further payment is due in respect of this temporary Global Note) surrender of this temporary Global Note, on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the aggregate nominal amount of Notes represented by this temporary Global Note and (unless this temporary Global Note does not bear interest) to pay interest in respect of the Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the

Notes, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

### **Exchange**

On or after the first day following the expiry of 40 days after the Issue Date (the “**Exchange Date**”), this temporary Global Note may be exchanged (free of charge to the holder) in whole or (in the case of a D Rules Note only) from time to time in part by its presentation and, on exchange in full, surrender to or to the order of the Issuing and Paying Agent for interests in a permanent Global Note or, if so specified in the Second Schedule hereto, for Definitive Notes in an aggregate nominal amount equal to the nominal amount of this temporary Global Note submitted for exchange provided that, in the case of any part of a D Rules Note submitted for exchange for a permanent Global Note or Definitive Notes, there shall have been Certification with respect to such nominal amount submitted for such exchange dated no earlier than the Exchange Date.

“**Certification**” means the presentation to the Issuing and Paying Agent of a certificate or certificates with respect to one or more interests in this temporary Global Note, signed by Euroclear or Clearstream, Luxembourg, substantially to the effect set out in Schedule 4 (*Clearing System Certificate of Non-U.S. Citizenship and Residency*) to the Agency Agreement to the effect that it has received a certificate or certificates substantially to the effect set out in Schedule 3 (*Accountholder Certificate of Non-U.S. Citizenship and Residency*) to the Agency Agreement with respect thereto and that no contrary advice as to the contents thereof has been received by Euroclear or Clearstream, Luxembourg, as the case may be.

Upon the whole or a part of this temporary Global Note being exchanged for a permanent Global Note, such permanent Global Note shall be exchangeable in accordance with its terms for Definitive Notes.

The Definitive Notes for which this temporary Global Note or a permanent Global Note may be exchangeable shall be duly executed and authenticated, shall, in the case of Definitive Notes, have attached to them all Coupons (and, where appropriate, Talons) in respect of interest that has not already been paid on this temporary Global Note or the permanent Global Note, as the case may be, shall be security printed and shall be substantially in the form set out in the Schedules to the Trust Deed as supplemented and/or modified and/or superseded by the terms of the Second Schedule hereto.

On any exchange of a part of this temporary Global Note for an equivalent interest in a permanent Global Note or for Definitive Notes, as the case may be, the portion of the nominal amount hereof so exchanged shall be endorsed by or on behalf of the Issuing and Paying Agent in the First Schedule hereto, whereupon the nominal amount hereof shall be reduced for all purposes by the amount so exchanged and endorsed.

### **Benefit of Conditions**

Except as otherwise specified herein, this temporary Global Note is subject to the Conditions and the Trust Deed and, until the whole of this temporary Global Note is exchanged for equivalent interests in a permanent Global Note or for Definitive Notes or cancelled, the holder of this temporary Global Note shall in all respects be entitled to the same benefits as if it were the holder of the permanent Global Note (or the relevant part of it) or the Definitive Notes, as the case may be, for which it may be exchanged as if such permanent Global Note or Definitive Notes had been issued on the Issue Date.

### **Payments**

No person shall be entitled to receive any payment in respect of the Notes represented by this temporary Global Note that falls due on or after the Exchange Date unless, upon due presentation of this temporary Global Note for exchange, delivery of (or, in the case of a subsequent exchange, due endorsement of) a

permanent Global Note or delivery of Definitive Notes, as the case may be, is improperly withheld or refused by or on behalf of the Issuer.

Payments due in respect of a D Rules Note before the Exchange Date shall only be made in relation to such nominal amount of this temporary Global Note with respect to which there shall have been Certification dated no earlier than such due date for payment.

Any payments that are made in respect of this temporary Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions. If any payment in full of principal is made in respect of any Note represented by this temporary Global Note, the portion of this temporary Global Note representing such Note shall be cancelled and the amount so cancelled shall be endorsed by or on behalf of the Issuing and Paying Agent in the First Schedule hereto (such endorsement being prima facie evidence that the payment in question has been made) whereupon the nominal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed. If any other payments are made in respect of the Notes represented by this temporary Global Note, a record of each such payment shall be endorsed by or on behalf of the Issuing and Paying Agent on an additional schedule hereto (such endorsement being prima facie evidence that the payment in question has been made).

For the purposes of any payments made in respect of this temporary Global Note, the words "in the relevant place of presentation" shall not apply in the definition of **business day** in Condition 9(h) (*Non-Business Day*).

### **Cancellation**

Cancellation of any Note represented by this temporary Global Note that is required by the Conditions to be cancelled (other than upon its redemption) shall be effected by reduction in the nominal amount of this temporary Global Note representing such Note on its presentation to or to the order of the Issuing and Paying Agent for endorsement in the First Schedule hereto, whereupon the nominal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed.

### **Notices**

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this temporary Global Note may be given by their being delivered (so long as this temporary Global Note is held on behalf of Euroclear and Clearstream, Luxembourg or any other clearing system) to Euroclear, Clearstream, Luxembourg or such other clearing system, as the case may be, or otherwise to the holder of this temporary Global Note, rather than by publication as required by the Conditions.

No provision of this temporary Global Note shall alter or impair the obligation of the Issuer to pay the principal and premium of and interest on the Notes when due in accordance with the Conditions.

This temporary Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent.

This temporary Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

IN WITNESS whereof the Issuer has caused this temporary Global Note to be duly signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

**CERTIFICATE OF AUTHENTICATION**

This temporary Global Note is authenticated  
by or on behalf of the Issuing and Paying Agent.

**HSBC BANK PLC**  
as Issuing and Paying Agent

By:

Authorised Signatory  
For the purposes of authentication only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.



**The First Schedule**

**Nominal amount of Notes represented by this temporary Global Note**

The following (i) issue of Notes initially represented by this temporary Global Note, (ii) exchanges of the whole or a part of this temporary Global Note for interests in a permanent Global Note or for Definitive Notes and/or (iii) cancellations or forfeitures of interests in this temporary Global Note have been made, resulting in the nominal amount of this temporary Global Note specified in the latest entry in the fourth column below:

<b>Date</b>	<b>Amount of decrease in nominal amount of this temporary Global Note</b>	<b>Reason for decrease in nominal amount of this temporary Global Note (exchange, cancellation or forfeiture)</b>	<b>Nominal amount of this temporary Global Note on issue or following such decrease</b>	<b>Notation made by or on behalf of the Issuing and Paying Agent</b>
Issue Date	not applicable	not applicable		

## The Second Schedule

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Second Schedule]

PART 2  
FORM OF CGN PERMANENT GLOBAL NOTE

**[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]**

**(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])**

**EURO MEDIUM TERM NOTE PROGRAMME**

**PERMANENT GLOBAL NOTE**

**Permanent Global Note No. [•]**

This permanent Global Note is issued in respect of the Notes (the “Notes”) of the Tranche(s) and Series specified in Part A of the Third Schedule hereto of [ISSUER] (the “Issuer”).

**Interpretation and Definitions**

References in this permanent Global Note to the “Conditions” are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the “Trust Deed”) dated 12 August 2019 between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this permanent Global Note (including the supplemental definitions and any modifications or additions set out in Part A of the Third Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this permanent Global Note shall have the meanings given to them in the Conditions or the Trust Deed.

**Aggregate Nominal Amount**

The aggregate nominal amount from time to time of this permanent Global Note shall be an amount equal to the aggregate nominal amount of the Notes as shall be shown by the latest entry in the fourth column of the First Schedule hereto, which shall be completed by or on behalf of the Issuing and Paying Agent upon (i) the exchange of the whole or a part of the temporary Global Note initially representing the Notes for a corresponding interest herein (in the case of Notes represented by a temporary Global Note upon issue), (ii) the issue of the Notes represented hereby (in the case of Notes represented by this permanent Global Note upon issue), (iii) the exchange of the whole or, where the limited circumstances so permit, a part of this permanent Global Note for Definitive Notes and/or (iv) the redemption or purchase and cancellation of Notes represented hereby, all as described below.

**Promise to Pay**

Subject as provided herein, the Issuer, for value received, hereby promises to pay to the bearer of this permanent Global Note, upon presentation and (when no further payment is due in respect of this permanent Global Note) surrender of this permanent Global Note, on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the aggregate nominal amount of Notes represented by this permanent Global Note and (unless this permanent Global Note does not bear interest) to pay interest in respect of the Notes from the Interest

Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

### **Exchange**

This permanent Global Note is exchangeable (free of charge to the holder) on or after the Exchange Date in whole but not, except as provided in the next paragraph, in part for the Definitive Notes if this permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (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 does in fact do so.

"**Exchange Date**" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and, except in the case of exchange above, in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System, are located.

Any such exchange may be effected on or after an Exchange Date by the holder of this permanent Global Note surrendering this permanent Global Note to or to the order of the Issuing and Paying Agent. In exchange for this permanent Global Note, the Issuer shall deliver, or procure the delivery of, duly executed and authenticated Definitive Notes in an aggregate nominal amount equal to the nominal amount of this permanent Global Note submitted for exchange (if appropriate, having attached to them all Coupons (and, where appropriate, Talons) in respect of interest that has not already been paid on this permanent Global Note), security printed and substantially in the form set out in the Schedules to the Trust Deed as supplemented and/or modified and/or superseded by the terms of the Third Schedule hereto.

### **Benefit of Conditions**

Except as otherwise specified herein, this permanent Global Note is subject to the Conditions and the Trust Deed and, until the whole of this permanent Global Note is exchanged for Definitive Notes or cancelled, the holder of this permanent Global Note shall in all respects be entitled to the same benefits as if it were the holder of the Definitive Notes for which it may be exchanged and as if such Definitive Notes had been issued on the Issue Date.

### **Payments**

No person shall be entitled to receive any payment in respect of the Notes represented by this permanent Global Note that falls due after an Exchange Date for such Notes, unless upon due presentation of this permanent Global Note for exchange, delivery of Definitive Notes is improperly withheld or refused by or on behalf of the Issuer or the Issuer does not perform or comply with any one or more of what are expressed to be its obligations under any Definitive Notes.

Payments in respect of this permanent Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions. A record of each such payment shall be endorsed on the First or Second Schedule hereto, as appropriate, by the Issuing and Paying Agent or by the relevant Paying Agent, for and on behalf of the Issuing and Paying Agent, which endorsement shall (until the contrary is proved) be *prima facie* evidence that the payment in question has been made.

For the purposes of any payments made in respect of this permanent Global Note, the words "in the relevant place of presentation" shall not apply in the definition of **business day** in Condition 9(h) (*Non-Business Days*).



**Prescription**

Claims in respect of principal and interest (as each is defined in the Conditions) in respect of this permanent Global Note shall become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

**Meetings**

For the purposes of any meeting of Noteholders, the holder of this permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes.

**Cancellation**

Cancellation of any Note represented by this permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) shall be effected by reduction in the nominal amount of this permanent Global Note representing such Note on its presentation to or to the order of the Issuing and Paying Agent for endorsement in the First Schedule hereto, whereupon the nominal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed.

**Purchase**

Notes may only be purchased by the Issuer if they are purchased together with the right to receive all future payments of interest thereon.

**Issuer's Options**

Any option of the Issuer provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders 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.

**Noteholders' Options**

Any option of the Noteholders provided for in the Conditions may be exercised by the holder of this permanent Global Note 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, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting this permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation accordingly in the Fourth Schedule hereto.

**Notices**

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this permanent Global Note may be given by their being delivered (so long as this permanent Global Note is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system) to Euroclear, Clearstream, Luxembourg or such other clearing system, as the case may be, or otherwise to the holder of this permanent Global Note, rather than by publication as required by the Conditions.

## Negotiability

This permanent Global Note is a bearer document and negotiable and accordingly:

- (a) is freely transferable by delivery and such transfer shall operate to confer upon the transferee all rights and benefits appertaining hereto and to bind the transferee with all obligations appertaining hereto pursuant to the Conditions
- (b) the holder of this permanent Global Note is and shall be absolutely entitled as against all previous holders to receive all amounts by way of amounts payable upon redemption, interest or otherwise payable in respect of this permanent Global Note and the Issuer has waived against such holder and any previous holder of this permanent Global Note all rights of set-off or counterclaim that would or might otherwise be available to it in respect of the obligations evidenced by this Global Note and
- (c) payment upon due presentation of this permanent Global Note as provided herein shall operate as a good discharge against such holder and all previous holders of this permanent Global Note.

No provisions of this permanent Global Note shall alter or impair the obligation of the Issuer to pay the principal and premium of and interest on the Notes when due in accordance with the Conditions.

This permanent Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent.

This permanent Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

**IN WITNESS** whereof the Issuer has caused this permanent Global Note to be duly signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

**CERTIFICATE OF AUTHENTICATION**

This permanent Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

**HSBC BANK PLC**  
as Issuing and Paying Agent

By:

Authorised Signatory  
For the purposes of authentication only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 1650) AND 1287(a) OF THE INTERNAL REVENUE CODE.

**The First Schedule**

**Nominal amount of Notes represented by this permanent Global Note**

The following (i) issues of Notes initially represented by this permanent Global Note, (ii) exchanges of interests in a temporary Global Note for interests in this permanent Global Note, (iii) exchanges of the whole or a part of this permanent Global Note for Definitive Notes, (iv) cancellations or forfeitures of interests in this permanent Global Note and/or (v) payments of amounts payable upon redemption in respect of this permanent Global Note have been made, resulting in the nominal amount of this permanent Global Note specified in the latest entry in the fourth column:

<b>Date</b>	<b>Amount of increase/decrease in nominal amount of this permanent Global Note</b>	<b>Reason for increase/decrease in nominal amount of this permanent Global Note (initial issue, exchange, cancellation, forfeiture or payment, stating amount of payment made)</b>	<b>Nominal amount of this permanent Global Note following such increase/decrease</b>	<b>Notation made by or on behalf of the Issuing and Paying Agent</b>
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**The Second Schedule**

**Payments of Interest**

The following payments of interest or Interest Amount in respect of this permanent Global Note have been made:

<b>Due date of payment</b>	<b>Date of payment</b>	<b>Amount of interest</b>	<b>Notation made by or on behalf of the Issuing and Paying Agent</b>
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**The Third Schedule**

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Third Schedule.]

**The Fourth Schedule**

**Exercise of Noteholders' Option**

The following exercises of the option of the Noteholders provided for in the Conditions have been made in respect of the stated nominal amount of this permanent Global Note:

<b>Date of exercise</b>	<b>Nominal amount of this permanent Global Note in respect of which exercise is made</b>	<b>Date of which exercise of such option is effective</b>	<b>Notation made by or on behalf of the Issuing and Paying Agent</b>
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PART 3  
FORM OF NGN TEMPORARY GLOBAL NOTE

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

TEMPORARY GLOBAL NOTE

Temporary Global Note No. [•]

This temporary Global Note is issued in respect of the Notes (the “Notes”) of the Tranche and Series specified in Part A of the Schedule hereto of [ISSUER] (the “Issuer”).

**Interpretation and Definitions**

References in this temporary Global Note to the “**Conditions**” are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the “**Trust Deed**”) dated 12 August 2019 between the Issuer, and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this temporary Global Note (including the supplemental definitions and any modifications or additions set out in Part A of the Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this temporary Global Note shall have the meanings given to them in the Conditions or the Trust Deed. If the Second Schedule hereto specifies that the applicable TEFRA exemption is either “**C Rules**” or “not applicable”, this temporary Global Note is a “**C Rules Note**”, otherwise this temporary Global Note is a “**D Rules Note**”.

**Aggregate Nominal Amount**

The aggregate nominal amount from time to time of this temporary Global Note shall be an amount equal to the aggregate nominal amount of the Notes from time to time entered in the records of both Euroclear and Clearstream, Luxembourg (together the “**relevant Clearing Systems**”), which shall be completed and/or amended, as the case may be, upon (i) the issue of Notes represented hereby, (ii) the exchange of the whole or a part of this temporary Global Note for a corresponding interest recorded in the records



of the relevant Clearing Systems in a permanent Global Note or for Definitive Notes and/or (iii) the redemption or purchase and cancellation of Notes represented hereby, all as described below.

The records of the relevant Clearing Systems (which expression in this temporary Global Note means the records that each relevant Clearing System holds for its customers which reflect the amount of such customers' interests in the Notes, but excluding any interest in any Notes of one Clearing System sharing the records of another Clearing System) shall be conclusive evidence of the nominal amount of the Notes represented by this temporary Global Note and, for these purposes, a statement issued by a relevant Clearing System (which statement shall be made available to the bearer upon request) stating the nominal amount of Notes represented by the temporary Global Note at any time shall be conclusive evidence of the records of the relevant Clearing Systems at that time.

### **Promise to Pay**

Subject as provided herein, the Issuer, for value received, promises to pay to the bearer of this temporary Global Note, upon presentation and (when no further payment is due in respect of this temporary Global Note) surrender of this temporary Global Note, on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the aggregate nominal amount of Notes represented by this temporary Global Note and (unless this temporary Global Note does not bear interest) to pay interest in respect of the Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

### **Exchange**

On or after the first day following the expiry of 40 days after the Issue Date (the "Exchange Date"), this temporary Global Note may be exchanged (free of charge to the holder) in whole or (in the case of a D Rules Note only) from time to time in part by its presentation and, on exchange in full, surrender to or to the order of the Issuing and Paying Agent for interests recorded in the records of the relevant Clearing Systems in a permanent Global Note or, if so specified in Part A of the Schedule hereto, for Definitive Notes in an aggregate nominal amount equal to the nominal amount of this temporary Global Note submitted for exchange provided that, in the case of any part of a D Rules Note submitted for exchange for interests recorded in the records of the relevant Clearing Systems in a permanent Global Note or Definitive Notes, there shall have been Certification with respect to such nominal amount submitted for such exchange dated no earlier than the Exchange Date.

"Certification" means the presentation to the Issuing and Paying Agent of a certificate or certificates with respect to one or more interests in this temporary Global Note, signed by Euroclear or Clearstream, Luxembourg, substantially to the effect set out in Schedule 4 (*Clearing System Certificate of Non-U.S. Citizenship and Residency*) to the Agency Agreement to the effect that it has received a certificate or certificates substantially to the effect set out in Schedule 3 (*Accountholder Certificate of Non-U.S. Citizenship and Residency*) to the Agency Agreement with respect thereto and that no contrary advice as to the contents thereof has been received by Euroclear or Clearstream, Luxembourg, as the case may be.

Upon the whole or a part of this temporary Global Note being exchanged for a permanent Global Note, such permanent Global Note shall be exchangeable in accordance with its terms for Definitive Notes.

The Definitive Notes for which this temporary Global Note or a permanent Global Note may be exchangeable shall be duly executed and authenticated, shall, in the case of Definitive Notes, have attached to them all Coupons (and, where appropriate, Talons) in respect of interest that has not already

been paid on this temporary Global Note or the permanent Global Note, as the case may be, shall be security printed and shall be substantially in the form set out in the Schedules to the Trust Deed as supplemented and/or modified and/or superseded by the terms of Part A of the Schedule hereto.

On any exchange of a part of this temporary Global Note for an equivalent interest recorded in the records of the relevant Clearing Systems in a permanent Global Note or for Definitive Notes, as the case may be, the Issuer shall procure that details of the portion of the nominal amount hereof so exchanged 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 temporary Global Note shall be reduced by an amount equal to such portion so exchanged.

#### **Benefit of Conditions**

Except as otherwise specified herein, this temporary Global Note is subject to the Conditions and the Trust Deed and, until the whole of this temporary Global Note is exchanged for equivalent interests in a permanent Global Note or for Definitive Notes or cancelled, the holder of this temporary Global Note shall in all respects be entitled to the same benefits as if it were the holder of the permanent Global Note (or the relevant part of it) or the Definitive Notes, as the case may be, for which it may be exchanged as if such permanent Global Note or Definitive Notes had been issued on the Issue Date.

#### **Payments**

No person shall be entitled to receive any payment in respect of the Notes represented by this temporary Global Note that falls due on or after the Exchange Date unless, upon due presentation of this temporary Global Note for exchange, delivery of (or, in the case of a subsequent exchange, a corresponding entry being recorded in the records of the relevant Clearing Systems) a permanent Global Note or delivery of Definitive Notes, as the case may be, is improperly withheld or refused by or on behalf of the Issuer.

Payments due in respect of a D Rules Note before the Exchange Date shall only be made in relation to such nominal amount of this temporary Global Note with respect to which there shall have been Certification dated no earlier than such due date for payment.

Any payments that are made in respect of this temporary Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions and each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant Clearing Systems referred to herein shall not affect such discharge. If any payment in full or in part of principal is made in respect of any Note represented by this temporary Global Note the Issuer shall procure that details of such payment 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 temporary Global Note shall be reduced by the aggregate nominal amount of the Notes so redeemed. If any other payments are made in respect of the Notes represented by this temporary Global Note, the Issuer shall procure that a record of each such payment shall be entered pro rata in the records of the relevant Clearing Systems.

For the purposes of any payments made in respect of this temporary Global Note, the words "in the relevant place of presentation" shall not apply in the definition of "business day" in Condition 9(h) (*Non-Business Day*).

#### **Cancellation**

On cancellation of any Note represented by this temporary Global Note that is required by the Conditions to be cancelled (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 Note recorded in the records of the relevant Clearing Systems and represented by this temporary Global Note shall be reduced by the aggregate nominal amount of the Notes so cancelled.

#### **Notices**

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this temporary Global Note may be given by their being delivered (so long as this temporary Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg or any other permitted clearing system) to Euroclear, Clearstream, Luxembourg or such other permitted clearing system, as the case may be, or otherwise to the holder of this temporary Global Note, rather than by publication as required by the Conditions.

No provision of this temporary Global Note shall alter or impair the obligation of the Issuer to pay the principal and premium of and interest on the Notes when due in accordance with the Conditions.

This temporary Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent and effectuated by the entity appointed as Common Safekeeper by the relevant Clearing Systems.

This temporary Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

**IN WITNESS** whereof the Issuer has caused this temporary Global Note to be duly signed on its behalf.

Dated as of the Issue Date.

**[ISSUER]**

By:

**CERTIFICATE OF AUTHENTICATION**

This temporary Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

**HSBC BANK PLC**  
as Issuing and Paying Agent

By:

Authorised Signatory  
For the purposes of authentication only.

**Effectuation**

This temporary Global Note  
is effectuated by or on behalf of the Common Safekeeper.

**[COMMON SAFEKEEPER]**  
as Common Safekeeper

By:

Authorised Signatory  
For the purposes of effectuation only.

**ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.**



**Schedule**

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Schedule]

PART 4  
FORM OF NGN PERMANENT GLOBAL NOTE

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

PERMANENT GLOBAL NOTE

Permanent Global Note No. [•]

This permanent Global Note is issued in respect of the Notes (the “Notes”) of the Tranche(s) and Series specified in Part A of the Schedule hereto of [ISSUER] (the “Issuer”).

**Interpretation and Definitions**

References in this permanent Global Note to the “Conditions” are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the “Trust Deed”) dated 12 August 2019 between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this permanent Global Note (including the supplemental definitions and any modifications or additions set out in Part A of the Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this permanent Global Note shall have the meanings given to them in the Conditions or the Trust Deed.

**Aggregate Nominal Amount**

The aggregate nominal amount from time to time of this permanent Global Note shall be an amount equal to the aggregate nominal amount of the Notes from time to time entered in the records of both Euroclear and Clearstream, Luxembourg (together, the “relevant Clearing Systems”), which shall be completed and/or amended as the case may be upon (i) the exchange of the whole or a part of the interests recorded in the records of the relevant Clearing Systems in the temporary Global Note initially representing the Notes for a corresponding interest herein (in the case of Notes represented by a temporary Global Note upon issue), (ii) the issue of the Notes represented hereby (in the case of Notes represented by this permanent Global Note upon issue), (iii) the exchange of the whole or, where the limited circumstances so permit, a part of this permanent Global Note for Definitive Notes and/or (iv) the redemption or purchase and cancellation of Notes represented hereby, all as described below.

The records of the relevant Clearing Systems (which expression in this permanent Global Note means the records that each relevant Clearing System holds for its customers which reflect the amount of such customers’ interests in the Notes, but excluding any interest in any Notes of one Clearing System sharing the records of another Clearing System) shall be conclusive evidence of the nominal amount of the Notes represented by this permanent Global Note and, for these purposes, a statement issued by a relevant Clearing System (which statement shall be made available to the bearer upon request) stating the nominal amount of Notes represented by this permanent Global

Note at any time shall be conclusive evidence of the records of the relevant Clearing System at that time.

## **Promise to Pay**

Subject as provided herein, the Issuer, for value received, hereby promises to pay to the bearer of this permanent Global Note, upon presentation and (when no further payment is due in respect of this permanent Global Note) surrender of this permanent Global Note on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the aggregate nominal amount of Notes represented by this permanent Global Note and (unless this permanent Global Note does not bear interest) to pay interest in respect of the Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

## **Exchange**

This permanent Global Note is exchangeable (free of charge to the holder) on or after the Exchange Date in whole but not, except as provided in the next paragraph, in part for the Definitive Notes if this permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other permitted clearing system (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 does in fact do so.

"**Exchange Date**" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and, except in the case of exchange above, in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System, are located.

Any such exchange may be effected on or after an Exchange Date by the holder of this permanent Global Note surrendering this permanent Global Note to or to the order of the Issuing and Paying Agent. In exchange for this permanent Global Note, the Issuer shall deliver, or procure the delivery of, duly executed and authenticated Definitive Notes in an aggregate nominal amount equal to the nominal amount of this permanent Global Note submitted for exchange (if appropriate, having attached to them all Coupons (and, where appropriate, Talons) in respect of interest, that have not already been paid on this permanent Global Note), security printed and substantially in the form set out in the Schedules to the Trust Deed as supplemented and/or modified and/or superseded by the terms of Part A of the Schedule hereto.

## **Benefit of Conditions**

Except as otherwise specified herein, this permanent Global Note, the Issuer shall procure that is subject to the Conditions and the Trust Deed and, until the whole of this permanent Global Note is exchanged for Definitive Notes or cancelled, the holder of this permanent Global Note shall in all respects be entitled to the same benefits as if it were the holder of the Definitive Notes for which it may be exchanged and as if such Definitive Notes had been issued on the issue Date.

## **Payments**

No person shall be entitled to receive any payment in respect of the Notes represented by this permanent Global Note that falls due after an Exchange Date for such Notes, unless upon due presentation of this permanent Global Note for exchange, delivery of Definitive Notes is improperly withheld or refused by or on behalf of the Issuer or the Issuer does not perform or comply with any one or more of what are expressed to be its obligations under any Definitive Notes.

Payments in respect of this permanent Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions and each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant Clearing Systems referred to herein shall not affect such discharge. The Issuer shall procure that details of each such payment shall be entered pro rata in the records of the relevant Clearing Systems and in the case of any payment of principal 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 redeemed.

For the purposes of any payments made in respect of this permanent Global Note, the words "in the relevant place of presentation" shall not apply in the definition of **business day** in Condition 9(h) (*Non-Business Days*).

#### **Prescription**

Claims in respect of principal and interest (as each is defined in the Conditions) in respect of this permanent Global Note shall become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

#### **Meetings**

For the purposes of any meeting of Noteholders, the holder of this permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes.

#### **Cancellation**

On cancellation of any Note represented by this permanent Global Note that is required by the Conditions to be cancelled (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.

#### **Purchase**

Notes may only be purchased by the Issuer if they are purchased together with the right to receive all future payments of interest thereon.

#### **Issuer's Options**

Any option of the Issuer provided for in the Conditions shall 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 account holders 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 this permanent Global Note shall be reduced accordingly.

#### **Noteholders' Options**



Any option of the Noteholders provided for in the Conditions may be exercised by the holder of this permanent Global Note 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 this permanent Global Note shall be reduced by the aggregate nominal amount stated in the relevant exercise notice.

#### **Notices**

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this permanent Global Note may be given by their being delivered (so long as this permanent Global Note 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 this permanent Global Note, rather than by publication as required by the Conditions.

#### **Negotiability**

This permanent Global Note is a bearer document and negotiable and accordingly:

- (a) is freely transferable by delivery and such transfer shall operate to confer upon the transferee all rights and benefits appertaining hereto and to bind the transferee with all obligations appertaining hereto pursuant to the Conditions;
- (b) the holder of this permanent Global Note is and shall be absolutely entitled as against all previous holders to receive all amounts by way of amounts payable upon redemption, interest or otherwise payable in respect of this permanent Global Note and the Issuer has waived against such holder and any previous holder of this permanent Global Note all rights of set-off or counterclaim that would or might otherwise be available to it in respect of the obligations evidenced by this Global Note and;
- (c) payment upon due presentation of this permanent Global Note as provided herein shall operate as a good discharge against such holder and all previous holders of this permanent Global Note.

No provisions of this permanent Global Note shall alter or impair the obligation of the Issuer to pay the principal and premium of and interest on the Notes when due in accordance with the Conditions.

This permanent Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent and effectuated by the entity appointed as Common Safekeeper by the relevant Clearing Systems.

This permanent Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

**IN WITNESS** whereof the Issuer has caused this permanent Global Note to be duly signed on its behalf.

Dated as of the Issue Date.

**[ISSUER]**

By:

**CERTIFICATE OF AUTHENTICATION**

This permanent Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

**HSBC BANK PLC**  
as Issuing and Paying Agent

By:

Authorised Signatory  
For the purposes of authentication only.

**Effectuation**

This permanent Global Note  
is effectuated by or on behalf of the Common Safekeeper.

**[COMMON SAFEKEEPER]**  
as Common Safekeeper

By:

Authorised Signatory

For the purposes of effectuation only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

**Schedule**

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Schedule.]

PART 5  
FORM OF GLOBAL CERTIFICATE

THIS SECURITY HAS NOT AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY, 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 THE AGENCY AGREEMENT AND THE TRUST DEED AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

GLOBAL CERTIFICATE

Global Certificate No. [•]

This Global Certificate is issued in respect of the nominal amount specified above of the Notes (the "Notes") of the Tranche and Series specified in Part A of the Schedule hereto of [ISSUER] (the "Issuer"). This Global Certificate certifies that the person whose name is entered in the Register (the "Registered Holder") is registered as the holder of an issue of Notes of the nominal amount, specified currency and specified denomination set out in Part A of the Schedule hereto.

**Interpretation and Definitions**

References in this Global Certificate to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "Trust Deed") dated 12 August 2019 between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this Global Certificate (including the supplemental definitions and any modifications or additions set out in Part A of the Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this Global Certificate shall have the meanings given to them in the Conditions or the Trust Deed.

**Promise to Pay**

The Issuer, for value received, promises to pay to the holder of the Notes represented by this Global Certificate upon presentation and (when no further payment is due in respect of the Notes represented by this Global Certificate) surrender of this Global Certificate on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the Notes represented by this Global Certificate and (unless the Notes represented by this Certificate do not bear interest) to pay interest in respect of such Notes from the Interest Commencement Date in arrear at the

rates, on the dates for payment, and in accordance with the methods of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes represented by this Global Certificate, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions. Each payment 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.

For the purposes of this Global Certificate, (a) the holder of the Notes represented by this Global Certificate is bound by the provisions of the Agency Agreement, (b) the Issuer certifies that the Registered Holder is, at the date hereof, entered in the Register as the holder of the Notes represented by this Global Certificate, (c) this Global Certificate is evidence of entitlement only, (d) title to the Notes represented by this Global Certificate passes only on due registration on the Register, and (e) only the holder of the Notes represented by this Global Certificate is entitled to payments in respect of the Notes represented by this Global Certificate.

#### **Transfer of Notes represented by permanent Global Certificates**

If the Schedule hereto states that the Notes are to be represented by a permanent Global Certificate on issue, transfers of the holding of Notes represented by this Global Certificate pursuant to Condition 2(b) (*Transfer of Registered Notes*) may only be made in part:

- (a) if the Notes represented by this Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (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 does in fact do so or
- (b) with the consent of the Issuer

provided that, in the case of the first transfer of part of a holding pursuant to (a) above, the holder of the Notes represented by this Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer. Where the holding of Notes represented by this Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

#### **Issuer's Options**

In connection with an exercise of the option contained in Condition 6(e) (*Redemption at the Option of the Relevant Issuer*) in relation to some only of the Notes, the Notes represented by this Global Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

#### **Noteholders' Options**

Any option of the Noteholders provided for in the Conditions may be exercised by the Noteholder giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent, as 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 Certificate shall be reduced by the aggregate nominal amount stated in the relevant exercise notice.

#### **Notices**

Notwithstanding Condition 18 (*Notices*), so long as this Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by this Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

#### **Determination of Entitlement**

This Global Certificate is evidence of entitlement only and is not a document of title. Entitlements are determined by the Register and only the Noteholder is entitled to payment in respect of this Global Certificate.

#### **Meetings**

For the purposes of any meeting of Noteholders, the holder of the Notes represented by this 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.

This Global Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar and in the case of Registered Notes held under the NSS only, effectuated by the entity appointed as Common Safekeeper by the relevant Clearing Systems.

This Global Certificate and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

**IN WITNESS** whereof the Issuer has caused this Global Certificate to be signed on its behalf.

Dated as of the Issue Date.

**[ISSUER]**

By:

**CERTIFICATE OF AUTHENTICATION**

This Global Certificate is authenticated by or on behalf of the Registrar.

**HSBC BANK PLC**

as Registrar

By:

Authorised Signatory

For the purposes of authentication only.

**Effectuation**

This Global Certificate is effectuated  
by or on behalf of the Common Safekeeper

**[COMMON SAFEKEEPER]**

as Common Safekeeper

By:

Authorised Signatory

For the purposes of effectuation of Registered Notes held through the NSS only

**Form of Transfer**

**For value received the undersigned transfers to**

.....  
.....

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF TRANSFEREE)

[•] nominal amount of the Notes represented by this Global Certificate, and all rights under them.

Dated

Signed .....

.....  
Certifying Signature

Notes:

- (a) The signature of the person effecting a transfer shall conform to a list of duly authorised specimen signatures supplied by the holder of the Notes represented by this Global Certificate or (if such signature corresponds with the name as it appears on the face of this Global Certificate) be certified by a notary public or a recognised bank or be supported by such other evidence as a Transfer Agent or the Registrar may reasonably require.
- (b) A representative of the Noteholder should state the capacity in which he signs e.g. executor.

**Schedule**

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Certificate as the Schedule.]





**IN WITNESS** whereof the Issuer has caused this Note to be signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

**CERTIFICATE OF AUTHENTICATION**

This Note is authenticated  
by or on behalf of the Issuing and Paying Agent.

**HSBC BANK PLC**

as Issuing and Paying Agent

By:

Authorised Signatory  
For the purposes of authentication only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

On the back:

**Terms and Conditions of the Notes**

[The Terms and Conditions that are set out in Schedule 4 (*Terms and Conditions of the Notes*) to the Trust Deed as amended by and incorporating any additional provisions forming part of such Terms and Conditions and set out in Part A of the relevant [Final Terms/Pricing Supplement] shall be set out here.]

ISSUING AND PAYING AGENT

[ISSUING AND PAYING AGENT]

PAYING AGENT[S]

- 
- 
-

**SCHEDULE 3  
FORM OF CERTIFICATE**

On the front:

**[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]**

**(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])**

**EURO MEDIUM TERM NOTE PROGRAMME**

**Series No. [•]**

**[Title of issue]**

This Certificate certifies that [•] of [•] (the "**Registered Holder**") is, as at the date hereof, registered as the holder of [nominal amount] of Notes of the series of Notes referred to above (the "**Notes**") of [ISSUER] (the "**Issuer**"), designated as specified in the title hereof. The Notes are subject to the Terms and Conditions (the "**Conditions**") endorsed hereon and are issued subject to, and with the benefit of, the Trust Deed referred to in the Conditions. Expressions defined in the Conditions have the same meanings in this Certificate.

The Issuer, for value received, promises to pay to the holder of the Note(s) represented by this Certificate upon presentation and (when no further payment is due in respect of the Note(s) represented by this Certificate) surrender of this Certificate on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the Notes represented by this Certificate and (unless the Note(s) represented by this Certificate do not bear interest) to pay interest in respect of such Notes from the Interest Commencement Date in arrear at the rates, in the amounts and on the dates for payment provided for in the Conditions together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

For the purposes of this Certificate, (a) the holder of the Note(s) represented by this Certificate is bound by the provisions of the Agency Agreement, (b) the Issuer certifies that the Registered Holder is, at the date hereof, entered in the Register as the holder of the Note(s) represented by this Certificate, (c) this Certificate is evidence of entitlement only, (d) title to the Note(s) represented by this Certificate passes only on due registration on the Register, and (e) only the holder of the Note(s) represented by this Certificate is entitled to payments in respect of the Note(s) represented by this Certificate.

This Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar.

**IN WITNESS** whereof the Issuer has caused this Certificate to be signed on its behalf.

Dated as of the Issue Date.

**[ISSUER]**

By:

**CERTIFICATE OF AUTHENTICATION**

This Certificate is authenticated  
by or on behalf of the Registrar.

**HSBC BANK PLC**  
as Registrar

By:

Authorised Signatory  
For the purposes of authentication only.

On the back:

**Terms and Conditions of the Notes**

[The Terms and Conditions that are set out in Schedule 4 (*Terms and Conditions of the Notes*) to the Trust Deed as amended by and incorporating any additional provisions forming part of such Terms and Conditions and set out in Part A of the relevant [Final Terms/Pricing Supplement] shall be set out here.]



**Form of Transfer**

**For value received** the undersigned transfers to

.....  
.....

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF TRANSFEREE)

[•] nominal amount of the Notes represented by this Certificate, and all rights under them.

Dated .....

Signed ..... Certifying Signature

Notes:

- (a) The signature of the person effecting a transfer shall conform to a list of duly authorised specimen signatures supplied by the holder of the Notes represented by this Certificate or (if such signature corresponds with the name as it appears on the face of this Certificate) be certified by a notary public or a recognised bank or be supported by such other evidence as a Transfer Agent or the Registrar may reasonably require.
- (b) A representative of the Noteholder should state the capacity in which he signs.

Unless the context otherwise requires capitalised terms used in this Form of Transfer have the same meaning as in the Trust Deed dated 12 August 2019 between the Issuer and the Note Trustee, [OTHER].

[TO BE COMPLETED BY TRANSFEREE:

[INSERT ANY REQUIRED TRANSFEREE REPRESENTATIONS, CERTIFICATIONS, ETC.]]

ISSUING AND PAYING AGENT, TRANSFER AGENT [AND REGISTRAR]

[ISSUING AND PAYING AGENT]

[•]

PAYING AGENT[S] AND TRANSFER AGENT[S]

[•]

**SCHEDULE 4**  
**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 12 August 2019 (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 Regulation, 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(h) (*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 Conditions 6(e) (*Redemption at the Option of the Relevant Issuer*), (f) (*Pre-Maturity Call Option by the Issuer*) or (g) (*Clean-up Call Option by the 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;
- (ii) 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.

## 5. 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.

(A) 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:

- (x) the Floating Rate Option is as specified in the relevant Final Terms
- (y) 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.

(B) 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:

- (1) the offered quotation; or
- (2) 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) **Benchmark Replacement:** In addition, notwithstanding the provisions above in this Condition 5(b)(iii) (*Rate of Interest for Floating Rate Notes*), if the Issuer determines that the relevant Reference Rate specified in the relevant Final Terms has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered when any Rate of Interest (or the relevant component part thereof) remains to be determined by such Reference Rate (a **Benchmark Event**), then the following provisions shall apply:
- (x) the Issuer shall use reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine (acting in good faith and in a commercially reasonable manner), no later than 5 Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Accrual Period (the **IA Determination Cut-off Date**), a Successor Rate (as defined below) or, alternatively, if there is no Successor Rate, an Alternative Reference Rate (as defined below) for purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Floating Rate Notes. In making such determination, an Independent Adviser appointed pursuant to this Condition shall act in good faith and in a commercially reasonable manner. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Guarantor, the Fiscal Agent, the Paying Agents, the Noteholders or the Couponholders for any determination made by it pursuant to this Condition;
  - (y) if the Issuer is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Issuer (acting in good faith and in a commercially reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;
  - (z) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Accrual Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(iii)(C) (*Benchmark Replacement*)); provided, however, that if sub-paragraph (y) applies and the Issuer is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Floating Rate Notes in respect of the preceding Interest Accrual Period (or alternatively, if there has not been a first Interest Payment Date, the rate of interest shall be the Initial



Interest Rate) (subject, where applicable, to substituting the Margin that applied to such preceding Interest Accrual Period for the Margin that is to be applied to the relevant Interest Accrual Period. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period); for the avoidance of doubt, the proviso in this sub-paragraph (z) shall apply to the relevant Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(iii)(C) (*Benchmark Replacement*));

- (aa) if the Independent Adviser or the Issuer determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Issuer (as applicable), may also specify changes to these Conditions, including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Days, Interest Determination Date, Reset Determination Date, Reset Determination Time and/or the definition of Reference Rate applicable to the Floating Rate Notes, and the method for determining the fallback rate in relation to the Floating Rate Notes, in order to follow market practice in relation to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser (in consultation with the Issuer) or the Issuer (as applicable), determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Issuer (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Note Trustee and the Issuing and Paying Agent shall, at the expense of the Issuer, concur with the Issuer in effecting such consequential amendments to the Trust Deed, the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5(b)(iii)(C) (*Benchmark Replacement*) (the **Benchmark Amendments**). Noteholder consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or the Benchmark Amendments, including for the execution of any documents or other steps by the Note Trustee or the Issuing and Paying Agent in connection therewith (if required) regardless of whether or not the effecting of the Successor Rate or Alternative Reference Rate (as applicable) or the Benchmark Amendments constitutes one or more of the items specified in Condition 13(a) (*Meetings of Noteholders*).
- (bb) Notwithstanding any other provision of this Condition 5(b)(iii)(C) (*Benchmark Replacement*), neither the Note Trustee nor the Issuing and Payment Agent shall be obliged to agree to any amendments (including

any Benchmark Amendments) pursuant to this Condition 5(b)(iii)(C) (*Benchmark Replacement*) which, in the sole opinion of the Note Trustee or the Issuing and Paying Agent (as applicable) would have the effect of (i) exposing the Note Trustee or the Issuing and Payment Agent (as applicable) to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protections, of the Note Trustee or the Issuing and Paying Agent (as applicable) in the Trust Deed, the Agency Agreement and/or these Conditions; and

- (cc) the Issuer shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), give notice thereof to the Note Trustee, the Issuing and Paying Agent and the Noteholders, which shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and any consequential changes made to these Conditions.
- (dd) No later than notifying the Note Trustee and the Issuing and Paying Agent of the same, the Issuer shall deliver to each of the Note Trustee and the Issuing and Paying Agent a certificate (on which each of the Note Trustee and the Issuing and Paying Agent shall be entitled to rely without further enquiry or liability) signed by two authorised signatories of the Issuer.
  - I. confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as applicable, the Alternative Reference Rate and, (iii) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 5(b)(iii)(C) (*Benchmark Replacement*);
  - II. certifying that the Benchmark Amendments (i) are necessary to ensure that proper operation of such Successor Rate or Alternative Reference Rate and/or Adjustment Spread and (ii) in each case, have been drafted solely to such effect; and
  - III. certifying that (i) the Issuer has duly consulted with an Independent Adviser with respect to each of the matters above or, if that is not the case (ii) explaining, in reasonable detail, why the Issuer has not done so.

For the purposes of this Condition 5(b)(iii)(C) (*Benchmark Replacement*):

**Adjustment Spread** means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Independent Adviser (in consultation with the Issuer) or the Issuer acting reasonably (as applicable), determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to holders of Floating Rate Notes as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with the Issuer) or the Issuer (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or
- (iii) if no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in good faith and in a commercially reasonable manner) to be appropriate.

**Alternative Reference Rate** means the rate that the Independent Adviser or the Issuer (as applicable) determines has replaced the relevant Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest in respect of bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Accrual Period, or, if the Independent Adviser or the Issuer (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Issuer (as applicable) determines in its discretion (acting in good faith and in a commercially reasonable manner) is most comparable to the relevant Reference Rate.

**Independent Adviser** means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed by the Issuer at its own expense and the identity of which is approved by the Note Trustee.

**Relevant Nominating Body** means, in respect of a Reference Rate:

- (i) the central bank for the currency to which the Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; or
- (ii) any working group or committee sponsored by, chaired or co- chaired by or constituted at the request of (A) the central bank for the currency to which the Reference Rate relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate, (C) a group of the aforementioned central banks or other supervisory authorities.

**Successor Rate** means the rate that the Independent Adviser or the Issuer (as applicable), each acting in good faith and in a commercially reasonable manner, determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

- (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*)).
- (e) **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.
- (f) **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.
- (i) **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:

$$\text{Day Count Fraction} = \frac{[360x(Y_2-Y_1)]+[30x(M_2-M_1)+(D_2-D_1)]}{360}$$

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, in which case D2 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:

$$\text{Day Count Fraction} = \frac{[360x(Y_2-Y_1)]+[30x(M_2-M_1)+(D_2-D_1)]}{360}$$

where:

**Y<sub>1</sub>** is the year, expressed as a number, in which the first day of the Calculation Period falls;

**Y<sub>2</sub>** is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**M<sub>1</sub>** is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

**M<sub>2</sub>** is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**D<sub>1</sub>** 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<sub>2</sub> will be 30; and

**D<sub>2</sub>** 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<sub>2</sub> will be 30

(viii) if **Actual/Actual-ICMA** is specified in the Final Terms,

- (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
- (b) 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 or such Alternative Reference Rate or Successor Rate that is applicable in accordance with Condition 5(b)(iii)(C) (*Benchmark Replacement*)).

**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 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:**

#### (i) *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.

**Principal Amount Outstanding** means, in respect of a Note on any date:

- (a) the principal amount of that Note upon issue, minus;
  - (b) the aggregate amount of principal repayments or prepayments made in respect of that Note since the Issue Date.
- (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.

If Make-Whole Redemption 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 Noteholders

(or such other notice period as may be specified in the Final Terms), redeem all or, if so provided, some of the Notes at any time or from time to time (i) where no particular period during which Make-Whole Redemption is applicable is specified, prior to their Maturity Date, or (ii) where Make-Whole Redemption is specified as only being applicable for a certain period, during such period, in each case on the date for redemption specified in such notice (the **Make-Whole Redemption Date**) at the Make-Whole Redemption Amount.

In the case of Notes other than Index Linked Interest Notes or Index Linked Redemption Notes where CPI is specified as the Index in the relevant Final Terms, the Make-Whole Redemption Amount will be calculated by the Financial Adviser and will be the greater of:

- (i) 100 per cent. of the principal amount of the Notes so redeemed (where applicable, adjusted for indexation in accordance with Condition 7 (Indexation)); and
- (ii) the sum of the then present values of the remaining scheduled payments of principal and interest on such Notes (not including any interest accrued on the Notes to, but excluding, the relevant Make-Whole Redemption Date) discounted to the relevant Make-Whole Redemption Date on an annual basis at the Make-Whole Redemption Rate plus the Make-Whole Redemption Margin, if any, specified in the applicable Final Terms, plus, in each case, any interest accrued on the Notes to, but excluding, the Make-Whole Redemption Date.

In the case of Index Linked Interest Notes or Index Linked Redemption Notes where CPI is specified as the Index in the relevant Final Terms:

- (i) unless the Financial Adviser advises the Relevant Issuer that an appropriate CPI Gilt is outstanding which would be utilised, at the time of selection and in accordance with customary financial practice at such time, in pricing new issues of corporate debt securities with a similar remaining weighted average life to the Notes, the Make-Whole Redemption Amount will be calculated by the Financial Adviser and will be the greater of:
  - a. 100 per cent. of the principal amount of the Notes so redeemed (adjusted for indexation in accordance with Condition 7); and
  - b. the RPI Adjusted Redemption Amount; or
- (ii) if the Financial Adviser advises the Relevant Issuer that an appropriate CPI Gilt is outstanding (the **Redemption Reference CPI Gilt**) which would be utilised, at the time of selection and in accordance with customary financial practice at such time, in pricing new issues of corporate debt securities with a similar remaining weighted average life to the Notes, the Make-Whole Redemption Amount will be calculated by the Financial Adviser and will be the greater of:
  - a. 100 per cent. of the principal amount of the Notes so redeemed (adjusted for indexation in accordance with Condition 7 (Indexation)) and
  - b. the sum of the then present values of the remaining scheduled payments of principal and interest on such Notes (not including any interest accrued on the Notes to, but excluding, the relevant Make-Whole Redemption Date) discounted to the relevant Make-Whole Redemption Date on an annual basis at the CPI

Make-Whole Redemption Rate plus the Make-Whole Redemption Margin, if any, specified in the applicable Final Terms, plus, in each case, any interest accrued on the Notes to, but excluding, the Make-Whole Redemption Date.

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.

For the purposes of this Condition 6(e):

**CPI Gilt** means a sterling obligation of the UK government listed on the Official List of the Financial Conduct Authority and admitted to trading on the London Stock Exchange which is linked to the CPI;

**CPI Make-Whole Redemption Rate** means with respect to the Reference Dealers and the Make-Whole Redemption Date, the average of the five quotations of the mid-market annual yield to maturity of the Redemption Reference CPI Gilt at the Quotation Time specified in the Final Terms on the Determination Date specified in the Final Terms quoted in writing to the Relevant Issuer and the Trustee by the Reference Dealers;

**Financial Adviser** means an independent financial institution of international repute or an independent adviser of recognised standing with appropriate expertise selected by the Relevant Issuer at its own expense after notification of such selection to the Trustee;

**Make-Whole Redemption Rate** means with respect to the Reference Dealers and the Make-Whole Redemption Date, the average of the five quotations of the mid-market annual yield to maturity of the Make-Whole Reference Bond specified in the Final Terms or, if the Make-Whole Reference Bond is no longer outstanding, a similar security in the reasonable judgment of the Reference Dealers, at the Quotation Time specified in the Final Terms on the Determination Date specified in the Final Terms quoted in writing to the Relevant Issuer and the Trustee by the Reference Dealers;

**Notional RPI Bond** means a bond issued by the Relevant Issuer, the terms of which are the same as those of the Notes to be redeemed, save only that payments of principal and interest are adjusted for indexation by reference to RPI (rather than CPI);

**Real Yield** means a yield, expressed as a percentage, calculated by the Financial Adviser on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" page 5, Section One: Price/Yield Formulae (Index-Linked Gilts) (published on 8 June, 1998 and updated on 15 January, 2002 and 16 March, 2005) (as updated, amended or supplemented from time to time)



on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to five decimal places). Such method requires the adoption of an assumed inflation rate which shall be such rate as the Financial Adviser may determine and notify to the Trustee and the Issue and Paying Agent to be appropriate and, for the avoidance of doubt, the assumed inflation rate shall be a long-term UK inflation rate for the remaining life of the Notes. If such formula does not reflect generally accepted market practice at the time of redemption, a yield calculated in accordance with generally accepted market practice at such time, all as advised to the Relevant Issuer by the Financial Adviser;

**Redemption Reference RPI Gilt** means such RPI Gilt as the Financial Adviser determines would be utilised, at the time of selection and in accordance with customary financial practice at such time, in pricing new issues of corporate debt securities of comparable maturity and amortisation profile to the remaining term of the Notes (or, where the Financial Adviser advises the Relevant Issuer) that, for reasons of illiquidity or otherwise, such stock is not appropriate for such purpose, such other government stock as the Financial Adviser may recommend as appropriate for this purpose;

**Reference Dealers** means those Reference Dealers specified in the Final Terms;

**RPI Adjusted Redemption Amount** is an amount equal to the sum of:

- (i) the product (adjusted for indexation in accordance with Condition 6) of the outstanding principal amount of the Notes to be redeemed and the price, expressed as a percentage (rounded to five decimal places, with 0.000005 being rounded upwards), (as reported in writing to the Relevant Issuer by the Financial Adviser) at which the Real Yield on the Notes on the Yield Calculation Date is equal to the sum of (x) the Real Yield at 11.00 a.m. (London time) on such date of the Redemption Reference RPI Gilt (or, where the Financial Adviser determines in good faith and advises to the Relevant Issuer that, for reasons of illiquidity or otherwise, such stock is not appropriate for such purpose, such other government stock as advised to the Relevant Issuer by the Financial Adviser) and (y) 0.1 per cent.; and
- (ii) the Wedge Value (which may be positive or negative and, if negative, the absolute value shall be deducted for the purpose of calculating the RPI Adjusted Redemption Amount);

**RPI Gilt** means a sterling obligation of the UK government listed on the Official List of the Financial Conduct Authority and admitted to trading on the London Stock Exchange which is linked to the RPI;

**Wedge Value** means the market value to a market counterparty on the Yield Calculation Date (based on three (or such lower number as the Relevant Issuer and the Financial Adviser may agree as appropriate) third party quotes) of a notional swap (where the parties are deemed to have a bilateral, daily, zero-threshold, no initial amount, ISDA Credit Support Annex) under which the market counterparty:

- (i) receives the remaining cashflows of the Notes; and
- (ii) pays the remaining cashflows of the Notional RPI Bond,

and where, in providing such quotes, such third parties are asked to use discount factors calculated from the zero coupon curve derived from the interest rate used to calculate

payments on GBP cash collateral, provided that, if the Financial Adviser determines and advises the Relevant Issuer that it is not reasonably practicable to determine the Wedge Value on such basis (including, without limitation, because it is not reasonably practicable to obtain third party quotes) the Wedge Value shall be determined by the Financial Adviser and advised to the Relevant Issuer; and

**Yield Calculation Date** means the date which is the second Business Day prior to the date on which the notice to redeem is dispatched; and

in the case of Index Linked Interest Notes and/or Index Linked Redemption Notes only, the **then present values of the remaining scheduled payments of principal and interest on such Notes** shall be calculated in accordance with the customary conventions applied to the calculation of such amounts in the inflation linked debt transactions from time to time.

- (f) **Pre-Maturity Call Option by the Issuer:** If Pre-Maturity Call Option is specified as being applicable 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 (but not some only) of the outstanding Notes of the relevant Series on the Pre-Maturity Call Option Date. Any such redemption of Notes shall be at par together with unpaid interest accrued up to (and including) the Pre-Maturity Call Option Date.

**Pre-Maturity Call Option Date** means the date that is 3 calendar months prior to the Maturity Date specified in the Final Terms for the relevant Series of Notes.

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.

- (g) **Clean-up Call Option by the Issuer:** If Clean-up Call Option is specified as being applicable 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 (but not some only) of the outstanding Notes of the relevant Series, provided that at least 80 per cent. of the initial aggregate principal amount of the Notes of such Series has been purchased or redeemed by the Relevant Issuer (except where such redemption was pursuant to Condition 6(e) (*Redemption at the Option of the Relevant Issuer*)). Any such redemption of Notes shall be at par together with unpaid interest accrued up to (and including) the date fixed for redemption.

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.

- (h) **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.

**(i) Redemption at the Option of the Noteholders on a Restructuring Event**

- (i) If Restructuring Put Option is 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(i) (*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(i) (i)(a) (*Redemption at the Option of the Noteholders on a Restructuring Event*)):
  - (A) 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 Conditions 6(e) (*Redemption at the Option of the Relevant Issuer*), (f) (*Pre-Maturity Call Option by the Issuer*) or (g) (*Clean-up Call Option by the Issuer*) or the holder shall have given notice under Condition 6(h) (*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(i) (*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(i)(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(h) (*Redemption at the Option of Noteholders*). The applicable notice period for the purposes of Condition 6(h) (*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(h) (*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.
- (iv) 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.
- (g) **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.
- (h) **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(i) (*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.

- (j) **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.
- (k) **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*).

Unless otherwise specified hereon, the Final Redemption Amount, the Early Redemption Amount and the Optional Redemption Amount in respect of the Index Linked Interest Notes and/or Index Linked Redemption Notes shall be the nominal amount of the Index Linked Interest Notes and/or Index Linked Redemption Notes multiplied by the Index Ratio applicable to the date on which the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount (as the case may be) becomes payable, provided that:

- (i) if a Minimum Final Redemption Amount, Minimum Early Redemption Amount and/or Minimum Optional Redemption Amount is specified in the applicable Final Terms and such amount is greater than the amount of principal in respect of the Notes determined in accordance with this Condition 7(a) (expressed on a per Calculation Amount basis), the Final Redemption Amount, Early Redemption Amount and/or Optional Redemption Amount (as applicable) shall be, respectively, the Minimum Final Redemption Amount, Minimum Early Redemption Amount and/or Minimum Optional Redemption Amount (as applicable) so specified in the applicable Final Terms; and/or
- (ii) if a Maximum Final Redemption Amount, Maximum Early Redemption Amount and/or Maximum Optional Redemption Amount is specified in the applicable Final Terms and such amount is less than the amount of principal in respect of the Notes determined in accordance with this Condition 7(a) (expressed on a per Calculation Amount basis), the Final Redemption Amount, Early Redemption Amount and/or Optional Redemption Amount (as applicable) shall be, respectively, the Maximum Final Redemption Amount, Maximum Early Redemption Amount or Maximum Optional Redemption Amount (as applicable) so specified in the applicable Final Terms; and

- (iii) the Calculation Agent will calculate the Final Redemption Amount, Early Redemption Amount and Optional Redemption Amount (as the case may be) as set out in Condition 5(g) (*Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts*).

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 (2) 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*), either (i) 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 RPI for the purpose of calculating the amount payable on repayment of the Reference Gilt as specified in the relevant Final Terms (ii) the UK Consumer Price Index (**CPI**) (for all items) published by the Office for National Statistics (2015=100) or any comparable index which may replace such index for the purpose of calculating the amount payable on repayment of the Indexed Benchmark Gilt (if any); or (iii) the UK Consumer Price Index Including Owner Occupiers' Housing Costs (**CPIH**) (for all items) published by the Office for National Statistics (2015=100), or any comparable index which may replace such index for the purpose of calculating the amount payable on repayment of the Index Benchmark Gilt (if any).

Where RPI is specified as the Index in the relevant Final Terms, any reference to the **Index Figure applicable (IFA)** to a particular Calculation Date shall, in the case of (i) above, 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*), and if “3 months lag” is specified in the relevant Final Terms, be calculated in accordance with the following formula:

$$IFA = RPI_{m-3} + \frac{(Day\ of\ Calculation\ Date - 1)}{(Days\ in\ Month\ of\ Calculation\ Date)} \times (RPI_{m-2} - RPI_{m-3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

**RPI<sub>m-3</sub>** 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<sub>m-2</sub>** 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;

Where RPI is specified as the Index in the relevant Final Terms, any reference to the **IFA** 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*), 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.

Where CPI is specified as the Index in the relevant Final Terms, any reference to the **IFA** to a particular Calculation Date shall, in the case of (ii) above, 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*), be calculated in accordance with the following formula:

$$IFA = CPI_{m-t} + \frac{(Day\ of\ Calculation\ Date - 1)}{(Days\ in\ Month\ of\ Calculation\ Date)} \times (CPI_{m-(t-1)} - CPI_{m-t})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

**CPI<sub>m-t</sub>** means the Index Figure for the first day of the month that is t months prior to the month in which the payment falls due, where the lag period “t” has a value of 2 to 24 as specified in the applicable Final Terms.

Where CPIH is specified as the Index in the relevant Final Terms, any reference to the **IFA** to a particular Calculation Date shall, in the case of (iii) above, 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*), be calculated in accordance with the following formula:

$$IFA = CPIH_{m-t} + \frac{(Day\ of\ Calculation\ Date - 1)}{(Days\ in\ Month\ of\ Calculation\ Date)} \times (CPIH_{m-(t-1)} - CPIH_{m-t})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

**CPIHm-t** means the Index Figure for the first day of the month that is t months prior to the month in which the payment falls due, where the lag period "t" has a value of 2 to 24 as specified in the applicable Final Terms;

**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 Benchmark Gilt** means the index-linked sterling obligation of the United Kingdom Government listed on the Official List of the Financial Conduct Authority (in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended) and traded on the London Stock Exchange that is indexed to the same Index as the Notes and whose average maturity most closely matches that of the Notes as the Expert shall determine to be appropriate;

**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;

**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; and

**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 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, unexpired 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 unexpired Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired 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:** the seizure, compulsory acquisition, expropriation or nationalisation (whether compulsory or otherwise, of a material part, and whether or not for fair compensation) of all or a material part of the assets of the Relevant Issuer by a Governmental Agency; 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.

- (ix) **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.

**Governmental Agency** includes, in relation to a state or supranational organisation, any agency, authority, central bank, department, government, legislature, ministry, official or public person (whether autonomous or not) of, or the government of, that state or supranational organisation.

**Non-recourse Indebtedness** means any indebtedness for borrowed money:

- (A) 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.

**SCHEDULE 5  
FORM OF COUPON**

On the front:

**[ISSUER]**

**EURO MEDIUM TERM NOTE PROGRAMME**

Series No. [•]

[Title of issue]

Coupon for [[set out amount due, if known]/the amount] due on [the Interest Payment Date falling in]\*[•],[•].

[Coupon relating to Note in the nominal amount of [•]]\*\*

This Coupon is payable to bearer (subject to the Conditions endorsed on the Note to which this Coupon relates, which shall be binding upon the holder of this Coupon whether or not it is for the time being attached to such Note) at the specified offices of the Issuing and Paying Agent and the Paying Agents set out on the reverse hereof (or any other Issuing and Paying Agent or further or other Paying Agents or specified offices duly appointed or nominated and notified to the Noteholders).

[If the Note to which this Coupon relates shall have become due and payable before the maturity date of this Coupon, this Coupon shall become void and no payment shall be made in respect of it.]\*\*\*

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

**[ISSUER]**

By:

**[Cp. No.]**

**[Denomination]**

**[ISIN]**

**[Series]**

**[Certif. No.]**

On the back:

**ISSUING AND PAYING AGENT**

[•]

**PAYING AGENT[S]**

[•]

[•]

[\*Only necessary where Interest Payment Dates are subject to adjustment in accordance with a Business Day Convention otherwise the particular interest Payment Date should be specified.]

\*\*Only required for Coupons relating to Floating Rate or Index Linked Interest Notes that are issued in more than one denomination.]

\*\*\*Delete if Coupons are not to become void upon early redemption of Note.]

**SCHEDULE 6  
FORM OF TALON**

On the front:

[ISSUER]

**EURO MEDIUM TERM NOTE PROGRAMME**

Series No. [•]

[Title of issue]

Talon for further Coupons falling due on [the Interest Payment Dates falling in]\*[ ][].

[Talon relating to Note in the nominal amount of [•]]\*\*

After all the Coupons relating to the Note to which this Talon relates have matured, further Coupons (including if appropriate a Talon for further Coupons) shall be issued at the specified office of the Issuing and Paying Agent set out on the reverse hereof (or any other Issuing and Paying Agent or specified office duly appointed or nominated and notified to the Noteholders) upon production and surrender of this Talon.

If the Note to which this Talon relates shall have become due and payable before the original due date for exchange of this Talon, this Talon shall become void and no exchange shall be made in respect of it.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

[ISSUER]

By:

[Talon No.]

[ISIN]

[Series]

[Certif. No.]



On the back:

**ISSUING AND PAYING AGENT**

[•]

[\* The maturity dates of the relevant Coupons should be set out if known, otherwise reference should be made to the months and years in which the Interest Payment Dates fall due.]

[\*\* Only required where the Series comprises Notes of more than one denomination.]

**SCHEDULE 7**  
**PROVISIONS FOR MEETINGS OF NOTEHOLDERS**

**Interpretation**

I. In this Schedule:

- (a) references to a meeting are to a meeting of Noteholders of one or more Series of Notes issued by the Relevant Issuer and include, unless the context otherwise requires, any adjournment;
- (b) references to **Notes** and **Noteholders** are only to the Notes of the one or more Series in respect of which a meeting has been, or is to be, called, and to the holders of these Notes, respectively;
- (c) **agent** means a holder of a voting certificate or a proxy for, or representative of, a Noteholder;
- (d) **block voting instruction** means an instruction issued in accordance with paragraphs 8 to 14;
- (e) **Extraordinary Resolution** means a resolution passed at a meeting duly convened and held in accordance with this Trust Deed by a majority of at least 75 per cent. of the votes cast;
- (f) **proxy** has the meaning given to it in paragraph 9(f) below;
- (g) **required proportion** means the proportion of the Notes shown by the table in paragraph 19 below;
- (h) **voting certificate** means a certificate issued in accordance with paragraphs 5, 6, 7 and 14; and
- (i) references to persons representing a proportion of the Notes are to Noteholders or agents holding or representing in the aggregate at least that proportion in nominal amount of the Notes for the time being outstanding.

**Powers of meetings**

- 2. A meeting shall, subject to the Conditions and without prejudice to any powers conferred on other persons by this Trust Deed, have power by Extraordinary Resolution:
  - (a) to approve proposals relating to reserved matters listed in Condition 13 (*Meetings of Noteholders, Modifications, Waiver and Substitution*);
  - (b) to sanction any proposal by the Relevant Issuer or the Note Trustee for any modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Noteholders and/or the Couponholders against the Relevant Issuer, whether or not those rights arise under this Trust Deed;
  - (c) to assent to any modification of this Trust Deed, the Notes, the Talons or the Coupons proposed by the Relevant Issuer or the Note Trustee;
  - (d) to authorise anyone (including the Note Trustee) to concur in and do anything necessary to carry out and give effect to an Extraordinary Resolution;

- (e) to give any authority, direction or sanction required to be given by Extraordinary Resolution;
- (f) to appoint any persons (whether Noteholders or not) as a committee or committees to represent the Noteholders' interests and to confer on them any powers or discretions which the Noteholders could themselves exercise by Extraordinary Resolution;
- (g) to approve a proposed new Note Trustee and to remove a Note Trustee;
- (h) (other than as permitted under Clause 15.2 of this Trust Deed) to approve the substitution of any entity for the Relevant Issuer (or any previous substitute) as principal debtor under this Trust Deed; and
- (i) to discharge or exonerate the Note Trustee from any liability in respect of any act or omission for which it may become responsible under this Trust Deed, the Notes, the Talons or the Coupons,

provided that the special quorum provisions in paragraph 19 shall apply to any Extraordinary Resolution (a "special quorum resolution") for the purpose of sub-paragraph 2(b) or 2(h), any of the proposals listed in Condition 13(a) (*Meetings of Noteholders*) or any amendment to this proviso.

#### **Convening a meeting**

- 3. The Relevant Issuer or the Note Trustee may at any time convene a meeting. If it receives a written request by Noteholders holding at least 10 per cent. in nominal amount of the Notes of any Series for the time being outstanding and is indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses, the Note Trustee shall convene a meeting of the Noteholders of that Series. Every meeting shall be held on a date and at a time and place approved by the Note Trustee.
- 4. At least 21 days' notice (exclusive of the day on which the notice is given and of the day of the meeting) shall be given to the Noteholders and the Paying Agents in relation to the Bearer Notes and the Registrar in relation to the Registered Notes (with a copy to the Relevant Issuer). A copy of the notice shall be given by the party convening the meeting to the other parties. The notice shall specify the day, time and the place of meeting and, unless the Note Trustee otherwise agrees, the nature of the resolutions to be proposed and shall explain how Noteholders may appoint proxies or representatives, obtain voting certificates and use block voting instructions and the details of the time limits applicable.

#### **Arrangements for voting**

- 5. If a holder of a Bearer Note wishes to obtain a voting certificate in respect of it for a meeting, he must deposit it for that purpose at least 48 hours before the time fixed for the meeting with a Paying Agent or to the order of a Paying Agent with a bank or other depository nominated by the Paying Agent for the purpose. The Paying Agent shall then issue a voting certificate in respect of it.
- 6. A voting certificate shall:
  - (a) be a document in the English language;
  - (b) be dated;
  - (c) specify the meeting concerned and the serial numbers of the Notes deposited; and

- (d) entitle, and state that it entitles, its bearer to attend and vote at that meeting in respect of those Notes.
7. Once a Paying Agent has issued a voting certificate for a meeting in respect of a Note, it shall not release the Note until either:
- (a) the meeting has been concluded; or
  - (b) the voting certificate has been surrendered to the Paying Agent.
8. If a holder of a Bearer Note wishes the votes attributable to it to be included in a block voting instruction for a meeting, then, at least 48 hours before the time fixed for the meeting, (i) he must deposit the Note for that purpose with a Paying Agent or to the order of a Paying Agent with a bank or other depository nominated by the Paying Agent for the purpose and (ii) he or a duly authorised person on his behalf must direct the Paying Agent how those votes are to be cast. The Paying Agent shall issue a block voting instruction in respect of the votes attributable to all Notes so deposited.
9. A block voting instruction shall:
- (a) be a document in the English language;
  - (b) be dated;
  - (c) specify the meeting concerned;
  - (d) list the total number and serial numbers of the Notes deposited, distinguishing with regard to each resolution between those voting for and those voting against it;
  - (e) certify that such list is in accordance with Notes deposited and directions received as provided in paragraphs 8, 11 and 14; and
  - (f) appoint a named person (a "**proxy**") to vote at that meeting in respect of those Notes and in accordance with that list.

A proxy need not be a Noteholder.

10. Once a Paying Agent has issued a block voting instruction for a meeting in respect of the votes attributable to any Notes:
- (a) it shall not release the Notes, except as provided in paragraph 11, until the meeting has been concluded; and
  - (b) the directions to which it gives effect may not be revoked or altered during the 48 hours before the time fixed for the meeting.
11. If the receipt for a Note deposited with a Paying Agent in accordance with paragraph 8 is surrendered to the Paying Agent at least 48 hours before the time fixed for the meeting, the Paying Agent shall release the Note and exclude the votes attributable to it from the block voting instruction.
12. Each block voting instruction shall be deposited at least 24 hours before the time fixed for the meeting at such place as the Note Trustee shall designate or approve, and in default it shall not be valid unless the chairman of the meeting decides otherwise before the meeting proceeds to business. If the Note Trustee requires, a notarially certified copy of each block voting instruction

shall be produced by the proxy at the meeting but the Note Trustee need not investigate or be concerned with the validity of the proxy's appointment.

13. A vote cast in accordance with a block voting instruction shall be valid even if it or any of the Noteholders' instructions pursuant to which it was executed has previously been revoked or amended, unless written intimation of such revocation or amendment is received from the relevant Paying Agent by the Relevant Issuer or the Note Trustee at its registered office or by the chairman of the meeting in each case at least 24 hours before the time fixed for the meeting.
14. No Note may be deposited with or to the order of a Paying Agent at the same time for the purposes of both paragraph 5 and paragraph 8 for the same meeting.
15.
  - (a) A holder of a Registered Note may, by an instrument in writing in the form available from the specified office of a Transfer Agent in the English language executed by or on behalf of the holder and delivered to the Transfer Agent at least 48 hours before the time fixed for a meeting, appoint any person (a proxy) to act on his behalf in connection with that meeting. A proxy need not be a Noteholder.
  - (b) A corporation which holds a Registered Note may by delivering to a Transfer Agent at least 24 hours before the time fixed for a meeting a certified copy of a resolution of its directors or other governing body (with, if it is not in English, a certified translation into English) authorise any person to act as its representative (a "representative") in connection with that meeting.

#### **Chairman**

16. The chairman of a meeting shall be such person as the Note Trustee may nominate in writing, but if no such nomination is made or if the person nominated is not present within 15 minutes after the time fixed for the meeting the Noteholders or agents present shall choose one of their number to be chairman, failing which the Relevant Issuer may appoint a chairman. The chairman need not be a Noteholder or agent. The chairman of an adjourned meeting need not be the same person as the chairman of the original meeting.

#### **Attendance**

17. The following may attend and speak at a meeting:
  - (a) Noteholders and agents;
  - (b) the chairman;
  - (c) the Relevant Issuer and the Note Trustee (through their respective representatives) and their respective financial and legal advisers;
  - (d) the Dealers and their advisers;
  - (e) any other person approved by the meeting or the Note Trustee; and
  - (f) in relation to Registered Notes, the Registrar, or in relation to Bearer Notes, the Issuing and Paying Agent.

No-one else may attend or speak.



## Quorum and Adjournment

18. No business (except choosing a chairman) shall be transacted at a meeting unless a quorum is present at the commencement of business. If a quorum is not present within 15 minutes from the time initially fixed for the meeting, it shall, if convened on the requisition of Noteholders or if the Relevant Issuer and the Note Trustee agree, be dissolved. In any other case it shall be adjourned until such date, not less than 14 nor more than 42 days later, and time and place as the chairman may decide. If a quorum is not present within 15 minutes from the time fixed for a meeting so adjourned, the meeting shall be dissolved.
19. Two (or in the case of an adjourned meeting one) or more Noteholders or agents present in person shall be a quorum *provided, however, that*, so long as at least the required proportion of the aggregate principal amount of the outstanding Notes is represented by, in the case of Bearer Notes, the Global Notes or, in the case of Registered Notes, the Global Certificates or a single Certificate, in the context of Registered Notes, an agent appointed in relation thereto or a Noteholder of the Notes represented thereby shall be deemed to be two voters (or in the case of an adjourned meeting, one voter) for the purpose of forming a quorum:
- (a) in the cases marked “**No minimum proportion**” in the table below, whatever the proportion of the Notes which they represent; and
- (b) in any other case, only if they represent, in nominal amount of the affected Series of Notes for the time being outstanding, the proportion of the Notes shown by the table below.

COLUMN 1	COLUMN 2	COLUMN 3
Purpose of meeting	Any meeting except one referred to in column 3 Required proportion	Meeting previously adjourned through want of a quorum Required proportion
To pass a special quorum resolution	75 per cent.	25 per cent.
To pass any other Extraordinary Resolution	One more than 50 per cent.	No minimum proportion
Any other purpose	One more than 10 per cent.	No minimum proportion

20. The chairman may with the consent of (and shall if directed by) a meeting adjourn the meeting from time to time and from place to place. Only business which could have been transacted at the original meeting may be transacted at a meeting adjourned in accordance with this paragraph or paragraph 18.
21. At least ten days' notice of a meeting adjourned through want of a quorum shall be given in the same manner as for an original meeting and that notice shall state the quorum required at the adjourned meeting. No notice need, however, otherwise be given of an adjourned meeting.

## Voting

22. Each question submitted to a meeting shall be decided by a show of hands unless a poll is (before, or on the declaration of the result of, the show of hands) demanded by the chairman, the Relevant Issuer, the Note Trustee or one or more persons holding one or more Notes or voting certificates representing 2 per cent. of the Notes.

23. Unless a poll is demanded a declaration by the chairman that a resolution has or has not been passed shall be conclusive evidence of the fact without proof of the number or proportion of the votes cast in favour of or against it.
24. If a poll is demanded, it shall be taken in such manner and (subject as provided below) either at once or after such adjournment as the chairman directs. The result of the poll shall be deemed to be the resolution of the meeting at which it was demanded as at the date it was taken. A demand for a poll shall not prevent the meeting continuing for the transaction of business other than the question on which it has been demanded.
25. A poll demanded on the election of a chairman or on a question of adjournment shall be taken at once.
26. On a show of hands every person who is present in person and who produces a Bearer Note, a Certificate of which he is the registered holder or a voting certificate or is a proxy or representative has one vote. On a poll every such person has one vote in respect of each integral currency unit of the Specified Currency of such Series of Notes so produced or represented by the voting certificate so produced or for which he is a proxy or representative. Without prejudice to the obligations of proxies, a person entitled to more than one vote need not use them all or cast them all in the same way.
27. In case of equality of votes the chairman shall both on a show of hands and on a poll have a casting vote in addition to any other votes which he may have.

#### **Effect and Publication of an Extraordinary Resolution**

28. An Extraordinary Resolution shall be binding on all the Noteholders, whether or not present at the meeting, and on all the Couponholders and each of them shall be bound to give effect to it accordingly. The passing of such a resolution shall be conclusive evidence that the circumstances justify its being passed. The Relevant Issuer shall give notice of the passing of an Extraordinary Resolution to Noteholders and, in relation to Bearer Notes, to the Paying Agents, and in relation to Registered Notes, to the Registrar within 14 days but failure to do so shall not invalidate the resolution.

#### **Minutes**

29. Minutes shall be made of all resolutions and proceedings at every meeting and, if purporting to be signed by the chairman of that meeting or of the next succeeding meeting, shall be conclusive evidence of the matters in them. Unless and until the contrary is proved, every meeting for which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.

#### **Written Resolutions**

30. A written resolution signed by the holders of not less than 75 per cent., in nominal amount of the Notes outstanding shall take effect as if it were an Extraordinary Resolution. 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.

#### **Note Trustee's Power to Prescribe Regulations**

31. Subject to all other provisions in this Trust Deed the Note Trustee may without the consent of the Noteholders prescribe such further regulations regarding the holding of meetings and attendance and voting at them as it in its sole discretion determines including (without limitation) such requirements as the Note Trustee thinks reasonable to satisfy itself that the persons who

purport to make any requisition in accordance with this Trust Deed are entitled to do so and as to the form of voting certificates or block voting instructions so as to satisfy itself that persons who purport to attend or vote at a meeting are entitled to do so.

32. The foregoing provisions of this Schedule shall have effect subject to the following provisions:

- (a) Meetings of Noteholders of separate Series will normally be held separately. However, the Note Trustee may from time to time determine that meetings of Noteholders of separate Series shall be held together.
- (b) A resolution that in the opinion of the Note Trustee affects one Series alone shall be deemed to have been duly passed if passed at a separate meeting of the Noteholders of the Series concerned.
- (c) A resolution that in the opinion of the Note Trustee affects the Noteholders of more than one Series but does not give rise to a conflict of interest between the Noteholders of the different Series concerned shall be deemed to have been duly passed if passed at a single meeting of the Noteholders of the relevant Series provided that for the purposes of determining the votes a Noteholder is entitled to cast pursuant to paragraph 26, each Noteholder shall have one vote in respect of each £1,000 nominal amount of Notes held, converted, if such Notes are not denominated in sterling, in accordance with Subclause 11.16 (*Currency Conversion*).
- (d) A resolution that in the opinion of the Note Trustee affects the Noteholders of more than one Series and gives or may give rise to a conflict of interest between the Noteholders of the different Series concerned shall be deemed to have been duly passed only if it shall be duly passed at separate meetings of the Noteholders of the relevant Series.
- (e) To all such meetings as aforesaid all the preceding provisions of this Schedule shall *mutatis mutandis* apply as though references therein to Notes and to Noteholders were references to the Notes and Noteholders of the Series concerned.

**THIS DEED** is delivered on the date stated at the beginning.

**Signatories**

**WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC**

EXECUTED as a deed by WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC )

acting by ) .....

and ) Director

.....  
Director/Secretary

**WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC**

EXECUTED as a deed by WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC )

acting by ) .....

and ) Director

.....  
Director/Secretary

**WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC**

EXECUTED as a deed by WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC )

acting by ) .....

and ) Director

.....  
Director/Secretary

**WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC**

EXECUTED as a deed by WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC )

acting by ) .....

and ) Director

.....  
Director/Secretary

**HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED**

Signed as a deed by \_\_\_\_\_ as authorised signatory for HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED in the presence of:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Signature of witness

Name of witness

Address of witness

Occupation of witness

*[Signature Page to the Amended and Restated Trust Deed]*



**PPL Corporation**  
**Subsidiaries of the Registrant**  
**At December 31, 2019**

**Exhibit 21**

The following listing of subsidiaries omits subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2019.

<b>Company Name</b> <b>Business Conducted under Same Name</b>	<b>State or Jurisdiction of</b> <b>Incorporation/Formation</b>
CEP Reserves, Inc.	Delaware
Kentucky Utilities Company	Kentucky and Virginia
LG&E and KU Energy LLC	Kentucky
Louisville Gas and Electric Company	Kentucky
PMDC International Holdings, Inc.	Delaware
PPL Atlantic Holdings, LLC	Delaware
PPL (Barbados) SRL	Barbados
PPL Capital Funding, Inc.	Delaware
PPL Electric Utilities Corporation	Pennsylvania
PPL Energy Funding Corporation	Pennsylvania
PPL Global, LLC	Delaware
PPL UK Holdings, LLC	Delaware
PPL UK Resources Limited	England and Wales
PPL WPD Limited	England and Wales
Western Power Distribution (East Midlands) plc	England and Wales
Western Power Distribution (South West) plc	England and Wales
Western Power Distribution (West Midlands) plc	England and Wales

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-223142 and 333-223140 on Form S-3 and Registration Statement Nos. 333-215193, 333-209618, 333-181752, and 333-197629 on Form S-8 of our reports dated February 14, 2020, relating to the consolidated financial statements of PPL Corporation and subsidiaries, and the effectiveness of PPL Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of PPL Corporation for the year ended December 31, 2019.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey

February 14, 2020

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-223142-04 on Form S-3 of our report dated February 14, 2020, relating to the consolidated financial statements of PPL Electric Utilities Corporation and subsidiaries appearing in this Annual Report on Form 10-K of PPL Electric Utilities Corporation for the year ended December 31, 2019.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey

February 14, 2020

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-223142-03 on Form S-3 of our report dated February 14, 2020, relating to the consolidated financial statements of LG&E and KU Energy LLC and subsidiaries appearing in this Annual Report on Form 10-K of LG&E and KU Energy LLC for the year ended December 31, 2019.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 14, 2020

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-223142-02 on Form S-3 of our report dated February 14, 2020, relating to the financial statements of Louisville Gas and Electric Company appearing in this Annual Report on Form 10-K of Louisville Gas and Electric Company for the year ended December 31, 2019.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 14, 2020



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-223142-01 on Form S-3 of our report dated February 14, 2020, relating to the financial statements of Kentucky Utilities Company appearing in this Annual Report on Form 10-K of Kentucky Utilities Company for the year ended December 31, 2019.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 14, 2020

PPL CORPORATION  
 2019 ANNUAL REPORT  
 TO THE SECURITIES AND EXCHANGE COMMISSION  
 ON FORM 10-K

POWER OF ATTORNEY

The undersigned directors of PPL Corporation, a Pennsylvania corporation, that is to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2019 ("Form 10-K Report"), do hereby appoint each of William H. Spence, Vincent Sorgi, Joanne H. Raphael, Jennifer L. McDonough and Frederick C. Paine, and each of them, their true and lawful attorney, with power to act without the other and with full power of substitution and resubstitution, to execute for them and in their names the Form 10-K Report and any and all amendments thereto, whether said amendments add to, delete from or otherwise alter the Form 10-K Report, or add or withdraw any exhibits or schedules to be filed therewith and any and all instruments in connection therewith. The undersigned hereby grant to each said attorney full power and authority to do and perform in the name of and on behalf of the undersigned, and in any and all capacities, any act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as the undersigned might do, hereby ratifying and approving the acts of each of the said attorneys.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands this 14<sup>th</sup> day of February, 2020.

/s/ John W. Conway

John W. Conway

/s/ Natica von Althann

Natica von Althann

/s/ Steven G. Elliott

Steven G. Elliott

/s/ Keith H. Williamson

Keith H. Williamson

/s/ Venkata Rajamannar Madabhushi

Venkata Rajamannar Madabhushi

/s/ Phoebe A. Wood

Phoebe A. Wood

/s/ Craig A. Rogerson

Craig A. Rogerson

/s/ Armando Zagalo de Lima

Armando Zagalo de Lima

/s/ William H. Spence

William H. Spence

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ William H. Spence

William H. Spence

Chairman and Chief Executive Officer

(Principal Executive Officer)

PPL Corporation

CERTIFICATION

I, JOSEPH P. BERGSTEIN, JR., certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ Joseph P. Bergstein, Jr.

Joseph P. Bergstein, Jr.  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)  
PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation



CERTIFICATION

I, STEPHEN K. BREININGER, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ Stephen K. Breininger

Stephen K. Breininger

Vice President-Finance and Regulatory Affairs and Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ Paul W. Thompson

Paul W. Thompson

Chairman of the Board, Chief Executive Officer and President

(Principal Executive Officer)

LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer)

LG&E and KU Energy LLC

CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ Paul W. Thompson

Paul W. Thompson

Chairman of the Board, Chief Executive Officer and President

(Principal Executive Officer)

Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer)

Louisville Gas and Electric Company



CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ Paul W. Thompson

Paul W. Thompson

Chairman of the Board, Chief Executive Officer and President

(Principal Executive Officer)

Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2020

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer)

Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR PPL CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2018

In connection with the annual report on Form 10-K of PPL Corporation (the "Company") for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Joseph P. Bergstein, Jr., the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2020

/s/ William H. Spence

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William H. Spence  
Chairman and Chief Executive Officer  
(Principal Executive Officer)  
PPL Corporation

/s/ Joseph P. Bergstein, Jr.

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Joseph P. Bergstein, Jr.  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)  
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2018

In connection with the annual report on Form 10-K of PPL Electric Utilities Corporation (the "Company") for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Stephen K. Breininger, the Principal Financial Officer and Principal Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2020

/s/ Gregory N. Dudkin

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Gregory N. Dudkin  
President  
(Principal Executive Officer)  
PPL Electric Utilities Corporation

/s/ Stephen K. Breininger

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Stephen K. Breininger  
Vice President-Finance and Regulatory Affairs and Controller  
(Principal Financial Officer)  
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR LG&E AND KU ENERGY LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2019

In connection with the annual report on Form 10-K of LG&E and KU Energy LLC (the "Company") for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2020

/s/ Paul W. Thompson

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Paul W. Thompson  
Chairman of the Board, Chief Executive Officer and President  
(Principal Executive Officer)  
LG&E and KU Energy LLC

/s/ Kent W. Blake

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Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer)  
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.



CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2019

In connection with the annual report on Form 10-K of Louisville Gas and Electric Company (the "Company") for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company

Date: February 14, 2020

/s/ Paul W. Thompson

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Paul W. Thompson  
Chairman of the Board, Chief Executive Officer and President  
(Principal Executive Officer)  
Louisville Gas and Electric Company

/s/ Kent W. Blake

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Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer)  
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2019

In connection with the annual report on Form 10-K of Kentucky Utilities Company (the "Company") for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2020

/s/ Paul W. Thompson

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Paul W. Thompson  
Chairman of the Board, Chief Executive Officer and President  
(Principal Executive Officer)  
Kentucky Utilities Company

/s/ Kent W. Blake

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Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer)  
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

## PPL CORPORATION AND SUBSIDIARIES

## LONG-TERM DEBT SCHEDULE

(Unaudited)

(Millions of Dollars)

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>December 31, 2019</u>
<b>PPL</b>			
<b>U.S.</b>			
<b>PPL Capital Funding</b>			
<i>Senior Unsecured Notes</i>			
69352PAD5	4.200%	06/15/2022	\$ 400
69352PAE3	3.500%	12/01/2022	400
69352PAF0	3.400%	06/01/2023	600
69352PAK9	3.950%	03/15/2024	350
69352PAL7	3.100%	05/15/2026	650
69352PAH6	4.700%	06/01/2043	300
69352PAJ2	5.000%	03/15/2044	400
69352PAM5	4.000%	09/15/2047	500
Total Senior Unsecured Notes			<u>3,600</u>
<i>Junior Subordinated Notes</i>			
69352PAC7 <sup>1</sup>	4.626%	03/30/2067	480
69352P202	5.900%	04/30/2073	450
Total Junior Subordinated Notes			<u>930</u>
Total PPL Capital Funding Long-term Debt			<u>4,530</u>
<b>PPL Electric</b>			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
Total PPL Electric Long-term Debt			<u>4,039</u>
<b>LKE</b>			
<i>Senior Unsecured Notes</i>			
<i>First Mortgage Bonds</i>			
Total LKE Long-term Debt <sup>2</sup>			<u>5,391</u>
Total U.S. Long-term Debt			<u>13,960</u>

<u>U.K.</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>December 31, 2019</u>
<i>Senior Unsecured Notes</i>			
USG7208UAA90	5.375%	05/01/2021	500
USG9796VAE32	7.375%	12/15/2028	202
XS1315962602	3.625%	11/06/2023	646
N/A <sup>4</sup>	2.185%	06/07/2024	64
XS1893807120	3.500%	10/16/2026	452
XS0627333221	5.250%	01/17/2023	905
XS0568142482	6.250%	12/10/2040	323
XS2050806434	1.750%	09/09/2031	323
XS0979476602	3.875%	10/17/2024	517
XS0568142052	6.000%	05/09/2025	323
XS0627336321	5.750%	04/16/2032	1,034
XS0061222484	9.250%	11/09/2020	194
XS0280014282	4.804%	12/21/2037	291
XS0496999219	5.750%	03/23/2040	259
XS1718489898	2.375%	05/16/2029	323
XS0165510313	5.875%	03/25/2027	323
XS0496975110	5.750%	03/23/2040	259
Total Senior Unsecured Notes			6,938
<i>Index-Linked Notes</i> <sup>3</sup>			
N/A <sup>4</sup>	0.498%	05/31/2026	144
XS0632038666	2.671%	06/01/2043	226
XS0974143439	1.676%	09/24/2052	158
XS1821535678	0.010%	05/16/2028	41
XS1797949267	0.010%	03/26/2036	41
XS1577901702	0.010%	03/14/2029	71
XS0277685987	1.541%	12/01/2053	197
XS0279320708	1.541%	12/01/2056	226
Total Index-Linked Notes			1,104
Total U.K. Long-term Debt			8,042
Total Long-term Debt Before Adjustments			22,002
Fair market value adjustments			12
Unamortized premium and (discount), net			5
Unamortized debt issuance costs			(126)
Total Long-term Debt			21,893
Less current portion of Long-term Debt			1,172
Total Long-term Debt, noncurrent			\$ 20,721

	Interest Rate	Maturity Date	December 31, 2019
<b>PPL Electric</b>			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
524808BW1 <sup>5</sup>	1.800%	02/15/2027	\$ 108
524808BX9 <sup>5</sup>	1.800%	09/01/2029	116
70869MAC8	4.000%	10/01/2023	90
69351UAP8	3.000%	09/15/2021	400
69351UAQ6	2.500%	09/01/2022	250
69351UAH6	6.450%	08/15/2037	250
69351UAM5	6.250%	05/15/2039	300
69351UAN3	5.200%	07/15/2041	250
69351UAR4	4.750%	07/15/2043	350
69351UAS2	4.125%	06/15/2044	300
69351UAV5	4.150%	06/15/2048	400
69351UAT0	4.150%	10/01/2045	350
69351UAU7	3.950%	06/01/2047	475
69351UAW3	3.000%	10/01/2049	400
Total Senior Secured Notes			<u>4,039</u>
Total Long-term Debt Before Adjustments			<u>4,039</u>
Unamortized discount			(24)
Unamortized debt issuance costs			(30)
Total Long-term Debt			<u>3,985</u>
Less current portion of Long-term Debt			—
Total Long-term Debt, noncurrent			<u>\$ 3,985</u>
<b>LKE</b>			
<i>Senior Unsecured Notes</i>			
50188FAD7	3.750%	11/15/2020	\$ 475
50188FAE5	4.375%	10/01/2021	250
Total Senior Unsecured Notes			<u>725</u>
<b>LG&amp;E</b>			
<i>First Mortgage Bonds</i>			2,024
<b>KU</b>			
<i>First Mortgage Bonds</i>			2,642
Total Long-term Debt Before Adjustments			<u>5,391</u>
Unamortized premium			5
Unamortized discount			(12)
Unamortized debt issuance costs			(32)
Total Long-term Debt			<u>5,352</u>
Less current portion of Long-term Debt			975
Total Long-term Debt, noncurrent <sup>2</sup>			<u>4,377</u>



<u>LG&amp;E</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>December 31, 2019</u>
<i>First Mortgage Bonds</i>			
473044BV6 <sup>6</sup>	1.410%	09/01/2026	23
546676AU1	5.125%	11/15/2040	285
546676AV9	4.650%	11/15/2043	250
546676AW7	3.300%	10/01/2025	300
546676AX5	4.375%	10/01/2045	250
546676AY3	4.250%	04/01/2049	400
546749AN2 <sup>5</sup>	2.550%	11/01/2027	35
546749AP7 <sup>5</sup>	1.850%	10/01/2033	128
546749AR3 <sup>5</sup>	1.750%	02/01/2035	40
546751AK4 <sup>5</sup>	1.650%	06/01/2033	31
546751AL2 <sup>5</sup>	1.650%	06/01/2033	35
896221AD0	3.750%	06/01/2033	60
896224AX0 <sup>5</sup>	2.300%	09/01/2026	27
896224AY8 <sup>6</sup>	1.780%	09/01/2044	125
896224AZ5 <sup>5</sup>	2.550%	11/01/2027	35
Total Long-term Debt Before Adjustments			2,024
Unamortized discount			(4)
Unamortized debt issuance costs			(15)
Total Long-term Debt			2,005

<b>KU</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>December 31, 2019</b>
<i>First Mortgage Bonds</i>			
144838AA7 <sup>6</sup>	1.129%	02/01/2032	\$ 21
144838AB5 <sup>6</sup>	1.130%	02/01/2032	3
144838AE9 <sup>5</sup>	1.550%	09/01/2042	96
14483RAQ0	3.375%	02/01/2026	18
14483RAR8 <sup>5</sup>	1.750%	10/01/2034	50
14483RAT4 <sup>5</sup>	1.200%	02/01/2032	78
14483RAS6 <sup>5</sup>	1.200%	10/01/2034	54
491674BE6	3.250%	11/01/2020	500
491674BG1/BF3	5.125%	11/01/2040	750
491674BJ5	4.650%	11/15/2043	250
491674BK2	3.300%	10/01/2025	250
491674BL0	4.375%	10/01/2045	550
587824AA1 <sup>6</sup>	1.150%	02/01/2032	7
587829AD4	1.300%	05/01/2023	13
62479PAA4 <sup>6</sup>	1.130%	02/01/2032	2
Total Long-term Debt Before Adjustments			2,642
Unamortized premium			5
Unamortized discount			(8)
Unamortized debt issuance costs			(16)
Total Long-term Debt			2,623
Less current portion of Long-term Debt			500
Total Long-term Debt, noncurrent			\$ 2,123

(1) Securities are in a floating rate mode through maturity.

(2) Excludes \$650 million of intercompany notes between LKE and an affiliate due 2026 and 2028.

(3) Principal amount of the notes are adjusted based on changes in a specified index, as detailed in the terms of the related indentures.

(4) No CUSIP - Facility loan.

(5) Securities are currently in a term rate mode. Securities may be put back to the company on a date prior to the stated maturity date.

(6) Securities have a floating rate of interest that periodically resets. Securities may be put back to the company on a date prior to the stated maturity date.