



**PPL companies**

Ms. Gwen R. Pinson  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602-0615

November 5, 2018

**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 Ms Pinson:

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-Q for PPL Corporation and its current and former subsidiaries for Period Ended September 30, 2018. 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 extra copies. Should you have any questions regarding the information filed herewith, please call me or Don Harris at (502) 627-2021.

Sincerely,

Rick E. Lovekamp

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## FORM 10-Q

PPL CORP - PPL

Filed: November 01, 2018 (period: September 30, 2018)

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



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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2018.

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	<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	23-2758192
1-905	<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	23-0959590
333-173665	<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	20-0523163
1-2893	<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	61-0264150
1-3464	<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	61-0247570

## Table of Contents

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"/>

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"/>

[Table of Contents](#)

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

PPL Corporation	Common stock, \$0.01 par value, 720,199,922 shares outstanding at October 25, 2018.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 25, 2018.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at October 25, 2018.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 25, 2018.

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

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[Table of Contents](#)

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

FORM 10-Q  
FOR THE QUARTER ENDED SEPTEMBER 30, 2018

Table of Contents

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

Unless otherwise specified, references in this Report, individually, to PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which subsidiaries are consolidated into such Registrants' 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.

	<u>Page</u>
<a href="#">GLOSSARY OF TERMS AND ABBREVIATIONS</a>	<a href="#">i</a>
<a href="#">FORWARD-LOOKING INFORMATION</a>	<a href="#">1</a>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<b>PPL Corporation and Subsidiaries</b>	
<a href="#">Condensed Consolidated Statements of Income</a>	<a href="#">3</a>
<a href="#">Condensed Consolidated Statements of Comprehensive Income</a>	<a href="#">4</a>
<a href="#">Condensed Consolidated Statements of Cash Flows</a>	<a href="#">5</a>
<a href="#">Condensed Consolidated Balance Sheets</a>	<a href="#">6</a>
<a href="#">Condensed Consolidated Statements of Equity</a>	<a href="#">8</a>
<b>PPL Electric Utilities Corporation and Subsidiaries</b>	
<a href="#">Condensed Consolidated Statements of Income</a>	<a href="#">10</a>
<a href="#">Condensed Consolidated Statements of Cash Flows</a>	<a href="#">11</a>
<a href="#">Condensed Consolidated Balance Sheets</a>	<a href="#">12</a>
<a href="#">Condensed Consolidated Statements of Equity</a>	<a href="#">14</a>
<b>LG&amp;E and KU Energy LLC and Subsidiaries</b>	
<a href="#">Condensed Consolidated Statements of Income</a>	<a href="#">15</a>
<a href="#">Condensed Consolidated Statements of Comprehensive Income</a>	<a href="#">16</a>
<a href="#">Condensed Consolidated Statements of Cash Flows</a>	<a href="#">17</a>
<a href="#">Condensed Consolidated Balance Sheets</a>	<a href="#">18</a>
<a href="#">Condensed Consolidated Statements of Equity</a>	<a href="#">20</a>
<b>Louisville Gas and Electric Company</b>	
<a href="#">Condensed Statements of Income</a>	<a href="#">22</a>
<a href="#">Condensed Statements of Cash Flows</a>	<a href="#">23</a>
<a href="#">Condensed Balance Sheets</a>	<a href="#">24</a>
<a href="#">Condensed Statements of Equity</a>	<a href="#">26</a>
<b>Kentucky Utilities Company</b>	
<a href="#">Condensed Statements of Income</a>	<a href="#">28</a>
<a href="#">Condensed Statements of Cash Flows</a>	<a href="#">29</a>
<a href="#">Condensed Balance Sheets</a>	<a href="#">30</a>
<a href="#">Condensed Statements of Equity</a>	<a href="#">32</a>



## Table of Contents

Combined Notes to Condensed Financial Statements (Unaudited)	
<a href="#">1. Interim Financial Statements</a>	<a href="#">33</a>
<a href="#">2. Summary of Significant Accounting Policies</a>	<a href="#">33</a>
<a href="#">3. Segment and Related Information</a>	<a href="#">35</a>
<a href="#">4. Revenue from Contracts with Customers</a>	<a href="#">36</a>
<a href="#">5. Earnings Per Share</a>	<a href="#">39</a>
<a href="#">6. Income Taxes</a>	<a href="#">40</a>
<a href="#">7. Utility Rate Regulation</a>	<a href="#">44</a>
<a href="#">8. Financing Activities</a>	<a href="#">50</a>
<a href="#">9. Defined Benefits</a>	<a href="#">53</a>
<a href="#">10. Commitments and Contingencies</a>	<a href="#">55</a>
<a href="#">11. Related Party Transactions</a>	<a href="#">64</a>
<a href="#">12. Other Income (Expense) - net</a>	<a href="#">66</a>
<a href="#">13. Fair Value Measurements</a>	<a href="#">66</a>
<a href="#">14. Derivative Instruments and Hedging Activities</a>	<a href="#">69</a>
<a href="#">15. Asset Retirement Obligations</a>	<a href="#">76</a>
<a href="#">16. Accumulated Other Comprehensive Income (Loss)</a>	<a href="#">76</a>
<a href="#">17. New Accounting Guidance Pending Adoption</a>	<a href="#">78</a>
Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations	
<a href="#">Overview</a>	<a href="#">81</a>
<a href="#">Introduction</a>	<a href="#">81</a>
<a href="#">Business Strategy</a>	<a href="#">83</a>
<a href="#">Financial and Operational Developments</a>	<a href="#">84</a>
<a href="#">Results of Operations</a>	<a href="#">89</a>
<a href="#">PPL Corporation and Subsidiaries - Statement of Income Analysis, Segment Earnings and Adjusted Gross Margins</a>	<a href="#">90</a>
<a href="#">PPL Electric Utilities Corporation and Subsidiaries - Statement of Income Analysis, Earnings and Adjusted Gross Margins</a>	<a href="#">104</a>
<a href="#">LG&amp;E and KU Energy LLC and Subsidiaries - Statement of Income Analysis, Earnings and Adjusted Gross Margins</a>	<a href="#">107</a>
<a href="#">Louisville Gas and Electric Company - Statement of Income Analysis, Earnings and Adjusted Gross Margins</a>	<a href="#">110</a>
<a href="#">Kentucky Utilities Company - Statement of Income Analysis, Earnings and Adjusted Gross Margins</a>	<a href="#">113</a>
<a href="#">Financial Condition</a>	<a href="#">116</a>
<a href="#">Liquidity and Capital Resources</a>	<a href="#">116</a>
<a href="#">Risk Management</a>	<a href="#">122</a>
<a href="#">Foreign Currency Translation</a>	<a href="#">124</a>
<a href="#">Related Party Transactions</a>	<a href="#">124</a>
<a href="#">Acquisitions, Development and Divestitures</a>	<a href="#">125</a>
<a href="#">Environmental Matters</a>	<a href="#">125</a>
<a href="#">New Accounting Guidance</a>	<a href="#">125</a>
<a href="#">Application of Critical Accounting Policies</a>	<a href="#">126</a>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<a href="#">127</a>
Item 4. Controls and Procedures	<a href="#">127</a>
PART II. OTHER INFORMATION	
<a href="#">Item 1. Legal Proceedings</a>	<a href="#">127</a>
<a href="#">Item 1A. Risk Factors</a>	<a href="#">127</a>
<a href="#">Item 4. Mine Safety Disclosures</a>	<a href="#">127</a>
<a href="#">Item 5. Other Information</a>	<a href="#">127</a>
<a href="#">Item 6. Exhibits</a>	<a href="#">128</a>
SIGNATURES	<a href="#">130</a>
COMPUTATIONS OF RATIO OF EARNINGS TO FIXED CHARGES	
CERTIFICATES OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002	
CERTIFICATES OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002	

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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. Following a reorganization in October 2015 and October 2017, PPL WPD Limited is an indirect parent to WPD plc having previously been a sister company.

**WPD** - refers to PPL WPD Limited and its subsidiaries.

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

**WPD plc** - Western Power Distribution plc, 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.

**2017 Form 10-K** - Annual Report to the SEC on Form 10-K for the year ended December 31, 2017.

**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.

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

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

**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.

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

**ARO** - asset retirement obligation.

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

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

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

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

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

**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.

**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.



[Table of Contents](#)

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

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

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

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

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

**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 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A).

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

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

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

**EPS** - earnings per share.

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

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

**GBP** - British pound sterling.

**GHG(s)** - greenhouse gas(es).

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

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

**IBEW** - International Brotherhood of Electrical Workers.

**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.

**kV** - kilovolt.

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

[Table of Contents](#)

**LIBOR** - London Interbank Offered Rate.

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

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

**MPR** - Mid-period review, which is a review of output requirements in RIIO-ED1 that can be initiated by Ofgem halfway through the price control covering material changes to existing outputs that can be justified by clear changes in government policy or new outputs that may be needed to meet the needs of consumers and other network users. On April 30, 2018, Ofgem decided not to engage in a mid-period review of the RIIO-ED1 price-control period.

**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 related matters.

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

**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) 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 Energy Supply** - prior to the June 1, 2015 spinoff, PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the indirect parent company of PPL Montana, LLC.

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



## [Table of Contents](#)

**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 and continue to be based on a percentage of annual total expenditures that have a long-term benefit to WPD (similar to capital projects for the U.S. regulated businesses that are generally included in rate base).

**RCRA** - Resource Conservation and Recovery Act of 1976.

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

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

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

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

**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, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

**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.

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

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

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

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

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

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

**S&P** - Standard & Poor's Ratings Services, 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 owner of the competitive generation assets of PPL Energy Supply and certain affiliates of Riverstone.

[Table of Contents](#)

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

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

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

**VEBA** - Voluntary Employee Beneficiary Association. A tax-exempt trust under the Internal Revenue Code Section 501(c)(9) used by employers 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 Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2017 Form 10-K and in "Item 2. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, the following are among the important factors that could cause actual results to differ materially 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, including the TCJA;
- effects of cyber-based intrusions or natural disasters, threatened or actual terrorism, war or other hostilities;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- developments related to ongoing negotiations regarding the U.K.'s intent to withdraw from the European Union and any actions in response thereto;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of 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;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;
- collective labor bargaining negotiations; and
- the outcome of litigation against the Registrants and their subsidiaries.

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

[Table of Contents](#)

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

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

(Unaudited)

*(Millions of Dollars, except share data)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Operating Revenues</b>	\$ 1,872	\$ 1,845	\$ 5,846	\$ 5,521
<b>Operating Expenses</b>				
Operation				
Fuel	206	202	609	576
Energy purchases	149	143	538	494
Other operation and maintenance	479	438	1,453	1,340
Depreciation	275	257	817	745
Taxes, other than income	77	69	234	214
Total Operating Expenses	1,186	1,109	3,651	3,369
<b>Operating Income</b>	686	736	2,195	2,152
Other Income (Expense) - net	106	(35)	297	(112)
Interest Expense	244	230	718	669
<b>Income Before Income Taxes</b>	548	471	1,774	1,371
Income Taxes	103	116	362	321
<b>Net Income</b>	\$ 445	\$ 355	\$ 1,412	\$ 1,050
<b>Earnings Per Share of Common Stock:</b>				
Net Income Available to PPL Common Shareowners:				
Basic	\$ 0.63	\$ 0.52	\$ 2.02	\$ 1.53
Diluted	\$ 0.62	\$ 0.51	\$ 2.01	\$ 1.53
<b>Dividends Declared Per Share of Common Stock</b>	\$ 0.41	\$ 0.395	\$ 1.23	\$ 1.185
<b>Weighted-Average Shares of Common Stock Outstanding (in thousands)</b>				
Basic	703,730	686,563	699,117	683,783
Diluted	710,517	688,746	702,305	686,081

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



## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

### PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Net income</b>	<b>\$ 445</b>	<b>\$ 355</b>	<b>\$ 1,412</b>	<b>\$ 1,050</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, \$0, (\$2), (\$1)	(187)	(12)	(321)	195
Qualifying derivatives, net of tax of (\$5), \$0, (\$5), \$7	22	1	21	(29)
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	—	—	(1)	—
Net actuarial gain (loss), net of tax of \$3, \$2, \$3, \$9	(8)	(3)	(9)	(14)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of \$3, \$1, \$4, (\$6)	(14)	—	(21)	24
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	—	—	1
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$1), (\$1)	—	—	1	1
Net actuarial (gain) loss, net of tax of (\$8), (\$10), (\$26), (\$28)	34	34	104	97
<b>Total other comprehensive income (loss)</b>	<b>(153)</b>	<b>20</b>	<b>(226)</b>	<b>275</b>
<b>Comprehensive income</b>	<b>\$ 292</b>	<b>\$ 375</b>	<b>\$ 1,186</b>	<b>\$ 1,325</b>

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

[Table of Contents](#)

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 1,412	\$ 1,050
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	817	745
Amortization	56	72
Defined benefit plans - (income)	(146)	(69)
Deferred income taxes and investment tax credits	255	284
Unrealized (gains) losses on derivatives, and other hedging activities	(129)	194
Stock-based compensation expense	21	30
Other	(12)	(8)
Change in current assets and current liabilities		
Accounts receivable	38	25
Accounts payable	(55)	(93)
Unbilled revenues	129	81
Fuel, materials and supplies	25	35
Prepayments	(38)	(37)
Taxes payable	20	6
Regulatory assets and liabilities, net	39	(3)
Accrued interest	48	49
Other current liabilities	(36)	(53)
Other	(21)	5
Other operating activities		
Defined benefit plans - funding	(284)	(558)
Proceeds from transfer of excess benefit plan funds	65	—
Other assets	(38)	4
Other liabilities	44	(5)
Net cash provided by operating activities	<u>2,210</u>	<u>1,754</u>
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	(2,344)	(2,152)
Purchase of available-for-sale securities	(65)	—
Other investing activities	(57)	(16)
Net cash used in investing activities	<u>(2,466)</u>	<u>(2,168)</u>
<b>Cash Flows from Financing Activities</b>		
Issuance of long-term debt	602	1,088
Retirement of long-term debt	(277)	(60)
Issuance of common stock	678	275
Payment of common stock dividends	(846)	(800)
Net increase in short-term debt	481	269
Other financing activities	(20)	(34)
Net cash provided by financing activities	<u>618</u>	<u>738</u>
<b>Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash</b>	<u>(9)</u>	<u>7</u>
<b>Net Increase in Cash, Cash Equivalents and Restricted Cash</b>	<u>353</u>	<u>331</u>
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	511	365
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 864</u>	<u>\$ 696</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at September 30,	\$ 311	\$ 373
Accrued expenditures for intangible assets at September 30,	\$ 70	\$ 60





## CONDENSED CONSOLIDATED BALANCE SHEETS

### PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 842	\$ 485
Accounts receivable (less reserve: 2018, \$54; 2017, \$51)		
Customer	684	681
Other	58	100
Unbilled revenues	411	543
Fuel, materials and supplies	295	320
Prepayments	103	66
Price risk management assets	91	49
Other current assets	61	50
Total Current Assets	<u>2,545</u>	<u>2,294</u>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	39,144	38,228
Less: accumulated depreciation - regulated utility plant	7,196	6,785
Regulated utility plant, net	<u>31,948</u>	<u>31,443</u>
Non-regulated property, plant and equipment	365	384
Less: accumulated depreciation - non-regulated property, plant and equipment	111	110
Non-regulated property, plant and equipment, net	254	274
Construction work in progress	1,816	1,375
Property, Plant and Equipment, net	<u>34,018</u>	<u>33,092</u>
<b>Other Noncurrent Assets</b>		
Regulatory assets	1,525	1,504
Goodwill	3,242	3,258
Other intangibles	700	697
Pension benefit asset	615	284
Price risk management assets	206	215
Other noncurrent assets	191	135
Total Other Noncurrent Assets	<u>6,479</u>	<u>6,093</u>
<b>Total Assets</b>	<u>\$ 43,042</u>	<u>\$ 41,479</u>

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

## CONDENSED CONSOLIDATED BALANCE SHEETS

### PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 1,549	\$ 1,080
Long-term debt due within one year	330	348
Accounts payable	814	924
Taxes	121	105
Interest	326	282
Dividends	287	273
Customer deposits	265	292
Regulatory liabilities	136	95
Other current liabilities	555	624
Total Current Liabilities	<u>4,383</u>	<u>4,023</u>
<b>Long-term Debt</b>	<u>19,924</u>	<u>19,847</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	2,717	2,462
Investment tax credits	127	129
Accrued pension obligations	649	800
Asset retirement obligations	279	312
Regulatory liabilities	2,739	2,704
Other deferred credits and noncurrent liabilities	441	441
Total Deferred Credits and Other Noncurrent Liabilities	<u>6,952</u>	<u>6,848</u>
<b>Commitments and Contingent Liabilities (Notes 7 and 10)</b>		
<b>Equity</b>		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	11,001	10,305
Earnings reinvested	4,423	3,871
Accumulated other comprehensive loss	(3,648)	(3,422)
Total Equity	<u>11,783</u>	<u>10,761</u>
<b>Total Liabilities and Equity</b>	<u>\$ 43,042</u>	<u>\$ 41,479</u>

(a) 1,560,000 shares authorized; 719,702 and 693,398 shares issued and outstanding at September 30, 2018 and December 31, 2017.

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

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

(Unaudited)  
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
<b>December 31, 2017</b>	693,398	\$ 7	\$ 10,305	\$ 3,871	\$ (3,422)	\$ 10,761
Common stock issued	26,304		699			699
Stock-based compensation			(3)			(3)
Net income				1,412		1,412
Dividends and dividend equivalents				(860)		(860)
Other comprehensive income (loss)					(226)	(226)
<b>September 30, 2018</b>	<u>719,702</u>	<u>\$ 7</u>	<u>\$ 11,001</u>	<u>\$ 4,423</u>	<u>\$ (3,648)</u>	<u>\$ 11,783</u>
<b>December 31, 2016</b>	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	8,402		303			303
Stock-based compensation			(22)			(22)
Net income				1,050		1,050
Dividends and dividend equivalents				(813)		(813)
Other comprehensive income (loss)					275	275
<b>September 30, 2017</b>	<u>688,133</u>	<u>\$ 7</u>	<u>\$ 10,122</u>	<u>\$ 4,066</u>	<u>\$ (3,503)</u>	<u>\$ 10,692</u>

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

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

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

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Operating Revenues</b>	<b>\$ 548</b>	<b>\$ 547</b>	<b>\$ 1,704</b>	<b>\$ 1,620</b>
<b>Operating Expenses</b>				
Operation				
Energy purchases	127	121	403	374
Other operation and maintenance	127	133	419	435
Depreciation	89	77	262	228
Taxes, other than income	27	27	81	79
<b>Total Operating Expenses</b>	<b>370</b>	<b>358</b>	<b>1,165</b>	<b>1,116</b>
<b>Operating Income</b>	<b>178</b>	<b>189</b>	<b>539</b>	<b>504</b>
Other Income (Expense) - net	5	4	18	8
Interest Income from Affiliate	4	2	5	3
Interest Expense	41	36	117	105
<b>Income Before Income Taxes</b>	<b>146</b>	<b>159</b>	<b>445</b>	<b>410</b>
Income Taxes	35	64	111	159
<b>Net Income (a)</b>	<b>\$ 111</b>	<b>\$ 95</b>	<b>\$ 334</b>	<b>\$ 251</b>

(a) Net income equals comprehensive income.

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



**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**PPL Electric Utilities Corporation and Subsidiaries**

(Unaudited)  
(Millions of Dollars)

	Nine Months Ended September 30,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 334	\$ 251
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	262	228
Amortization	17	25
Defined benefit plans - expense	2	10
Deferred income taxes and investment tax credits	77	129
Other	(13)	(8)
Change in current assets and current liabilities		
Accounts receivable	22	7
Accounts payable	(46)	(38)
Unbilled revenues	45	30
Prepayments	(25)	(31)
Regulatory assets and liabilities, net	(25)	—
Taxes payable	(1)	10
Other	12	(9)
Other operating activities		
Defined benefit plans - funding	(28)	(24)
Other assets	(37)	(2)
Other liabilities	54	(3)
Net cash provided by operating activities	<u>650</u>	<u>575</u>
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	(835)	(851)
Net decrease in notes receivable from affiliate	—	(2)
Other investing activities	(2)	(5)
Net cash used in investing activities	<u>(837)</u>	<u>(858)</u>
<b>Cash Flows from Financing Activities</b>		
Issuance of long-term debt	398	470
Contributions from parent	429	575
Payment of common stock dividends to parent	(271)	(231)
Net decrease in short-term debt	—	(295)
Other financing activities	(4)	(6)
Net cash provided by financing activities	<u>552</u>	<u>513</u>
<b>Net Increase in Cash, Cash Equivalents and Restricted Cash</b>	<b>365</b>	<b>230</b>
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	<u>51</u>	<u>15</u>
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 416</u>	<u>\$ 245</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
<b>Significant non-cash transactions:</b>		
Accrued expenditures for property, plant and equipment at September 30,	\$ 171	\$ 190

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



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

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 414	\$ 49
Accounts receivable (less reserve: 2018, \$26; 2017, \$24)		
Customer	309	279
Other	18	71
Accounts receivable from affiliates	11	—
Unbilled revenues	82	127
Materials and supplies	26	34
Prepayments	31	6
Regulatory assets	18	16
Other current assets	10	6
<b>Total Current Assets</b>	<b>919</b>	<b>588</b>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	11,332	10,785
Less: accumulated depreciation - regulated utility plant	2,848	2,778
Regulated utility plant, net	8,484	8,007
Construction work in progress	643	508
<b>Property, Plant and Equipment, net</b>	<b>9,127</b>	<b>8,515</b>
<b>Other Noncurrent Assets</b>		
Regulatory assets	738	709
Intangibles	260	259
Other noncurrent assets	52	11
<b>Total Other Noncurrent Assets</b>	<b>1,050</b>	<b>979</b>
<b>Total Assets</b>	<b>\$ 11,096</b>	<b>\$ 10,082</b>

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

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

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 384	\$ 386
Accounts payable to affiliates	25	31
Taxes	7	8
Interest	43	36
Regulatory liabilities	72	86
Other current liabilities	99	98
<b>Total Current Liabilities</b>	<b>630</b>	<b>645</b>
<b>Long-term Debt</b>	<b>3,693</b>	<b>3,298</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	1,258	1,154
Accrued pension obligations	210	246
Regulatory liabilities	686	668
Other deferred credits and noncurrent liabilities	135	79
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<b>2,289</b>	<b>2,147</b>
<b>Commitments and Contingent Liabilities (Notes 7 and 10)</b>		
<b>Equity</b>		
Common stock - no par value (a)	364	364
Additional paid-in capital	3,158	2,729
Earnings reinvested	962	899
<b>Total Equity</b>	<b>4,484</b>	<b>3,992</b>
<b>Total Liabilities and Equity</b>	<b>\$ 11,096</b>	<b>\$ 10,082</b>

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2018 and December 31, 2017.

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

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

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
<b>December 31, 2017</b>	66,368	\$ 364	\$ 2,729	\$ 899	\$ 3,992
Net income				334	334
Capital contributions from parent			429		429
Dividends declared on common stock				(271)	(271)
<b>September 30, 2018</b>	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 3,158</u>	<u>\$ 962</u>	<u>\$ 4,484</u>
<b>December 31, 2016</b>	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391
Net income				251	251
Capital contributions from parent			575		575
Dividends declared on common stock				(231)	(231)
<b>September 30, 2017</b>	<u>66,368</u>	<u>\$ 364</u>	<u>\$ 2,729</u>	<u>\$ 893</u>	<u>\$ 3,986</u>

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

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

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

(Unaudited)  
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Operating Revenues</b>	<b>\$ 802</b>	<b>\$ 818</b>	<b>\$ 2,417</b>	<b>\$ 2,350</b>
<b>Operating Expenses</b>				
Operation				
Fuel	206	202	609	576
Energy purchases	22	22	135	120
Other operation and maintenance	216	197	632	594
Depreciation	119	114	354	324
Taxes, other than income	18	17	53	49
Total Operating Expenses	<u>581</u>	<u>552</u>	<u>1,783</u>	<u>1,663</u>
<b>Operating Income</b>	<b>221</b>	<b>266</b>	<b>634</b>	<b>687</b>
Other Income (Expense) - net	—	(1)	(2)	(9)
Interest Expense	52	49	154	148
Interest Expense with Affiliate	7	5	18	13
<b>Income Before Income Taxes</b>	<b>162</b>	<b>211</b>	<b>460</b>	<b>517</b>
Income Taxes	32	79	102	195
<b>Net Income</b>	<b>\$ 130</b>	<b>\$ 132</b>	<b>\$ 358</b>	<b>\$ 322</b>

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

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

(Unaudited)  
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Net income</b>	<b>\$ 130</b>	<b>\$ 132</b>	<b>\$ 358</b>	<b>\$ 322</b>
<b>Other comprehensive income (loss):</b>				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
<b>Defined benefit plans:</b>				
Net actuarial gain (loss), net of tax of \$0, \$0, \$0, \$7	—	(1)	—	(12)
<b>Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):</b>				
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	—	—	1
<b>Defined benefit plans:</b>				
Prior service costs, net of tax of \$0, (\$1), \$0, (\$1)	1	—	2	1
Net actuarial (gain) loss, net of tax of \$0, \$0, (\$1), (\$2)	1	1	2	3
<b>Total other comprehensive income (loss)</b>	<b>2</b>	<b>—</b>	<b>4</b>	<b>(7)</b>
<b>Comprehensive income</b>	<b>\$ 132</b>	<b>\$ 132</b>	<b>\$ 362</b>	<b>\$ 315</b>

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



**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)  
(Millions of Dollars)

	Nine Months Ended September 30,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 358	\$ 322
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	354	324
Amortization	13	19
Defined benefit plans - expense	12	19
Deferred income taxes and investment tax credits	71	173
Other	(2)	1
Change in current assets and current liabilities		
Accounts receivable	8	18
Accounts payable	4	(30)
Accounts payable to affiliates	7	3
Unbilled revenues	54	19
Fuel, materials and supplies	17	34
Regulatory assets and liabilities, net	62	(3)
Taxes payable	(11)	13
Accrued interest	41	41
Other	(36)	2
Other operating activities		
Defined benefit plans - funding	(126)	(32)
Expenditures for asset retirement obligations	(46)	(22)
Other assets	(1)	5
Other liabilities	8	14
Net cash provided by operating activities	<u>787</u>	<u>920</u>
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	(826)	(579)
Other investing activities	1	4
Net cash used in investing activities	<u>(825)</u>	<u>(575)</u>
<b>Cash Flows from Financing Activities</b>		
Net increase (decrease) in notes payable with affiliate	(145)	(4)
Issuance of long-term debt with affiliate	250	—
Issuance of long-term debt	118	60
Retirement of long-term debt	(27)	(60)
Distributions to member	(217)	(316)
Net increase in short-term debt	60	5
Other financing activities	(2)	(3)
Net cash provided by (used in) financing activities	<u>37</u>	<u>(318)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(1)</u>	<u>27</u>
Cash and Cash Equivalents at Beginning of Period	30	13
Cash and Cash Equivalents at End of Period	<u>\$ 29</u>	<u>\$ 40</u>

**Supplemental Disclosure of Cash Flow Information**

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at September 30,	\$ 108	\$ 142
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*The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.*

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

(Unaudited)  
(Millions of Dollars)

	September 30, 2018	December 31, 2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 29	\$ 30
Accounts receivable (less reserve: 2018, \$26; 2017, \$25)		
Customer	230	246
Other	47	44
Unbilled revenues	149	203
Fuel, materials and supplies	238	254
Prepayments	32	25
Regulatory assets	11	18
Other current assets	7	8
Total Current Assets	<u>743</u>	<u>828</u>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	13,438	13,187
Less: accumulated depreciation - regulated utility plant	2,031	1,785
Regulated utility plant, net	<u>11,407</u>	<u>11,402</u>
Construction work in progress	1,000	627
Property, Plant and Equipment, net	<u>12,407</u>	<u>12,029</u>
<b>Other Noncurrent Assets</b>		
Regulatory assets	787	795
Goodwill	996	996
Other intangibles	80	86
Other noncurrent assets	75	68
Total Other Noncurrent Assets	<u>1,938</u>	<u>1,945</u>
<b>Total Assets</b>	<u>\$ 15,088</u>	<u>\$ 14,802</u>

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

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

(Unaudited)  
(Millions of Dollars)

	September 30, 2018	December 31, 2017
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 304	\$ 244
Long-term debt due within one year	330	98
Notes payable with affiliates	80	225
Accounts payable	271	338
Accounts payable to affiliates	14	7
Customer deposits	60	58
Taxes	55	66
Price risk management liabilities	4	4
Regulatory liabilities	64	9
Interest	73	32
Asset retirement obligations	86	85
Other current liabilities	127	161
<b>Total Current Liabilities</b>	<b>1,468</b>	<b>1,327</b>
<b>Long-term Debt</b>		
Long-term debt	4,521	4,661
Long-term debt to affiliate	650	400
<b>Total Long-term Debt</b>	<b>5,171</b>	<b>5,061</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	922	866
Investment tax credits	127	129
Price risk management liabilities	15	22
Accrued pension obligations	256	365
Asset retirement obligations	231	271
Regulatory liabilities	2,053	2,036
Other deferred credits and noncurrent liabilities	137	162
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<b>3,741</b>	<b>3,851</b>
<b>Commitments and Contingent Liabilities (Notes 7 and 10)</b>		
<b>Member's Equity</b>	<b>4,708</b>	<b>4,563</b>
<b>Total Liabilities and Equity</b>	<b>\$ 15,088</b>	<b>\$ 14,802</b>

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

**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**  
**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)  
(Millions of Dollars)

	<b>Member's Equity</b>
<b>December 31, 2017</b>	<b>\$ 4,563</b>
Net income	358
Distributions to member	(217)
Other comprehensive income	4
<b>September 30, 2018</b>	<b>\$ 4,708</b>
<b>December 31, 2016</b>	<b>\$ 4,667</b>
Net income	322
Distributions to member	(316)
Other comprehensive income (loss)	(7)
<b>September 30, 2017</b>	<b>\$ 4,666</b>

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

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## CONDENSED STATEMENTS OF INCOME

### Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Operating Revenues</b>				
Retail and wholesale	\$ 357	\$ 361	\$ 1,095	\$ 1,055
Electric revenue from affiliate	5	2	21	23
<b>Total Operating Revenues</b>	<b>362</b>	<b>363</b>	<b>1,116</b>	<b>1,078</b>
<b>Operating Expenses</b>				
Operation				
Fuel	83	76	234	225
Energy purchases	17	18	121	107
Energy purchases from affiliate	2	3	10	8
Other operation and maintenance	95	87	277	258
Depreciation	49	47	146	136
Taxes, other than income	9	8	27	25
<b>Total Operating Expenses</b>	<b>255</b>	<b>239</b>	<b>815</b>	<b>759</b>
<b>Operating Income</b>	<b>107</b>	<b>124</b>	<b>301</b>	<b>319</b>
Other Income (Expense) - net	(3)	(3)	(5)	(6)
Interest Expense	20	17	57	53
<b>Income Before Income Taxes</b>	<b>84</b>	<b>104</b>	<b>239</b>	<b>260</b>
Income Taxes	18	39	51	99
<b>Net Income (a)</b>	<b>\$ 66</b>	<b>\$ 65</b>	<b>\$ 188</b>	<b>\$ 161</b>

(a) Net income equals comprehensive income.

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

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

(Unaudited)  
(Millions of Dollars)

	Nine Months Ended September 30,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 188	\$ 161
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	146	136
Amortization	10	11
Defined benefit plans - expense	2	5
Deferred income taxes and investment tax credits	46	96
<b>Change in current assets and current liabilities</b>		
Accounts receivable	14	12
Accounts receivable from affiliates	2	6
Accounts payable	14	(12)
Accounts payable to affiliates	(2)	(10)
Unbilled revenues	30	11
Fuel, materials and supplies	9	6
Regulatory assets and liabilities, net	24	(2)
Taxes payable	4	(15)
Accrued interest	13	12
Other	(14)	8
Other operating activities		
Defined benefit plans - funding	(59)	(3)
Expenditures for asset retirement obligations	(17)	(13)
Other assets	—	5
Other liabilities	—	4
Net cash provided by operating activities	<u>410</u>	<u>418</u>
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	<u>(420)</u>	<u>(293)</u>
Net cash used in investing activities	<u>(420)</u>	<u>(293)</u>
<b>Cash Flows from Financing Activities</b>		
Net increase in notes payable with affiliates	—	10
Issuance of long-term debt	100	60
Retirement of long-term debt	—	(60)
Net increase (decrease) in short-term debt	(23)	21
Payment of common stock dividends to parent	(113)	(150)
Contributions from parent	43	—
Other financing activities	(1)	(2)
Net cash provided by (used in) financing activities	<u>6</u>	<u>(121)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(4)</u>	<u>4</u>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<u>15</u>	<u>5</u>
<b>Cash and Cash Equivalents at End of Period</b>	<u>\$ 11</u>	<u>\$ 9</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at September 30,	\$ 51	\$ 83

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

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

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 11	\$ 15
Accounts receivable (less reserve: 2018, \$1; 2017, \$1)		
Customer	102	116
Other	13	13
Unbilled revenues	61	91
Accounts receivable from affiliates	22	24
Fuel, materials and supplies	122	131
Prepayments	14	11
Regulatory assets	11	12
Other current assets	3	3
<b>Total Current Assets</b>	<b>359</b>	<b>416</b>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	5,684	5,587
Less: accumulated depreciation - regulated utility plant	707	614
Regulated utility plant, net	4,977	4,973
Construction work in progress	520	305
Property, Plant and Equipment, net	5,497	5,278
<b>Other Noncurrent Assets</b>		
Regulatory assets	400	411
Goodwill	389	389
Other intangibles	49	53
Other noncurrent assets	27	12
<b>Total Other Noncurrent Assets</b>	<b>865</b>	<b>865</b>
<b>Total Assets</b>	<b>\$ 6,721</b>	<b>\$ 6,559</b>

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

## CONDENSED BALANCE SHEETS

### Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 176	\$ 199
Long-term debt due within one year	234	98
Accounts payable	152	179
Accounts payable to affiliates	22	23
Customer deposits	28	27
Taxes	29	25
Price risk management liabilities	4	4
Regulatory liabilities	26	3
Interest	24	11
Asset retirement obligations	21	24
Other current liabilities	39	52
Total Current Liabilities	<u>755</u>	<u>645</u>
<b>Long-term Debt</b>	<u>1,574</u>	<u>1,611</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	611	572
Investment tax credits	35	35
Price risk management liabilities	15	22
Accrued pension obligations	—	45
Asset retirement obligations	86	97
Regulatory liabilities	920	919
Other deferred credits and noncurrent liabilities	80	86
Total Deferred Credits and Other Noncurrent Liabilities	<u>1,747</u>	<u>1,776</u>
<b>Commitments and Contingent Liabilities (Notes 7 and 10)</b>		
<b>Stockholder's Equity</b>		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,755	1,712
Earnings reinvested	466	391
Total Equity	<u>2,645</u>	<u>2,527</u>
<b>Total Liabilities and Equity</b>	<u>\$ 6,721</u>	<u>\$ 6,559</u>

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2018 and December 31, 2017.

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



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

(Unaudited)  
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
<b>December 31, 2017</b>	21,294	\$ 424	\$ 1,712	\$ 391	\$ 2,527
Net income				188	188
Capital contributions from parent			43		43
Cash dividends declared on common stock				(113)	(113)
<b>September 30, 2018</b>	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,755</u>	<u>\$ 466</u>	<u>\$ 2,645</u>
<b>December 31, 2016</b>	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				161	161
Cash dividends declared on common stock				(150)	(150)
<b>September 30, 2017</b>	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,682</u>	<u>\$ 381</u>	<u>\$ 2,487</u>

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

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



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**CONDENSED STATEMENTS OF INCOME****Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Operating Revenues</b>				
Retail and wholesale	\$ 445	\$ 457	\$ 1,322	\$ 1,295
Electric revenue from affiliate	2	3	10	8
<b>Total Operating Revenues</b>	<b>447</b>	<b>460</b>	<b>1,332</b>	<b>1,303</b>
<b>Operating Expenses</b>				
Operation				
Fuel	123	126	375	351
Energy purchases	5	4	14	13
Energy purchases from affiliate	5	2	21	23
Other operation and maintenance	114	104	331	312
Depreciation	70	67	208	188
Taxes, other than income	9	9	26	24
<b>Total Operating Expenses</b>	<b>326</b>	<b>312</b>	<b>975</b>	<b>911</b>
<b>Operating Income</b>	<b>121</b>	<b>148</b>	<b>357</b>	<b>392</b>
Other Income (Expense) - net	1	—	1	(4)
Interest Expense	24	24	74	72
<b>Income Before Income Taxes</b>	<b>98</b>	<b>124</b>	<b>284</b>	<b>316</b>
Income Taxes	21	47	59	120
<b>Net Income (a)</b>	<b>\$ 77</b>	<b>\$ 77</b>	<b>\$ 225</b>	<b>\$ 196</b>

(a) Net income approximates comprehensive income.

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

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

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 225	\$ 196
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	208	188
Amortization	2	7
Defined benefit plans - expense	—	3
Deferred income taxes and investment tax credits	37	116
Other	(2)	—
Change in current assets and current liabilities		
Accounts receivable	2	6
Accounts receivable from affiliates	—	(1)
Accounts payable	(2)	(6)
Accounts payable to affiliates	(8)	(16)
Unbilled revenues	24	8
Fuel, materials and supplies	8	28
Regulatory assets and liabilities, net	38	(1)
Taxes payable	11	(21)
Accrued interest	21	22
Other	(4)	(5)
Other operating activities		
Defined benefit plans - funding	(53)	(22)
Expenditures for asset retirement obligations	(29)	(9)
Other assets	(1)	—
Other liabilities	8	8
Net cash provided by operating activities	<u>485</u>	<u>501</u>
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	(405)	(283)
Net increase in notes receivable with affiliates	—	(10)
Other investing activities	1	4
Net cash used in investing activities	<u>(404)</u>	<u>(289)</u>
<b>Cash Flows from Financing Activities</b>		
Issuance of long-term debt	18	—
Retirement of long-term debt	(27)	—
Net increase (decrease) in short-term debt	83	(16)
Payment of common stock dividends to parent	(196)	(171)
Contributions from parent	45	—
Other financing activities	(1)	(1)
Net cash used in financing activities	<u>(78)</u>	<u>(188)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<u>3</u>	<u>24</u>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<u>15</u>	<u>7</u>
<b>Cash and Cash Equivalents at End of Period</b>	<u>\$ 18</u>	<u>\$ 31</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
<b>Significant non-cash transactions:</b>		
Accrued expenditures for property, plant and equipment at September 30,	\$ 57	\$ 58

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

**CONDENSED BALANCE SHEETS****Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 18	\$ 15
Accounts receivable (less reserve: 2018, \$2; 2017, \$1)		
Customer	128	130
Other	25	30
Unbilled revenues	88	112
Fuel, materials and supplies	116	123
Prepayments	17	14
Regulatory assets	—	6
Other current assets	4	5
Total Current Assets	<u>396</u>	<u>435</u>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	7,746	7,592
Less: accumulated depreciation - regulated utility plant	1,323	1,170
Regulated utility plant, net	<u>6,423</u>	<u>6,422</u>
Construction work in progress	479	321
Property, Plant and Equipment, net	<u>6,902</u>	<u>6,743</u>
<b>Other Noncurrent Assets</b>		
Regulatory assets	387	384
Goodwill	607	607
Other intangibles	31	33
Other noncurrent assets	77	52
Total Other Noncurrent Assets	<u>1,102</u>	<u>1,076</u>
<b>Total Assets</b>	<u>\$ 8,400</u>	<u>\$ 8,254</u>

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



**CONDENSED BALANCE SHEETS****Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 128	\$ 45
Long-term debt due within one year	96	—
Accounts payable	105	137
Accounts payable to affiliates	47	53
Customer deposits	32	31
Taxes	30	19
Regulatory liabilities	38	6
Interest	37	16
Asset retirement obligations	65	61
Other current liabilities	43	46
<b>Total Current Liabilities</b>	<b>621</b>	<b>414</b>
<b>Long-term Debt</b>	<b>2,224</b>	<b>2,328</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	719	691
Investment tax credits	92	94
Accrued pension obligations	—	36
Asset retirement obligations	145	174
Regulatory liabilities	1,133	1,117
Other deferred credits and noncurrent liabilities	35	43
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<b>2,124</b>	<b>2,155</b>
<b>Commitments and Contingent Liabilities (Notes 7 and 10)</b>		
<b>Stockholder's Equity</b>		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,661	2,616
Earnings reinvested	462	433
<b>Total Equity</b>	<b>3,431</b>	<b>3,357</b>
<b>Total Liabilities and Equity</b>	<b>\$ 8,400</b>	<b>\$ 8,254</b>

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2018 and December 31, 2017.

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

## CONDENSED STATEMENTS OF EQUITY

### Kentucky Utilities Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
<b>December 31, 2017</b>	37,818	\$ 308	\$ 2,616	\$ 433	\$ —	\$ 3,357
Capital contributions from parent			45			45
Net income				225		225
Cash dividends declared on common stock				(196)		(196)
<b>September 30, 2018</b>	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,661</u>	<u>\$ 462</u>	<u>\$ —</u>	<u>\$ 3,431</u>
<b>December 31, 2016</b>	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				196		196
Cash dividends declared on common stock				(171)		(171)
Other comprehensive income					1	1
<b>September 30, 2017</b>	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,616</u>	<u>\$ 425</u>	<u>\$ —</u>	<u>\$ 3,349</u>

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

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

## **Combined Notes to Condensed Financial Statements (Unaudited)**

### **1. Interim Financial Statements**

*(All Registrants)*

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

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2017 is derived from that Registrant's 2017 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2017 Form 10-K. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018 or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

### **2. Summary of Significant Accounting Policies**

*(All Registrants)*

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2017 Form 10-K and should be read in conjunction with those disclosures.

#### **Income Taxes**

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 have 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 is 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. See Note 6 to the Financial Statements for the final amounts reported in PPL's 2017 federal income tax return, provisional adjustment amounts for the year ended December 31, 2017, the related measurement period adjustments and the resulting tax impact for the three and nine months ended September 30, 2018.

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 is complete as of September 30, 2018 with respect to the three items discussed above. The Registrants continue to analyze the impact of the TCJA on the deductibility of executive compensation awarded on or before November 2, 2017. The Registrants do not currently anticipate a material change from what was reflected in the December 31, 2017 financial statements and expect to record the impact, if any, of changes in the deductibility of executive compensation in the fourth quarter of 2018.



**New Accounting Guidance Adopted****Accounting for Revenue from Contracts with Customers**

Effective January 1, 2018, the Registrants adopted accounting guidance that establishes a comprehensive new model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Registrants adopted this guidance using the modified retrospective transition method. No cumulative effect adjustment was required as of the January 1, 2018 adoption date.

The adoption of this guidance did not have a material impact on the Registrants' revenue recognition policies. See Note 4 for the required disclosures resulting from the adoption of this standard.

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

Effective January 1, 2018, the Registrants adopted accounting guidance that changes the income statement presentation of net periodic benefit cost. Retrospectively, this guidance requires the service cost component to be disaggregated from other components of net benefit cost and presented in the same income statement line items as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefits are presented separately from the line items that include the service cost and outside of any subtotal of operating income. Prospectively, the guidance limits the capitalization to the service cost component of net periodic benefit costs.

For PPL, the non-service cost components of net periodic benefit costs were in a net credit position for the three and nine months ended September 30, 2018. The non-service cost credits that would have been capitalized under previous guidance, but are now recorded as income within "Other Income (Expense) - net," were \$5 million (\$4 million after-tax or \$0.01 per share) and \$16 million (\$13 million after-tax or \$0.02 per share) for the three and nine months ended September 30, 2018. For PPL Electric, LG&E and KU, non-service costs or credits that would have been capitalized under previous guidance are now recognized as a regulatory asset or regulatory liability, as applicable, in accordance with regulatory approvals.

The following provides the non-service cost components of net periodic benefits (costs) or credits presented in "Other Income (Expense) - net" in 2018 and reclassified from "Other operation and maintenance" to "Other Income (Expense) - net" in 2017 on the Statements of Income as a result of the adoption.

	Three Months		Nine Months	
	2018	2017	2018	2017
PPL	\$ 61	\$ 41	\$ 195	\$ 123
PPL Electric	1	—	4	—
LKE	1	(2)	3	(4)
LG&E	—	(2)	(1)	(4)
KU	—	—	2	(1)

PPL and PPL Electric elected to use the practical expedient that permits using the amounts disclosed in the defined benefit plan note for the prior comparative period as the estimation basis for applying the retrospective presentation requirements.

**Presentation of Restricted Cash in the Statement of Cash Flows (PPL and PPL Electric)**

Effective January 1, 2018, PPL and PPL Electric adopted accounting guidance that changes the cash flow statement presentation of restricted cash. Under the new guidance, amounts considered restricted cash are presented with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts on the Statements of Cash Flows. The guidance requires a reconciliation of the total cash, cash equivalents and restricted cash from the Statement of Cash Flows to amounts on the Balance Sheets and disclosure of the nature of the restrictions. PPL and PPL Electric have applied this guidance on a retrospective basis for all periods presented. The adoption of this guidance did not have a material impact on the Statements of Cash Flows.



[Table of Contents](#)

*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	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 842	\$ 485	\$ 414	\$ 49
Restricted cash - current (a)	3	3	2	2
Restricted cash - noncurrent (a)	19	23	—	—
Total Cash, Cash Equivalents and Restricted Cash	<u>\$ 864</u>	<u>\$ 511</u>	<u>\$ 416</u>	<u>\$ 51</u>

(a) 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. On the Balance Sheets, the current portion of restricted cash is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

**3. Segment and Related Information**

(PPL)

See Note 2 in PPL's 2017 Form 10-K for a discussion of reportable segments and related information.

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

	Three Months		Nine Months	
	2018	2017	2018	2017
Operating Revenues from external customers				
U.K. Regulated	\$ 517	\$ 477	\$ 1,716	\$ 1,547
Kentucky Regulated	802	818	2,417	2,350
Pennsylvania Regulated	548	547	1,704	1,620
Corporate and Other	5	3	9	4
Total	<u>\$ 1,872</u>	<u>\$ 1,845</u>	<u>\$ 5,846</u>	<u>\$ 5,521</u>
Net Income				
U.K. Regulated (a)	\$ 245	\$ 126	\$ 836	\$ 560
Kentucky Regulated	122	125	332	299
Pennsylvania Regulated	112	95	335	251
Corporate and Other	(34)	9	(91)	(60)
Total	<u>\$ 445</u>	<u>\$ 355</u>	<u>\$ 1,412</u>	<u>\$ 1,050</u>

(a) Includes unrealized gains and losses from hedging foreign currency economic activity. See Note 14 for additional information.

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

	September 30, 2018	December 31, 2017
Assets		
U.K. Regulated (a)	\$ 16,823	\$ 16,813
Kentucky Regulated	14,754	14,468
Pennsylvania Regulated	11,110	10,082
Corporate and Other (b)	355	116
Total	<u>\$ 43,042</u>	<u>\$ 41,479</u>

(a) Includes \$12.4 billion and \$12.5 billion of net PP&E as of September 30, 2018 and December 31, 2017. 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 and the elimination of inter-segment transactions.

## Table of Contents

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

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

### **4. 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.

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

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.

#### Pennsylvania Regulated Segment Revenue (PPL and PPL Electric)

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 typically 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.

[Table of Contents](#)

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.

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

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 tables reconcile "Operating Revenues" included in each Registrant's Statement of Income with revenues generated from contracts with customers for the periods ended September 30, 2018.

	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 1,872	\$ 548	\$ 802	\$ 362	\$ 447
Revenues derived from:					
Alternative revenue programs (b)	(4)	(3)	(1)	(4)	3
Other (c)	(15)	(3)	(5)	(2)	(3)
Revenues from Contracts with Customers	\$ 1,853	\$ 542	\$ 796	\$ 356	\$ 447

	Nine Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 5,846	\$ 1,704	\$ 2,417	\$ 1,116	\$ 1,332
Revenues derived from:					
Alternative revenue programs (b)	37	(1)	38	16	22
Other (c)	(43)	(9)	(14)	(5)	(9)
Revenues from Contracts with Customers	\$ 5,840	\$ 1,694	\$ 2,441	\$ 1,127	\$ 1,345

(a) PPL includes \$517 million and \$1.7 billion for the three and nine months ended September 30, 2018 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 3 for additional information.

(b) Alternative revenue programs for PPL Electric include the over/under-collection of its transmission formula rate. Alternative revenue programs for LKE, LG&E and KU include the over/under collection for the ECR and DSM programs as well as LG&E's over/under collection of its GLT program and KU's



## Table of Contents

over/under collection of its generation formula rate. Over-collections of revenue are shown as positive amounts in the table above; under-collections are shown as negative amounts.

(c) Represents additional revenues outside the scope of revenues from contracts with customers such as leases and other miscellaneous revenues.

As discussed in Note 2 in PPL's 2017 Form 10-K, 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 \$442 million and \$100 million for the three months ended September 30, 2018 and \$1.4 billion and \$306 million for the nine months ended September 30, 2018.

The following tables show revenues from contracts with customers disaggregated by customer class for the periods ended September 30, 2018.

	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 475	\$ —	\$ —	\$ —	\$ —
Residential	647	328	319	162	157
Commercial	307	88	219	112	107
Industrial	156	12	144	45	99
Other (b)	119	14	65	27	39
Wholesale - municipal	30	—	30	—	30
Wholesale - other (c)	19	—	19	10	15
Transmission	100	100	—	—	—
<b>Revenues from Contracts with Customers</b>	<b>\$ 1,853</b>	<b>\$ 542</b>	<b>\$ 796</b>	<b>\$ 356</b>	<b>\$ 447</b>

	Nine Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 1,606	\$ —	\$ —	\$ —	\$ —
Residential	2,039	1,036	1,003	505	498
Commercial	928	275	653	343	310
Industrial	466	37	429	134	295
Other (b)	339	40	200	88	113
Wholesale - municipal	91	—	91	—	91
Wholesale - other (c)	65	—	65	57	38
Transmission	306	306	—	—	—
<b>Revenues from Contracts with Customers</b>	<b>\$ 5,840</b>	<b>\$ 1,694</b>	<b>\$ 2,441</b>	<b>\$ 1,127</b>	<b>\$ 1,345</b>

(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.

Contract receivables from customers are primarily included in "Accounts receivable - Customer" and "Unbilled revenues" on the Balance Sheets.



## [Table of Contents](#)

The following table shows the accounts receivable balances that were impaired for the periods ended September 30, 2018.

	Three Months	Nine Months
PPL	\$ 11	\$ 24
PPL Electric	7	17
LKE	4	7
LG&E	2	3
KU	2	4

The following table shows the balances of contract liabilities resulting from contracts with customers.

	PPL	PPL Electric	LKE	LG&E	KU
Contract liabilities as of December 31, 2017	\$ 29	\$ 19	\$ 8	\$ 4	\$ 4
Contract liabilities as of September 30, 2018	40	17	8	4	4

The following table shows the revenue recognized during the period ended September 30, 2018 that was included in the contract liability balance at December 31, 2017.

	Nine Months
PPL	\$ 22
PPL Electric	8
LKE	8
LG&E	4
KU	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 September 30, 2018, PPL had \$65 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately \$44 million within the next 12 months.

## 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 2018, these securities also included the PPL common stock forward sale agreements. See Note 8 for additional information on these agreements. The forward sale agreements are dilutive under the Treasury Stock Method to the extent the average stock price of PPL's common shares exceeds 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 September 30 used in the EPS calculation are:

[Table of Contents](#)

	Three Months		Nine Months	
	2018	2017	2018	2017
<b>Income (Numerator)</b>				
Net income	\$ 445	\$ 355	\$ 1,412	\$ 1,050
Less amounts allocated to participating securities	1	1	2	2
Net income available to PPL common shareowners - Basic and Diluted	<u>\$ 444</u>	<u>\$ 354</u>	<u>\$ 1,410</u>	<u>\$ 1,048</u>
<b>Shares of Common Stock (Denominator)</b>				
Weighted-average shares - Basic EPS	703,730	686,563	699,117	683,783
Add incremental non-participating securities:				
Share-based payment awards	298	2,183	427	2,298
Forward sale agreements	6,489	—	2,761	—
Weighted-average shares - Diluted EPS	<u>710,517</u>	<u>688,746</u>	<u>702,305</u>	<u>686,081</u>
<b>Basic EPS</b>				
Net Income available to PPL common shareowners	\$ 0.63	\$ 0.52	\$ 2.02	\$ 1.53
<b>Diluted EPS</b>				
Net Income available to PPL common shareowners	\$ 0.62	\$ 0.51	\$ 2.01	\$ 1.53

For the periods ended September 30, PPL issued common stock related to stock-based compensation plans and the DRIP as follows (in thousands):

	Three Months		Nine Months	
	2018	2017	2018	2017
Stock-based compensation plans (a)	80	256	568	1,707
DRIP	493	355	1,504	1,169

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

See Note 8 for additional information on common stock issued under the ATM Program and settlement of a portion of the PPL common stock forward sale agreements.

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

	Three Months		Nine Months	
	2018	2017	2018	2017
Stock options	15	696	229	696
Restricted stock units	2	—	15	—

## 6. Income Taxes

(All Registrants)

### Tax Cuts and Jobs Act (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 have 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,

[Table of Contents](#)

2017; (2) the amount of accelerated 100% “bonus” depreciation PPL is 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. The final amounts reported in PPL’s 2017 federal income tax return, provisional adjustment amounts for the year ended December 31, 2017, the related measurement period adjustments and the resulting tax impact for the three and nine months ended September 30, 2018 are as follows.

	Taxable Income (Loss) (a)		
	Adjustments per 2017 Tax Return	Adjustments per 2017 Tax Provision	September 30, 2018 Adjustment
<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	\$ —	\$ —	\$ —
<b>PPL Electric</b>			
Bonus Depreciation (b)	\$ (39)	\$ —	\$ (39)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(68)	(105)	37
Total	\$ (107)	\$ (105)	\$ (2)
<b>LKE</b>			
Bonus Depreciation (b)	\$ (28)	\$ —	\$ (28)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(32)	(45)	13
Total	\$ (60)	\$ (45)	\$ (15)
<b>LG&amp;E</b>			
Bonus Depreciation (b)	\$ (17)	\$ —	\$ (17)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	17	—	17
Total	\$ —	\$ —	\$ —
<b>KU</b>			
Bonus Depreciation (b)	\$ (11)	\$ —	\$ (11)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	11	—	11
Total	\$ —	\$ —	\$ —

- (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, 2023. 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	September 30, 2018 Adjustment
<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 (a)	229	220	9
Total	\$ 321	\$ 321	\$ —



[Table of Contents](#)

	Income Tax Expense (Benefit)		
	Adjustments per 2017 Tax Return	Adjustments per 2017 Tax Provision	September 30, 2018 Adjustment
<b>PPL Electric</b>			
Reduction in U.S. federal income tax rate (a)	\$ (13)	\$ (13)	\$ —
<b>LKE</b>			
Reduction in U.S. federal income tax rate (a)	\$ 110	\$ 112	\$ (2)

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 is complete as of September 30, 2018 with respect to the three items discussed above. The Registrants continue to analyze the impact of the TCJA on the deductibility of executive compensation awarded on or before November 2, 2017. The Registrants do not currently anticipate a material change from what was reflected in the December 31, 2017 financial statements and expect to record the impact, if any, of changes in the deductibility of executive compensation in the fourth quarter of 2018.

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

(PPL)

	Three Months		Nine Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 115	\$ 165	\$ 373	\$ 480
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	9	14	34	37
Valuation allowance adjustments	5	4	17	9
Impact of lower U.K. income tax rates relative to U.S. income tax rates (a)	(7)	(45)	(20)	(133)
U.S. income tax on foreign earnings - net of foreign tax credit (a) (b)	1	(8)	2	(24)
Federal and state tax reserve adjustments	—	—	3	—
Impact of the U.K. Finance Acts	(4)	(3)	(7)	(12)
Depreciation and other items not normalized	(1)	(2)	(4)	(7)
Amortization of excess deferred income taxes (a)	(11)	—	(30)	—
Deferred tax impact of state tax reform (c)	—	—	9	—
Interest benefit on U.K. financing entities	(4)	(4)	(13)	(12)
Stock-based compensation	—	—	1	(7)
Other	—	(5)	(3)	(10)
Total increase (decrease)	(12)	(49)	(11)	(159)
Total income taxes	\$ 103	\$ 116	\$ 362	\$ 321

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) Lower income taxes in 2017 primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit was recognized over the annual period as a result of utilizing an estimated annual effective tax rate.

(c) During the second quarter of 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.



[Table of Contents](#)

*(PPL Electric)*

	Three Months		Nine Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 30	\$ 56	\$ 93	\$ 144
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	12	9	35	26
Depreciation and other items not normalized	(1)	(1)	(4)	(5)
Amortization of excess deferred income taxes (a)	(5)	—	(13)	—
Stock-based compensation	—	—	—	(5)
Other	(1)	—	—	(1)
Total increase (decrease)	5	8	18	15
Total income taxes	\$ 35	\$ 64	\$ 111	\$ 159

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

*(LKE)*

	Three Months		Nine Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 34	\$ 74	\$ 97	\$ 181
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	6	8	17	19
Amortization of investment tax credit	(1)	(1)	(3)	(2)
Deferred tax impact of U.S. tax reform (a)	(2)	—	(2)	—
Deferred tax impact of state tax reform (c)	—	—	9	—
Amortization of excess deferred income taxes (a)	(3)	—	(14)	—
Other	(2)	(2)	(2)	(3)
Total increase (decrease)	(2)	5	5	14
Total income taxes	\$ 32	\$ 79	\$ 102	\$ 195

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

(c) During the second quarter of 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.

*(LG&E)*

	Three Months		Nine Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 18	\$ 36	\$ 50	\$ 91
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	3	4	9	10
Amortization of excess deferred income taxes (a)	(1)	—	(6)	—
Other	(2)	(1)	(2)	(2)
Total increase (decrease)	—	3	1	8
Total income taxes	\$ 18	\$ 39	\$ 51	\$ 99

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

[Table of Contents](#)

(KU)

	Three Months		Nine Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 21	\$ 43	\$ 60	\$ 111
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	3	5	10	11
Amortization of excess deferred income taxes (a)	(2)	—	(8)	—
Other	(1)	(1)	(3)	(2)
Total increase (decrease)	—	4	(1)	9
Total income taxes	\$ 21	\$ 47	\$ 59	\$ 120

(a) The U.S. federal corporate income tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

(b) The Kentucky corporate income tax rate was reduced from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

*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. LKE recognized a deferred tax charge of \$9 million in the second quarter of 2018 primarily associated with the remeasurement of non-regulated accumulated deferred income tax balances.

As indicated in Note 1 in the Registrants' 2017 Form 10-K, 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 may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In the second quarter of 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 a separate regulatory proceeding, LG&E and KU have requested to begin returning state excess deferred income taxes to customers in conjunction with the 2018 Kentucky base rate case, which was filed on September 28, 2018. See Note 7 for additional information related to the rate case proceedings. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

**7. Utility Rate Regulation**

*(All Registrants)*

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

	PPL		PPL Electric	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Current Regulatory Assets:				
Environmental cost recovery	\$ —	\$ 5	\$ —	\$ —
Generation formula rate	—	6	—	—
Smart meter rider	16	15	16	15
Plant outage costs	7	3	—	—
Gas supply clause	3	4	—	—
Other	3	1	2	1
Total current regulatory assets (a)	\$ 29	\$ 34	\$ 18	\$ 16

[Table of Contents](#)

	PPL		PPL Electric			
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017		
<b>Noncurrent Regulatory Assets:</b>						
Defined benefit plans	\$ 847	\$ 880	\$ 486	\$ 504		
Taxes recoverable through future rates	3	3	3	3		
Storm costs (b)	45	33	22	—		
Unamortized loss on debt	47	54	23	29		
Interest rate swaps	18	26	—	—		
Terminated interest rate swaps	88	92	—	—		
Accumulated cost of removal of utility plant	190	173	190	173		
AROs	267	234	—	—		
Act 129 compliance rider	12	—	12	—		
Other	8	9	2	—		
<b>Total noncurrent regulatory assets</b>	<b>\$ 1,525</b>	<b>\$ 1,504</b>	<b>\$ 738</b>	<b>\$ 709</b>		
<b>Current Regulatory Liabilities:</b>						
Generation supply charge	\$ 35	\$ 34	\$ 35	\$ 34		
Transmission service charge	2	9	2	9		
Environmental cost recovery	22	1	—	—		
Universal service rider	23	26	23	26		
Transmission formula rate	8	9	8	9		
Fuel adjustment clause	7	3	—	—		
TCJA customer refund (c)	26	—	—	—		
Storm damage expense rider	4	8	4	8		
Other	9	5	—	—		
<b>Total current regulatory liabilities</b>	<b>\$ 136</b>	<b>\$ 95</b>	<b>\$ 72</b>	<b>\$ 86</b>		
<b>Noncurrent Regulatory Liabilities:</b>						
Accumulated cost of removal of utility plant	\$ 678	\$ 677	\$ —	\$ —		
Power purchase agreement - OVEC (d)	62	68	—	—		
Net deferred taxes (e)	1,846	1,853	642	668		
Defined benefit plans	33	27	—	—		
Terminated interest rate swaps	72	74	—	—		
TCJA customer refund (f)	41	—	41	—		
Other	7	5	3	—		
<b>Total noncurrent regulatory liabilities</b>	<b>\$ 2,739</b>	<b>\$ 2,704</b>	<b>\$ 686</b>	<b>\$ 668</b>		
<b>Current Regulatory Assets:</b>						
	LKE		LG&E		KU	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Plant outage costs	\$ 7	\$ 3	\$ 7	\$ 3	\$ —	\$ —
Generation formula rate	—	6	—	—	—	6
Gas supply clause	3	4	3	4	—	—
Other	1	5	1	5	—	—
<b>Total current regulatory assets</b>	<b>\$ 11</b>	<b>\$ 18</b>	<b>\$ 11</b>	<b>\$ 12</b>	<b>\$ —</b>	<b>\$ 6</b>



[Table of Contents](#)

	LKE		LG&E		KU	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
<b>Noncurrent Regulatory Assets:</b>						
Defined benefit plans	\$ 361	\$ 376	\$ 227	\$ 234	\$ 134	\$ 142
Storm costs	23	33	12	18	11	15
Unamortized loss on debt	24	25	15	16	9	9
Interest rate swaps	18	26	18	26	—	—
Terminated interest rate swaps	88	92	52	54	36	38
AROs	267	234	74	61	193	173
Other	6	9	2	2	4	7
<b>Total noncurrent regulatory assets</b>	<b>\$ 787</b>	<b>\$ 795</b>	<b>\$ 400</b>	<b>\$ 411</b>	<b>\$ 387</b>	<b>\$ 384</b>
<b>Current Regulatory Liabilities:</b>						
Environmental cost recovery	\$ 22	\$ 1	\$ 11	\$ —	\$ 11	\$ 1
Fuel adjustment clause	7	3	—	—	7	3
Gas line tracker	2	3	2	3	—	—
TCJA customer refund (c)	26	—	12	—	14	—
Other	7	2	1	—	6	2
<b>Total current regulatory liabilities</b>	<b>\$ 64</b>	<b>\$ 9</b>	<b>\$ 26</b>	<b>\$ 3</b>	<b>\$ 38</b>	<b>\$ 6</b>
<b>Noncurrent Regulatory Liabilities:</b>						
Accumulated cost of removal of utility plant	\$ 678	\$ 677	\$ 280	\$ 282	\$ 398	\$ 395
Power purchase agreement - OVEC (d)	62	68	43	47	19	21
Net deferred taxes (e)	1,204	1,185	560	552	644	633
Defined benefit plans	33	27	—	—	33	27
Terminated interest rate swaps	72	74	36	37	36	37
Other	4	5	1	1	3	4
<b>Total noncurrent regulatory liabilities</b>	<b>\$ 2,053</b>	<b>\$ 2,036</b>	<b>\$ 920</b>	<b>\$ 919</b>	<b>\$ 1,133</b>	<b>\$ 1,117</b>

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

(b) Storm costs incurred in PPL Electric's territory from a March 2018 storm will be amortized from 2019 through 2021.

(c) Relates to estimated amounts owed to LG&E and KU customers as a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, effective January 1, 2018. Amounts owed will be distributed through the TCJA bill credit.

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

(e) Primarily relates to excess deferred taxes recorded as a result of the TCJA, which reduced the U.S. federal corporate income tax rate effective January 1, 2018, requiring deferred tax balances and the associated regulatory liabilities to be remeasured as of December 31, 2017. LG&E and KU began distributing amounts through the TCJA bill credit effective April 1, 2018.

(f) Relates to amounts owed to PPL Electric customers as a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, for the period of January 1, 2018 through June 30, 2018 which is not yet reflected in distribution customer rates. The distribution method back to customers of this liability must be proposed to the PUC at the earlier of May 2021 or PPL Electric's next rate case.

## Regulatory Matters

### Kentucky Activities

(PPL, LKE, LG&E and KU)

#### Rate Case Proceedings

On September 28, 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, respectively, at LG&E. The proposed base rate increases would result in an electricity rate increase of 6.9% at KU and



## [Table of Contents](#)

electricity and gas rate increases of 3% and 7.5%, respectively, at LG&E. As discussed in the "TCJA Impact on LG&E and KU Rates" section below, LG&E's and KU's applications seek to include applicable changes associated with the TCJA in the calculation of the proposed base rates and to terminate the TCJA bill credit mechanism when the new base rates go into effect.

New rates are expected to become effective on May 1, 2019. The applications are based on a forecasted test year of May 1, 2019 through April 30, 2020 with a requested return-on-equity of 10.42%. LG&E and KU cannot predict the outcome of these proceedings.

### *CPCN Filing*

On January 10, 2018, LG&E and KU filed an application for a CPCN with the KPSC requesting approval to implement Advanced Metering Systems across their Kentucky service territories, including gas operations for LG&E. The application projected completion in 2021 with estimated capital costs of \$166 million and \$155 million for LG&E and KU. On August 30, 2018, the KPSC issued an Order denying the CPCN for full deployment of the Advanced Metering Systems. The KPSC acknowledged the benefits of Advanced Metering Systems, expanded LG&E's and KU's Advanced Metering System pilot programs and encouraged LG&E and KU to consider other items to enhance the customer experience. This decision is not expected to have a significant impact on LG&E's and KU's results of operations.

### *TCJA Impact on LG&E and KU Rates*

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an Order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019 and thereafter until tax-reform related savings are reflected in changes in base rates. The estimated impact of the rate reduction represents approximately \$91 million in KU electricity revenues (\$70 million through the new bill credit and \$21 million through existing rate mechanisms), \$69 million in LG&E electricity revenues (\$49 million through the new bill credit and \$20 million through existing rate mechanisms) and \$17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019.

On March 20, 2018, the KPSC issued an Order approving, with certain modifications, the settlement agreement reached between LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General. The KPSC estimates that, pursuant to its modifications, electricity revenues would incorporate reductions of approximately \$108 million for KU (\$87 million through the new bill credit and \$21 million through existing rate mechanisms) and \$79 million for LG&E (\$59 million through the new bill credit and \$20 million through existing rate mechanisms). This represents \$27 million (\$17 million at KU and \$10 million at LG&E) in additional reductions from the amounts proposed by the settlement. The KPSC's modifications to the settlement include certain changes in assumptions or inputs used in assessing tax reform or calculating LG&E's and KU's electricity rates. LG&E gas rate reductions were not modified significantly from the amount included in the settlement agreement.

On March 26, 2018, LG&E and KU filed a petition for reconsideration and request for hearing with the KPSC, taking exception to the KPSC's modifications and the process, and also requested certain relief from implementing the amounts represented by the additional reductions until the matter is fully resolved. On March 28, 2018, the Office of the Attorney General filed a response to the petition and gave notice of its withdrawal from the settlement agreement.

On March 28, 2018, the KPSC issued an Order granting LG&E's and KU's request for reconsideration and amending its March 20, 2018 Order by suspending the approved rates, allowing LG&E and KU, on an interim basis, to return savings related to the TCJA at the rates agreed to in the January 29, 2018 settlement.

On September 28, 2018, the KPSC issued an Order on reconsideration, implementing rates reflecting electricity revenue reductions of \$101 million for KU (\$80 million through the new bill credit and \$21 million through existing rate mechanisms),



## Table of Contents

\$74 million for LG&E electricity revenues (\$54 million through the new bill credit and \$20 million through existing rate mechanisms) and \$16 million LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. This represents lower revenue reduction amounts than the March 20, 2018 Order of approximately \$13 million (\$7 million at KU and \$6 million at LG&E). LG&E and KU have been implementing interim partial rate reductions since April 2018, as authorized by the KPSC on March 28, 2018, and recording reserves up to the higher reduction amounts originally approved in the March 20, 2018 Order. The September 28, 2018 Order is not expected to have a material adverse impact on LG&E's and KU's financial condition or results of operations.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate. On March 22, 2018, KU reached a settlement agreement regarding its rate case in Virginia. New rates, inclusive of TCJA impacts, were effective June 1, 2018. The settlement also stipulates that actual tax savings for the five month period prior to new rates taking effect would be addressed through KU's annual information filing for calendar year 2018. On May 8, 2018, the VSCC approved the settlement agreement. The TCJA and rate case are not expected to have a significant impact on KU's financial condition or results of operations related to Virginia.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA on FERC-jurisdictional rates. LG&E and KU have not made any submission in response to the Notice of Inquiry, but do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

### *Gas Franchise (LKE and LG&E)*

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

On March 14, 2018, the KPSC issued an Order authorizing the franchise fee to be recovered only from LG&E's Louisville/Jefferson County customers in the franchise area. As a result, the franchise fee will continue to be zero in accordance with the terms of the August 2016, 5-year gas franchise agreement.

### *(PPL and PPL Electric)*

## Pennsylvania Activities

### *TCJA Impact on PPL Electric Rates*

On February 12, 2018, the PUC issued a Secretarial Letter requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order to allow time to determine the manner in which rates could be adjusted in response to the TCJA. The PUC issued another Temporary Rates Order on May 17, 2018 to address the impact of the TCJA and indicated that utilities without a currently pending general rate proceeding would receive a utility specific order. The PUC issued an Order specific to PPL Electric on May 17, 2018 which required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates to include a negative surcharge of 0.56%, which was based on PPL Electric's 2017 taxable income, to be effective July 1, 2018, and (b) to record a deferred regulatory liability to reflect the tax savings associated with the TCJA for the period January 1 through June 30, 2018. On June 8, 2018, PPL Electric submitted a petition to the PUC to increase the negative surcharge proposed in the May 17, 2018 Order from 0.56% to 7.05% to reflect the estimated 2018 tax savings associated with the TCJA. The PUC approved PPL Electric's petition on June 14, 2018 and PPL Electric filed a tariff on June 15, 2018 reflecting the increased negative surcharge. The estimated 2018 full year impact of the rate reduction is \$72 million in PPL Electric's operating revenues, of which \$39 million relates to the period January 1, 2018 through June 30, 2018 and was recorded as a noncurrent regulatory liability in the second quarter of 2018 to be distributed to customers pursuant to a future rate adjustment. The remaining \$33 million is the estimated impact for the period July 1, 2018 through December 31, 2018 and is being passed back to customers through the negative surcharge which began on July 1, 2018.



## Table of Contents

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. On March 16, 2018, PPL Electric filed a waiver request, pursuant to Rule 207(a)(5) of the Rules of Practice and Procedure of the FERC, to accelerate incorporation of the changes to the federal corporate income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA tax rate reduction to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23, 2018 and PPL Electric submitted its transmission formula rate, reflecting the TCJA rate reduction, on April 27, 2018. In addition, on May 21, 2018, PPL Electric, as part of a PJM Transmission Owners joint filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing requested guidance on how the reduction in accumulated deferred income taxes, resulting from the TCJA reduced federal corporate income tax rate, should be treated for ratemaking purposes. PPL Electric is currently awaiting FERC's decision on this matter. The changes, related to accumulated deferred income taxes impacting the transmission formula rate revenues, have not been significant since the new rate went into effect on June 1, 2018.

### Federal Matters

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

#### *FERC Transmission Rate Filing*

On August 3, 2018, LG&E and KU submitted an application 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 mitigation for certain horizontal market power concerns arising out of the 1998 merger for certain transmission service between MISO and LG&E and KU. The affected transmission customers are a limited number of municipal entities in Kentucky or Tennessee. The amounts at issue are generally waivers or credits for either LG&E and KU or for MISO transmission charges depending upon the direction of transmission service incurred by the municipalities. LG&E and KU estimate that such charges may average approximately \$22 million annually, depending upon actual transmission customer and market volumes, structures and prices, with such charges allocated according to LG&E's and KU's respective transmission system ownership ratio. 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. LG&E and KU currently receive recovery of such expenses in other rate mechanisms. LG&E and KU cannot predict the outcome of the proceeding, including any effects on their financial condition or results of operations.

#### *Transmission Customer Complaint*

On September 21, 2018, a transmission customer filed a complaint with the FERC against LG&E and KU alleging LG&E and KU have violated and continue to violate their obligations under an existing rate schedule to credit this customer for certain transmission charges from MISO. On October 11, 2018, LG&E and KU filed an answer to the complaint arguing such MISO transmission transactions are not covered by the rate schedule, and the amounts in question are not eligible for credits. LG&E and KU cannot predict the outcome of the proceeding, but believe that any potential required credits would be subject to rate recovery.

### **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 the three and nine months ended September 30, 2018, PPL Electric purchased \$334 million and \$1 billion of accounts receivable from alternate suppliers. During the three and nine months ended September 30, 2017, PPL Electric purchased \$324 million and \$968 million of accounts receivable from alternate suppliers.

## 8. Financing Activities

### Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and act as 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 agreement, which are reflected in "Long-term debt" on the Balance Sheets. The following credit facilities were in place at:

	Expiration Date	September 30, 2018				December 31, 2017	
		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)	Jan. 2023	£ 210	£ 154	£ —	£ 54	£ 148	£ —
Term Loan Facility (b)	Dec. 2018	130	130	—	—	—	—
WPD (South West)							
Syndicated Credit Facility	July 2021	245	—	—	245	—	—
WPD (East Midlands)							
Syndicated Credit Facility (c)	July 2021	300	93	—	207	180	—
WPD (West Midlands)							
Syndicated Credit Facility (d)	July 2021	300	50	—	250	120	—
Uncommitted Credit Facilities		130	—	4	126	—	4
Total U.K. Credit Facilities (e)		£ 1,315	£ 427	£ 4	£ 882	£ 448	£ 4
<b>U.S.</b>							
PPL Capital Funding							
Syndicated Credit Facility	Jan. 2023	\$ 950	\$ —	\$ 691	\$ 259	\$ —	\$ 230
Syndicated Credit Facility	Nov. 2018	300	—	—	300	—	—
Bilateral Credit Facility	Mar. 2019	100	—	20	80	—	18
Total PPL Capital Funding Credit Facilities		\$ 1,350	\$ —	\$ 711	\$ 639	\$ —	\$ 248
<b>PPL Electric</b>							
Syndicated Credit Facility	Jan. 2023	\$ 650	\$ —	\$ 1	\$ 649	\$ —	\$ 1
<b>LKE</b>							
Syndicated Credit Facility	Oct. 2018	\$ 75	\$ —	\$ —	\$ 75	\$ —	\$ —
<b>LG&amp;E</b>							
Syndicated Credit Facility	Jan. 2023	\$ 500	\$ —	\$ 176	\$ 324	\$ —	\$ 199
Term Loan Credit Facility	Oct. 2019	200	200	—	—	100	—
Total LG&E Credit Facilities		\$ 700	\$ 200	\$ 176	\$ 324	\$ 100	\$ 199



[Table of Contents](#)

	September 30, 2018					December 31, 2017		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
<b>KU</b>								
Syndicated Credit Facility	Jan. 2023	\$ 400	\$ —	\$ 128	\$ 272	\$ —	\$ 45	
Letter of Credit Facility	Oct. 2020	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 326	\$ 272	\$ —	\$ 243	

- (a) The amounts borrowed at September 30, 2018 and December 31, 2017 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 2.90% and 2.17%. The unused capacity reflects the amount borrowed in GBP of £156 million as of the date borrowed.
- (b) The amount borrowed at September 30, 2018 was a GBP-denominated borrowing which equated to \$168 million and bore interest at 1.97%.
- (c) The amounts borrowed at September 30, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$121 million and \$244 million and bore interest at 1.09% and 0.89%.
- (d) The amounts borrowed at September 30, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$65 million and \$162 million and bore interest at 1.12% and 0.89%.
- (e) At September 30, 2018, the unused capacity under the U.K. credit facilities was \$1.1 billion.

In October 2018, LKE's \$75 million credit facility expired. LKE increased its revolving line of credit with a PPL Energy Funding subsidiary by \$75 million to a limit of \$375 million. See Note 11 for additional information.

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

	September 30, 2018				December 31, 2017	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	2.38%	\$ 1,000	\$ 691	\$ 309	1.64%	\$ 230
PPL Electric		650	—	650		—
LG&E	2.34%	350	176	174	1.83%	199
KU	2.34%	350	128	222	1.97%	45
Total		\$ 2,350	\$ 995	\$ 1,355		\$ 474

(PPL Electric, LKE, and LG&E)

See Note 11 for discussion of intercompany borrowings.

**Long-term Debt**

(PPL)

In March 2018, WPD (South Wales) issued £30 million of 0.01% Index-linked Senior Notes due 2036. WPD (South Wales) received proceeds of £31 million, which equated to \$44 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

In May 2018, WPD (West Midlands) issued £30 million of 0.01% Index-linked Senior Notes due 2028. WPD (West Midlands) received proceeds of £31 million, which equated to \$41 million at the time of issuance, net of fees and including a premium. The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indenture. The proceeds were used for general corporate purposes.

In June 2018, PPL Capital Funding repaid the entire \$250 million principal amount of its 1.90% Senior Notes upon maturity.

## Table of Contents

In October 2018, WPD plc issued £350 million of 3.5% Senior Notes due 2026. WPD plc received proceeds of £346 million, which equated to \$456 million at the time of issuance, net of fees and a discount. The proceeds will be used for general corporate purposes.

*(PPL and PPL Electric)*

In June 2018, PPL Electric issued \$400 million of 4.15% First Mortgage Bonds due 2048. PPL Electric received proceeds of \$394 million, net of a discount and underwriting fees, which were used to repay short-term debt and for general corporate purposes.

*(PPL, LKE and LG&E)*

In March 2018, the County of Trimble, Kentucky remarketed \$28 million of Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2026 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.30% through their mandatory purchase date of September 1, 2021.

In May 2018, the County of Trimble, Kentucky remarketed \$35 million of Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.55% through their mandatory purchase date of May 3, 2021.

In May 2018, the County of Jefferson, Kentucky remarketed \$35 million of Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 2.55% through their mandatory purchase date of May 3, 2021.

*(LKE)*

In May 2018, LKE borrowed \$250 million from a PPL affiliate through the issuance of a 4% ten-year note due 2028. The proceeds were used to repay its outstanding notes payable to a PPL Energy Funding subsidiary. See Note 11 for additional information related to intercompany borrowings.

*(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 63.25 million shares of PPL common stock. Full settlement of these forward sale agreements will occur no later than November 2019. Upon any physical settlements of any forward sale agreement, PPL will issue and deliver to the applicable forward counterparty shares of its common stock in exchange for cash proceeds per share equal to the forward sale price. The forward sale price will be calculated based on an initial forward price of \$26.7057 per share reduced during the period the applicable forward contract is outstanding as specified in such forward sale agreement. PPL may, in certain circumstances, elect cash settlement or net share settlement for all or a portion of its rights or obligations under each forward sale agreement. The forward sale agreements are classified as equity transactions. PPL only receives proceeds and issues shares of common stock upon any settlements of the forward sale agreements. PPL intends to use net proceeds that it receives upon any settlement for general corporate purposes.

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. For the unsettled portion of the agreements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the Treasury Stock Method. 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. PPL issued 4.2 million shares of common stock and received gross proceeds of \$119 million for the nine months ended September 30, 2018.

**Distributions**

In August 2018, PPL declared a quarterly common stock dividend, payable October 1, 2018, of 41.0 cents per share (equivalent to \$1.64 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.

**9. Defined Benefits**

*(PPL, LKE and LG&E)*

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

	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>PPL</b>								
Service cost	\$ 15	\$ 17	\$ 21	\$ 20	\$ 46	\$ 49	\$ 63	\$ 57
Interest cost	39	42	46	45	117	126	140	132
Expected return on plan assets	(62)	(58)	(145)	(130)	(186)	(173)	(445)	(382)
Amortization of:								
Prior service cost	2	2	—	—	7	7	—	—
Actuarial loss	22	18	37	36	63	52	114	107
Net periodic defined benefit costs (credits) before settlements and special termination benefits	16	21	(41)	(29)	47	61	(128)	(86)
Settlements (a)	—	1	—	—	—	1	—	—
Special termination benefits (b)	—	—	—	—	—	1	—	—
Net periodic defined benefit costs (credits)	\$ 16	\$ 22	\$ (41)	\$ (29)	\$ 47	\$ 63	\$ (128)	\$ (86)

- (a) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$1 million and \$5 million for the three and nine months ended September 30, 2018 and \$5 million for the three and nine months ended September 30, 2017 was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.
- (b) Enhanced pension benefits offered to certain PPL Electric bargaining unit employees under a one-time voluntary retirement window offered as part of the new five year IBEW contract ratified in March 2017.

[Table of Contents](#)

	Pension Benefits			
	Three Months		Nine Months	
	2018	2017	2018	2017
<b>LKE</b>				
Service cost	\$ 6	\$ 6	\$ 18	\$ 18
Interest cost	16	17	48	51
Expected return on plan assets	(25)	(23)	(76)	(69)
Amortization of:				
Prior service cost	3	2	7	6
Actuarial loss (a)	8	8	26	23
Net periodic defined benefit costs (b)	\$ 8	\$ 10	\$ 23	\$ 29

- (a) As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with LKE's accounting policy and actuarial loss calculated using a 15-year amortization period was \$2 million and \$8 million for the three and nine months ended September 30, 2018 and \$3 million and \$8 million for the three and nine months ended September 30, 2017. This difference is recorded as a regulatory asset.
- (b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$1 million and \$5 million for the three and nine months ended September 30, 2018 and \$5 million for the three and nine months ended September 30, 2017 was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

	Pension Benefits			
	Three Months		Nine Months	
	2018	2017	2018	2017
<b>LG&amp;E</b>				
Service cost	\$ —	\$ —	\$ 1	\$ 1
Interest cost	3	3	9	9
Expected return on plan assets	(6)	(5)	(17)	(16)
Amortization of:				
Prior service cost	1	1	4	3
Actuarial loss (a)	2	3	5	7
Net periodic defined benefit costs (b)	\$ —	\$ 2	\$ 2	\$ 4

- (a) As a result of treatment approved by the KPSC, the difference between actuarial loss calculated in accordance with LG&E's accounting policy and actuarial loss calculated using a 15-year amortization period was \$1 million for the nine months ended September 30, 2018 and \$1 million and \$3 million for the three and nine months ended September 30, 2017. This difference is recorded as a regulatory asset.
- (b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$1 million and \$5 million for the three and nine months ended September 30, 2018 and \$5 million for the three and nine months ended September 30, 2017 was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2018	2017	2018	2017
<b>PPL</b>				
Service cost	\$ 1	\$ 2	\$ 5	\$ 6
Interest cost	5	5	15	17
Expected return on plan assets	(4)	(6)	(17)	(17)
Amortization of prior service cost	—	—	—	(1)
Amortization of actuarial loss	—	1	—	1
Net periodic defined benefit costs	\$ 2	\$ 2	\$ 3	\$ 6



	Other Postretirement Benefits			
	Three Months		Nine Months	
	2018	2017	2018	2017
<b>LKE</b>				
Service cost	\$ 1	\$ 1	\$ 3	\$ 3
Interest cost	2	2	6	6
Expected return on plan assets	(2)	(2)	(6)	(5)
Amortization of:				
Prior service cost	—	1	1	1
Actuarial gain	—	—	(1)	—
Net periodic defined benefit costs	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 5</u>

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

In addition to the specific plan it sponsors, LG&E is allocated costs of defined benefit plans sponsored by LKE. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE. LG&E and KU are also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 11 for additional information on costs allocated to LG&E and KU from LKS. These allocations are based on participation in those plans, which management believes are reasonable. For the periods ended September 30, PPL Services allocated the following net periodic defined benefit costs to PPL Electric, and LKE allocated the following net periodic defined benefit costs to LG&E and KU:

	Three Months		Nine Months	
	2018	2017	2018	2017
PPL Electric	\$ 5	\$ 6	\$ 12	\$ 19
LG&E	1	3	5	8
KU	1	2	3	7

*(All Registrants)*

The non-service cost components of net periodic defined benefit costs (credits) (interest cost, expected return on plan assets, amortization of prior service cost and amortization of actuarial gain and loss) are presented in "Other Income (Expense) - net" on the Statements of Income. See Note 12 for additional information.

## 10. Commitments and Contingencies

### Legal Matters

*(All Registrants)*

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

#### Claim by Former Affiliate (PPL)

On October 29, 2018, Talen Montana, LLC ("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, County of Lewis & Clark. On the same day, Talen Montana Retirement Plan and certain other creditors of Talen Montana filed a complaint against PPL and certain of its affiliates and current and former officers and directors in the Sixteenth Judicial District of the State of Montana, Rosebud County. Talen Montana became a wholly owned subsidiary of Talen Energy as a result of the June 2015 spinoff of PPL Energy Supply. Talen Energy has owned and operated Talen Montana's business since the spinoff. At the time of the spinoff, affiliates of Riverstone acquired a 35% ownership interest in Talen Energy. See Note 8 to the Consolidated Financial Statements in PPL's 2017 Form 10-K for a description of the 2015 spinoff of PPL Energy Supply. Riverstone subsequently acquired the remaining interests in Talen Energy in 2016.

## Table of Contents

The complaints allege that in 2014 PPL and its officers and directors improperly distributed \$733 million of the proceeds from the November 2014 sale of Talen Montana's (then PPL Montana's) hydroelectric generating facilities to PPL's subsidiaries. The complaints also allege that PPL and certain current and former officers and directors of PPL and its subsidiaries breached their fiduciary duties in connection with the 2014 distribution. PPL believes that the referenced 2014 distribution of proceeds was made in compliance with all applicable laws and that PPL Montana was solvent upon the 2014 distribution. Additionally, in the agreements entered into with respect to the spinoff, affiliates of Talen Energy and Riverstone definitively agreed that PPL was entitled to retain the proceeds from the November 2014 sale of PPL Montana's hydroelectric generating facilities. PPL believes that it has good and meritorious defenses to these claims and fully plans to vigorously defend against these actions. 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.

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

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky (U.S. District Court) alleging violations of the Clean Air Act, RCRA, and common law claims of nuisance, trespass and negligence. These plaintiffs seek injunctive relief and civil penalties, plus costs and attorney fees, for the alleged statutory violations. Under the common law claims, these plaintiffs seek monetary compensation and punitive damages for property damage and diminished property values for a class consisting of residents within four miles of the Cane Run plant, which retired three coal-fired units in 2015. In their individual capacities, these plaintiffs sought compensation for alleged adverse health effects. In July 2014, the court dismissed the RCRA claims and all but one Clean Air Act claim, but declined to dismiss the common law tort claims. In November 2016, the plaintiffs filed an amended complaint removing the personal injury claims and removing certain previously named plaintiffs. In February 2017, the U.S. District Court issued an Order dismissing PPL as a defendant and dismissing the final federal claim against LG&E. In April 2017, the U.S. District Court issued an Order declining to exercise supplemental jurisdiction on the state law claims and dismissed 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. Proceedings are currently underway regarding potential class certification, for which a decision may occur in late 2018 or in 2019. PPL, LKE and LG&E cannot predict the outcome of this matter and an estimate or range of possible losses cannot be determined.

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

On July 12, 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky (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. On December 28, 2017 the U.S. District Court issued an Order dismissing the Clean Water Act and RCRA complaints against KU in their entirety. On January 26, 2018, the plaintiffs appealed the dismissal Order to the U.S. Court of Appeals for the Sixth Circuit. The case has been briefed and oral argument was presented on August 2, 2018. On September 24, 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 and reversing its dismissal of the RCRA claims against KU and remanding the latter to the U.S. District Court. On October 9, 2018, KU filed a petition for rehearing to the U.S. Court of Appeals for the Sixth Circuit regarding the RCRA claims. 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 agreed Order with the Kentucky Energy and Environment Cabinet (KEEC). KU conducted sampling of Herrington Lake in late 2017 through mid-2018. A final report of KU's findings is expected to be submitted to the KEEC in 2019. KU believes that current and planned measures for the E.W. Brown plant, including closure of impoundments, cessation of certain discharges, and deployment of new discharge controls, are sufficient to ensure compliance with applicable requirements. However, until completion of the aquatic study and related assessments and issuance of regulatory determinations by the KEEC, PPL, LKE and KU are unable to determine whether additional remedial measures will be required at the E.W. Brown plant.

## [Table of Contents](#)

### **Regulatory Issues** *(All Registrants)*

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.

### **Environmental Matters**

*(All Registrants)*

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

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

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

#### Air

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

#### **NAAQS**

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



## Table of Contents

and sulfur dioxide. The established concentration levels for these six pollutants are known as NAAQS. Under the Clean Air Act, the EPA is required to reassess the NAAQS on a five-year schedule.

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

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

### *Ozone*

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

States are also obligated to address interstate transport issues associated with ozone standards through the establishment of "good neighbor" state implementation plans for those states that are found to contribute significantly to another state's non-attainment. As a result of a partial consent decree addressing claims regarding federal implementation, the EPA and several states, including Kentucky, have evaluated the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. On August 23, 2018, Kentucky submitted a proposed state implementation plan finding that no additional reductions beyond existing and planned controls set forth in Kentucky's existing State Implementation Plan are necessary to prevent Kentucky from contributing significantly to any other state's nonattainment. On September 14, 2018, the EPA announced its denial of petitions filed by Maryland and Delaware alleging that states including Kentucky and Pennsylvania contribute to nonattainment in the petitioning states. PPL, LKE, LG&E and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, or whether such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross-State Air Pollution Rule.

### *Sulfur Dioxide*

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

### *Climate Change*

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



## [Table of Contents](#)

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

Additionally, the March 2017 Executive Order directed the EPA to review its 2015 greenhouse gas rules for consistency with certain policy directives and suspend, revise, or rescind those rules as appropriate. The March 2017 Executive Order also directs rescission of specified guidance, directives, and prior Presidential actions regarding climate change. PPL, LKE, LG&E and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

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

### *The EPA's Rules under Section 111 of the Clean Air Act, including the EPA's Proposed Affordable Clean Energy Rule*

In 2015, the EPA finalized rules imposing GHG emission standards for both new and existing power plants and proposed a federal implementation plan that would apply to any states that failed to submit an acceptable state implementation plan to reduce GHG emissions on a state-by-state basis (the 2015 EPA Rules).

On August 21, 2018, the EPA proposed the Affordable Clean Energy Act (ACE) Rule as a replacement for the 2015 EPA Rules pertaining to existing sources. The EPA took this action following legal challenges to the 2015 EPA Rules, a stay of those rules by the U.S. Supreme Court, a March 2017 Executive Order requiring the EPA to review those rules and the EPA's October 2017 proposal to rescind the rules. The ACE Rule would give states broad latitude in establishing emission guidelines providing for plant-specific efficiency upgrades or "heat-rate improvements" that would reduce GHG emissions per unit of electricity generated. The ACE Rule proposes a list of "candidate technologies" that would be considered in establishing standards of performance at individual power plants. The ACE Rule also proposes new criteria for determining whether such efficiency projects would trigger New Source Review and thus be subject to more stringent emission controls.

In April 2014, the Kentucky General Assembly passed legislation limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with the 2015 EPA Rules, if enacted. The legislation provides that such state GHG performance standards will be based on emission reductions, efficiency measures and other improvements available at each power plant, rather than renewable energy, end-use energy efficiency, fuel switching and re-dispatch. These statutory restrictions are broadly consistent with the EPA's proposed ACE Rule.

LG&E and KU are monitoring developments at the state and federal level. Until the ACE Rule is finalized and the state determines implementation measures PPL, LKE, LG&E and KU cannot predict the potential impact, if any, on plant operations, future capital or operating costs. PPL, LKE, LG&E and KU believe that the costs, which could be significant, would be subject to rate recovery.

### *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 December 2018. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.



**Water/Waste**

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

**CCRs**

In April 2015, the EPA published its final rule regulating CCRs. CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The rule became effective in October 2015. It imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants in the United States and not closed. Under the rule, CCRs are regulated as non-hazardous under Subtitle D of RCRA and beneficial use of CCRs is allowed, with some restrictions. The rule's requirements for covered CCR impoundments and landfills include implementation of groundwater monitoring and commencement or completion of closure activities generally between three and ten years from certain triggering events. The rule requires posting of compliance documentation on a publicly accessible website. Industry groups, environmental groups, individual companies and others have filed legal challenges to the final rule, which are pending before the D.C. Circuit Court of Appeals. On March 1, 2018, the EPA proposed amendments to the CCR rule primarily relating to impoundment closure and remediation requirements. On July 30, 2018, the EPA published in the Federal Register a final rule extending the deadline for closure of certain impoundments to October 2020 and adopting substantive changes relating to certifications, suspensions of groundwater monitoring and groundwater protection standards for certain constituents. The EPA has announced that additional amendments to the rule will be proposed in late 2018. On August 21, 2018, the D.C. Circuit Court of Appeals vacated and remanded portions of the CCR rule including provisions allowing unlined impoundments to continue operating and exempting inactive impoundments at inactive plants from regulation. PPL, LKE, LG&E and KU are unable to predict the outcome of the ongoing 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 matters, effective May 2017, aimed at reflecting the requirements of the federal CCR rule. In May 2017, a resident adjacent to LG&E's and KU's Trimble County plant filed a lawsuit in Franklin County, Kentucky Circuit Court against the Kentucky Energy and Environmental Cabinet and LG&E seeking to invalidate the new rule. On January 31, 2018, the state court issued an opinion invalidating certain procedural elements of the new rule but finding the substantive requirements of the new rule to be consistent with those of the federal CCR rule. This ruling was not appealed by any party to the litigation and is now final. Accordingly, LG&E and KU presently operate their facilities under continuing permits authorized via the former program and do not currently anticipate material impacts as a result of the judicial ruling. Separately, in December 2016, federal legislation was enacted that authorized the EPA to approve equally protective state programs that would operate in lieu of the CCR rule. The Kentucky Energy and Environmental Cabinet has indicated it may propose rules under such authority in the future.

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. On January 26, 2018, KU filed an application requesting a CPCN and approval of amendments to the second phase of its compliance plan for the landfill at the E.W. Brown station. On July 9, 2018, the KPSC granted approval to KU for amendments to the second phase of its compliance plan for the landfill at the E.W. Brown station.

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 16 below and Note 19 in the Registrants' 2017 Form 10-K for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

**Clean Water Act**

Regulations under the federal Clean Water Act dictate permitting and mitigation requirements for facilities and construction projects in the United States. Many of those requirements relate to power plant operations, including requirements related to the treatment of pollutants in effluents prior to discharge, the temperature of effluent discharges and the location, design and construction of cooling water intake structures at generating facilities, standards intended to protect aquatic organisms that



## Table of Contents

become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and KU, which are subject to rate recovery.

Litigation is currently pending in various courts relating to whether Clean Water Act jurisdiction covers discharges of contaminated groundwater that reach surface water via a direct hydrologic connection. Courts in different jurisdictions have come to contrary conclusions in the past. On February 20, 2018, the EPA issued a notice requesting comment on the scope of discharges subject to regulation under the Clean Water Act. Specifically, the EPA seeks comments on whether Clean Water Act jurisdiction should cover discharges to groundwater that reach surface water via a direct hydrologic connection. Extending Clean Water Act jurisdiction to such discharges could potentially subject certain releases from CCR impoundments to additional permitting and remediation requirements. PPL, LKE, LG&E and KU are unable to predict the future regulatory developments or potential impacts on current LG&E and KU compliance plans.

### *ELGs*

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

### *Seepages and Groundwater Infiltration*

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. LG&E and KU cannot currently estimate a possible loss or range of possible losses related to this matter.

### *(All Registrants)*

### *Other Issues*

In June 2016, the "Frank Lautenberg Chemical Safety Act" took effect as an amendment to the Toxic Substance Control Act (TSCA). The Act made no changes to the pre-existing TSCA rules as it pertains to polychlorinated biphenyls (PCB). The EPA continues to reassess its PCB regulations as part of the 2010 Advanced Notice of Proposed Rulemaking (ANPRM). The EPA's ANPRM rulemaking is to occur in two phases. Only the second part of the rule is applicable to PPL operations. This part of the rule relates to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces. Although the first rulemaking will not directly affect the Registrants' operations, it may indicate certain approaches or principles to occur in the later rulemaking which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. Should such a phase-out be required, the costs, which are subject to rate recovery, could be significant. Currently, the EPA is planning to undertake the second phase of the rulemaking later in 2018.

## Table of Contents

### Superfund and Other Remediation

PPL Electric, LG&E and KU are potentially responsible for investigating, responding to agency inquiries, implementing various preventative measures, and/or remediating contamination under programs other than those described in the sections above. These include a number of former coal gas manufacturing plants in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. To date, the costs of these sites have not been significant.

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

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

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

From time to time, PPL's subsidiaries in the United States undertake testing, monitoring or remedial action in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiate with the EPA and state and local agencies regarding actions necessary 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.

As of September 30, 2018 and December 31, 2017, PPL Electric had a recorded liability of \$11 million and \$10 million representing its best estimate of the probable loss incurred to remediate the sites noted in this section. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

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.

### **Other**

#### Labor Union Agreements

*(LKE and KU)*

KU has 68 employees that are represented by the IBEW labor union. In August 2018, KU and the IBEW ratified a three-year labor agreement through August 2021. The agreement includes a wage reopener in 2020. The terms of the new labor agreement are not expected to have a significant impact on the financial results of LKE or KU.



## Table of Contents

### Separation Benefits

*(PPL and PPL Electric)*

In June 2018, PPL EU Services announced it was reorganizing its IT organization into the following new areas: planning, operations, data and information management and IT transformation. Organizational plans and staffing selections for the new IT organization were substantially completed in the third quarter of 2018 which reduced the number of contractors and PPL EU Services' employees in IT. Affected employees had the option of joining a managed services vendor, applying for a newly created position in IT or opting for severance. As a result, for the nine months ended September 30, 2018, estimated charges for separation benefits of \$6 million, which were primarily allocated to PPL Electric, relating to 86 displaced PPL EU Services' IT employees, was recorded in "Other operation and maintenance" on the Statement of Income and in "Other current liabilities" on the Balance Sheet. The separation benefits include cash severance compensation, lump sum COBRA reimbursement payments, outplacement services and accelerated stock award vesting which are expected to be primarily paid out over various dates into 2019.

### 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 September 30, 2018. "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." The total recorded liability at September 30, 2018 was \$6 million for PPL and not significant for LKE. The total recorded liability at December 31, 2017 was \$17 million for PPL and \$11 million for LKE. 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.

	<u>Exposure at</u> <u>September 30, 2018</u>	<u>Expiration</u> <u>Date</u>
<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)	2020
WPD guarantee of pension and other obligations of unconsolidated entities	81 (c)	
<b><u>PPL Electric</u></b>		
Guarantee of inventory value	15 (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 guarantee of shortfall related to OVEC	(f)	

(a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum



## Table of Contents

exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.

- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At September 30, 2018, 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 has title to the inventory, however, upon termination of the contracts, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold.
- (e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. 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.
- (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 \$114 million at September 30, 2018, consisting of LG&E's share of \$79 million and KU's share of \$35 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" in Note 13 in PPL's, LKE's, LG&E's and KU's 2017 Form 10-K for additional information on the OVEC power purchase contract.

In March 2018, a sponsor with a pro-rata share of certain OVEC obligations of 4.85% filed for bankruptcy under Chapter 11 and, in August 2018, received a rejection Order for the OVEC power purchase contract in the bankruptcy proceeding. OVEC and certain sponsors are appealing this action, in addition to pursuing appropriate rejection claims in the bankruptcy proceeding. 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 proceedings and any other potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

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

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

## 11. Related Party Transactions

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

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

[Table of Contents](#)

	Three Months		Nine Months	
	2018	2017	2018	2017
PPL Electric from PPL Services	\$ 14	\$ 43	\$ 45	\$ 138
LKE from PPL Services	5	4	19	15
PPL Electric from PPL EU Services	34	15	110	48
LG&E from LKS	36	38	113	120
KU from LKS	42	43	127	134

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 revolving line of credit with a PPL Electric subsidiary. In June 2018, the revolving line of credit was increased by \$250 million and the limit as of September 30, 2018 was \$650 million. No balance was outstanding at September 30, 2018 and December 31, 2017. The interest rates on borrowings are equal to one-month LIBOR plus a spread.

#### *(LKE)*

LKE maintains a \$300 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. In October 2018, the revolving line of credit was increased by \$75 million to a limit of \$375 million. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At September 30, 2018 and December 31, 2017, \$80 million and \$225 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rates on the outstanding borrowings at September 30, 2018 and December 31, 2017 were 3.61% and 2.87%.

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 September 30, 2018 and December 31, 2017. The interest rate on the loan is based on the PPL affiliates credit rating and equal to one-month LIBOR plus a spread.

LKE maintains a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At September 30, 2018 and December 31, 2017, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was \$4 million and \$11 million for the three and nine months ending September 30, 2018 and 2017.

In May 2018, LKE borrowed \$250 million from a PPL affiliate through the issuance of a 4% ten-year note due 2028 with interest due in May and November. At September 30, 2018, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. The proceeds were used to repay its outstanding notes payable with a PPL Energy Funding subsidiary. Interest expense on this note was \$3 million and \$4 million for the three and nine months ending September 30, 2018.

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

See Note 9 for discussions regarding intercompany allocations associated with defined benefits.

See Note 10 for discussions regarding separation benefits.

[Table of Contents](#)

**12. Other Income (Expense) - net**

*(PPL)*

The details of "Other Income (Expense) - net" for the periods ended September 30, were:

	Three Months		Nine Months	
	2018	2017	2018	2017
Other Income				
Economic foreign currency exchange contracts (Note 14)	\$ 40	\$ (81)	\$ 92	\$ (237)
Defined benefit plans - non-service credits (Note 9)	61	41	195	123
Interest income	3	1	5	2
AFUDC - equity component	5	5	15	11
Miscellaneous	2	2	3	11
Total Other Income	111	(32)	310	(90)
Other Expense				
Charitable contributions	1	1	6	6
Miscellaneous	4	2	7	16
Total Other Expense	5	3	13	22
Other Income (Expense) - net	\$ 106	\$ (35)	\$ 297	\$ (112)

*(PPL Electric)*

The details of "Other Income (Expense) - net" for the periods ended September 30, were:

	Three Months		Nine Months	
	2018	2017	2018	2017
Other Income				
AFUDC - equity component	\$ 5	\$ 5	\$ 15	\$ 11
Defined benefit plans - non-service credits (Note 9)	1	—	4	—
Miscellaneous	—	—	1	—
Total Other Income	6	5	20	11
Other Expense				
Charitable contributions	1	1	2	2
Miscellaneous	—	—	—	1
Total Other Expense	1	1	2	3
Other Income (Expense) - net	\$ 5	\$ 4	\$ 18	\$ 8

**13. Fair Value Measurements**

*(All Registrants)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. During the three and nine months ended September 30, 2018 and 2017, there were no transfers between Level 1 and Level 2. See Note 1 in each Registrant's 2017 Form 10-K for information on the levels in the fair value hierarchy.

**Recurring Fair Value Measurements**

The assets and liabilities measured at fair value were:



[Table of Contents](#)

	September 30, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>PPL</b>								
Assets								
Cash and cash equivalents	\$ 842	\$ 842	\$ —	\$ —	\$ 485	\$ 485	\$ —	\$ —
Restricted cash and cash equivalents (a)	22	22	—	—	26	26	—	—
Special use funds (a)	63	63	—	—	—	—	—	—
Price risk management assets (b):								
Foreign currency contracts	174	—	174	—	163	—	163	—
Cross-currency swaps	123	—	123	—	101	—	101	—
<b>Total price risk management assets</b>	<b>297</b>	<b>—</b>	<b>297</b>	<b>—</b>	<b>264</b>	<b>—</b>	<b>264</b>	<b>—</b>
<b>Total assets</b>	<b>\$ 1,224</b>	<b>\$ 927</b>	<b>\$ 297</b>	<b>\$ —</b>	<b>\$ 775</b>	<b>\$ 511</b>	<b>\$ 264</b>	<b>\$ —</b>
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 19	\$ —	\$ 19	\$ —	\$ 26	\$ —	\$ 26	\$ —
Foreign currency contracts	30	—	30	—	148	—	148	—
<b>Total price risk management liabilities</b>	<b>\$ 49</b>	<b>\$ —</b>	<b>\$ 49</b>	<b>\$ —</b>	<b>\$ 174</b>	<b>\$ —</b>	<b>\$ 174</b>	<b>\$ —</b>
<b>PPL Electric</b>								
Assets								
Cash and cash equivalents	\$ 414	\$ 414	\$ —	\$ —	\$ 49	\$ 49	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
<b>Total assets</b>	<b>\$ 416</b>	<b>\$ 416</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 51</b>	<b>\$ 51</b>	<b>\$ —</b>	<b>\$ —</b>
<b>LKE</b>								
Assets								
Cash and cash equivalents	\$ 29	\$ 29	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
<b>Total assets</b>	<b>\$ 29</b>	<b>\$ 29</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 30</b>	<b>\$ 30</b>	<b>\$ —</b>	<b>\$ —</b>
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 19	\$ —	\$ 19	\$ —	\$ 26	\$ —	\$ 26	\$ —
<b>Total price risk management liabilities</b>	<b>\$ 19</b>	<b>\$ —</b>	<b>\$ 19</b>	<b>\$ —</b>	<b>\$ 26</b>	<b>\$ —</b>	<b>\$ 26</b>	<b>\$ —</b>
<b>LG&amp;E</b>								
Assets								
Cash and cash equivalents	\$ 11	\$ 11	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
<b>Total assets</b>	<b>\$ 11</b>	<b>\$ 11</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 15</b>	<b>\$ 15</b>	<b>\$ —</b>	<b>\$ —</b>
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 19	\$ —	\$ 19	\$ —	\$ 26	\$ —	\$ 26	\$ —
<b>Total price risk management liabilities</b>	<b>\$ 19</b>	<b>\$ —</b>	<b>\$ 19</b>	<b>\$ —</b>	<b>\$ 26</b>	<b>\$ —</b>	<b>\$ 26</b>	<b>\$ —</b>

[Table of Contents](#)

	September 30, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>KU</b>								
<b>Assets</b>								
Cash and cash equivalents	\$ 18	\$ 18	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
<b>Total assets</b>	<b>\$ 18</b>	<b>\$ 18</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 15</b>	<b>\$ 15</b>	<b>\$ —</b>	<b>\$ —</b>

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

**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. The funds are invested primarily 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 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.

	September 30, 2018		December 31, 2017	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 20,254	\$ 23,023	\$ 20,195	\$ 23,783
PPL Electric	3,693	3,899	3,298	3,769
LKE	5,501	5,783	5,159	5,670
LG&E	1,808	1,879	1,709	1,865
KU	2,320	2,467	2,328	2,605

- (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.



## 14. 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*

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



## [Table of Contents](#)

- 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 in PPL's 2017 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

### *Equity Securities Price Risk*

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

### **Credit Risk**

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

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

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

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

### **Master Netting Arrangements** *(PPL, LKE, 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 \$25 million obligation to return cash collateral under master netting arrangements at September 30, 2018 and a \$20 million obligation to return cash collateral under master netting arrangements at December 31, 2017.

PPL had no obligation to post cash collateral under master netting arrangements at September 30, 2018 and December 31, 2017.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at September 30, 2018 and December 31, 2017.

LKE, LG&E and KU had no cash collateral posted under master netting arrangements at September 30, 2018 and December 31, 2017.

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

## Table of Contents

in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

### Cash Flow Hedges (PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At September 30, 2018, PPL held an aggregate notional value in interest rate swap contracts of £75 million (approximately \$97 million based on spot rates) that mature in 2026 to hedge the interest payments of WPD plc's October 2018 debt issuance.

For the three and nine months ended September 30, 2018 and 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives.

At September 30, 2018, 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.

For the three and nine months ended September 30, 2018 and 2017, PPL had no hedge ineffectiveness associated with cross-currency interest rate swap derivatives.

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

For the three and nine months ended September 30, 2018, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges. For the three and nine months ended September 30, 2017, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At September 30, 2018, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

### Economic Activity (PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At September 30, 2018, 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 September 30, 2018.

At September 30, 2018 and December 31, 2017, PPL had \$30 million and \$22 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.



[Table of Contents](#)

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At September 30, 2018, the total exposure hedged by PPL was approximately £1.8 billion (approximately \$2.5 billion based on contracted rates). These contracts have termination dates ranging from October 2018 through October 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 September 30, 2018 and December 31, 2017.

See Note 1 in each Registrant's 2017 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

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

	September 30, 2018				December 31, 2017			
	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	—	—	—	4	—	—	—
Foreign currency contracts	—	—	86	22	—	—	45	67
Total current	5	—	86	26	4	—	45	71
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	15	—	—	—	22
Cross-currency swaps (b)	118	—	—	—	97	—	—	—
Foreign currency contracts	—	—	88	8	—	—	118	81
Total noncurrent	118	—	88	23	97	—	118	103
Total derivatives	\$ 123	\$ —	\$ 174	\$ 49	\$ 101	\$ —	\$ 163	\$ 174

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

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the periods ended September 30, 2018.



Table of Contents

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ —	\$ —	Interest expense	\$ (2)	\$ —	\$ (6)	\$ —
Cross-currency swaps	27	26	Interest expense	1	—	1	—
			Other income (expense) - net	18	—	30	—
Total	\$ 27	\$ 26		\$ 17	\$ —	\$ 25	\$ —
Net Investment Hedges:							
Foreign currency contracts	\$ —	\$ 11					

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Nine Months
Foreign currency contracts	Other income (expense) - net	\$ 40	\$ 92
Interest rate swaps	Interest expense	(1)	(4)
	Total	\$ 39	\$ 88

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

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

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

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

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

[Table of Contents](#)

(LKE and LG&E)

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

	September 30, 2018		December 31, 2017	
	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	—	15	—	22
Total noncurrent	—	15	—	22
Total derivatives	\$ —	\$ 19	\$ —	\$ 26

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended September 30, 2018.

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Income on Derivatives			
Interest rate swaps	Interest expense		\$ (1)	\$ (4)
Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Regulatory Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ 2	\$ 7

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

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Income on Derivatives			
Interest rate swaps	Interest expense		\$ (1)	\$ (4)
Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months	Nine Months
	Regulatory Assets			
Interest rate swaps	Regulatory assets - noncurrent		\$ 1	\$ 2

(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.



[Table of Contents](#)

	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
<b>September 30, 2018</b>								
<b>Treasury Derivatives</b>								
PPL	\$ 297	\$ 28	\$ 25	\$ 244	\$ 49	\$ 28	\$ —	\$ 21
LKE	—	—	—	—	19	—	—	19
LG&E	—	—	—	—	19	—	—	19
<b>December 31, 2017</b>								
<b>Treasury Derivatives</b>								
PPL	\$ 264	\$ 107	\$ 20	\$ 137	\$ 174	\$ 107	\$ —	\$ 67
LKE	—	—	—	—	26	—	—	26
LG&E	—	—	—	—	26	—	—	26

**Credit Risk-Related Contingent Features**

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

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

*(PPL, LKE and LG&E)*

At September 30, 2018, 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	\$ 8	\$ 6	\$ 6
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)	8	6	6

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



## 15. Asset Retirement Obligations

(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 10 for information on the CCR rule. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with 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.

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

	PPL	LKE	LG&E	KU
Balance at December 31, 2017	\$ 397	\$ 356	\$ 121	\$ 235
Accretion	14	13	5	8
Obligations incurred	8	8	—	8
Effect of foreign exchange rates	(2)	—	—	—
Changes in estimated timing or cost	(6)	(14)	(2)	(12)
Obligations settled	(46)	(46)	(17)	(29)
Balance at September 30, 2018	<u>\$ 365</u>	<u>\$ 317</u>	<u>\$ 107</u>	<u>\$ 210</u>

## 16. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

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

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
<b>PPL</b>						
<b>June 30, 2018</b>	\$ (1,223)	\$ (21)	\$ —	\$ (7)	\$ (2,244)	\$ (3,495)
Amounts arising during the period	(187)	22	—	—	(8)	(173)
Reclassifications from AOCI	—	(14)	—	—	34	20
Net OCI during the period	(187)	8	—	—	26	(153)
<b>September 30, 2018</b>	<u>\$ (1,410)</u>	<u>\$ (13)</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (2,218)</u>	<u>\$ (3,648)</u>
<b>December 31, 2017</b>						
<b>December 31, 2017</b>	\$ (1,089)	\$ (13)	\$ —	\$ (7)	\$ (2,313)	\$ (3,422)
Amounts arising during the period	(321)	21	—	(1)	(9)	(310)
Reclassifications from AOCI	—	(21)	—	1	104	84
Net OCI during the period	(321)	—	—	—	95	(226)
<b>September 30, 2018</b>	<u>\$ (1,410)</u>	<u>\$ (13)</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (2,218)</u>	<u>\$ (3,648)</u>
<b>June 30, 2017</b>						
<b>June 30, 2017</b>	\$ (1,420)	\$ (13)	\$ —	\$ (7)	\$ (2,083)	\$ (3,523)
Amounts arising during the period	(12)	1	—	—	(3)	(14)
Reclassifications from AOCI	—	—	—	—	34	34
Net OCI during the period	(12)	1	—	—	31	20
<b>September 30, 2017</b>	<u>\$ (1,432)</u>	<u>\$ (12)</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (2,052)</u>	<u>\$ (3,503)</u>

[Table of Contents](#)

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
<b>December 31, 2016</b>	\$ (1,627)	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
Amounts arising during the period	195	(29)	—	—	(14)	152
Reclassifications from AOCI	—	24	1	1	97	123
Net OCI during the period	195	(5)	1	1	83	275
<b>September 30, 2017</b>	<b>\$ (1,432)</b>	<b>\$ (12)</b>	<b>\$ —</b>	<b>\$ (7)</b>	<b>\$ (2,052)</b>	<b>\$ (3,503)</b>

**LKE**

<b>June 30, 2018</b>	\$ —	\$ (8)	\$ (78)	\$ (86)
Reclassifications from AOCI	—	1	1	2
Net OCI during the period	—	1	1	2
<b>September 30, 2018</b>	<b>\$ —</b>	<b>\$ (7)</b>	<b>\$ (77)</b>	<b>\$ (84)</b>

<b>December 31, 2017</b>	\$ —	\$ (9)	\$ (79)	\$ (88)
Reclassifications from AOCI	—	2	2	4
Net OCI during the period	—	2	2	4
<b>September 30, 2018</b>	<b>\$ —</b>	<b>\$ (7)</b>	<b>\$ (77)</b>	<b>\$ (84)</b>

<b>June 30, 2017</b>	\$ —	\$ (7)	\$ (70)	\$ (77)
Amounts arising during the period	—	—	(1)	(1)
Reclassifications from AOCI	—	—	1	1
Net OCI during the period	—	—	—	—
<b>September 30, 2017</b>	<b>\$ —</b>	<b>\$ (7)</b>	<b>\$ (70)</b>	<b>\$ (77)</b>

<b>December 31, 2016</b>	\$ (1)	\$ (8)	\$ (61)	\$ (70)
Amounts arising during the period	—	—	(12)	(12)
Reclassifications from AOCI	1	1	3	5
Net OCI during the period	1	1	(9)	(7)
<b>September 30, 2017</b>	<b>\$ —</b>	<b>\$ (7)</b>	<b>\$ (70)</b>	<b>\$ (77)</b>

(PPL)

The following table presents PPL's gains (losses) and related income taxes for reclassifications from AOCI for the periods ended September 30.

Details about AOCI	Three Months		Nine Months		Affected Line Item on the Statements of Income
	2018	2017	2018	2017	
Qualifying derivatives					
Interest rate swaps	\$ (2)	\$ (2)	\$ (6)	\$ (7)	Interest Expense
Cross-currency swaps	18	2	30	(24)	Other Income (Expense) - net
	1	1	1	1	Interest Expense
Total Pre-tax	17	1	25	(30)	
Income Taxes	(3)	(1)	(4)	6	
Total After-tax	14	—	21	(24)	



[Table of Contents](#)

Details about AOCI	Three Months		Nine Months		Affected Line Item on the Statements of Income
	2018	2017	2018	2017	
Equity investees' AOCI	—	—	—	(1)	Other Income (Expense) - net
<b>Total Pre-tax</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1)</b>	
Income Taxes	—	—	—	—	
<b>Total After-tax</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1)</b>	
<b>Defined benefit plans</b>					
Prior service costs (a)	(1)	(1)	(2)	(2)	
Net actuarial loss (a)	(42)	(44)	(130)	(125)	
<b>Total Pre-tax</b>	<b>(43)</b>	<b>(45)</b>	<b>(132)</b>	<b>(127)</b>	
<b>Income Taxes</b>	<b>9</b>	<b>11</b>	<b>27</b>	<b>29</b>	
<b>Total After-tax</b>	<b>(34)</b>	<b>(34)</b>	<b>(105)</b>	<b>(98)</b>	
Total reclassifications during the period	\$ (20)	\$ (34)	\$ (84)	\$ (123)	

(a) These AOCI components are included in the computation of net periodic defined benefit cost. See Note 9 for additional information.

**17. New Accounting Guidance Pending Adoption**

*(All Registrants)*

Accounting for Leases

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

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

The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition method with transition applied either retrospectively to each prior reporting period presented in the financial statements or as of the beginning of the period of adoption. The standard also provides for certain practical expedients. One of these practical expedients allows entities to elect to (1) not reassess whether existing contracts contain leases, (2) carry forward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases. In January 2018, the FASB also issued additional guidance that provides for a practical expedient that allows entities to elect to not evaluate land easements as leases that exist or expired before the adoption date and were not previously accounted for as leases under current lease guidance. The Registrants plan to elect these practical expedients.

The Registrants are currently assessing the impact of adopting this guidance and will adopt this standard as of the beginning of the period adopted, which will be January 1, 2019. Key implementation activities in process of being completed include identifying and implementing new controls and processes and compiling the required disclosure information. The Registrants expect an increase in assets and liabilities, which are still being quantified, but do not expect an impact to the Statements of Cash Flows or Statements of Income. Additional qualitative and quantitative disclosures around the nature of the Registrants' leasing activity and information surrounding the amount, timing and uncertainty of cash flows arising from leases will also be provided upon adoption.

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.



## Table of Contents

The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under current GAAP.

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

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

### Improvements to Accounting for Hedging Activities

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

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

The adoption of this guidance requires additional disclosures around the income statement impacts of hedging activities as well as removing disclosures related to ineffectiveness. Other impacts of adopting this guidance are not expected to be material. The Registrants will adopt this guidance effective January 1, 2019.

### 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.

For public business entities, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. This standard must be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.

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

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

### Simplifying the Test for Goodwill Impairment

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

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

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

[Table of Contents](#)

*(PPL and LKE)*

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued accounting guidance that gives entities the option to reclassify tax effects stranded within AOCI as a result of the TCJA to retained earnings. The reclassification applies only to those stranded tax effects arising from the TCJA enactment. Certain disclosures related to the stranded tax effects, including a description of the accounting policy for releasing income tax effects from AOCI, are required.

For all entities, this guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized.

The adoption of this guidance will result in PPL and LKE reclassifying \$50 million and \$18 million of deferred tax effects (primarily related to pension and other post-retirement benefits) stranded in AOCI as a result of the TCJA to retained earnings. The Registrants are assessing the period in which they will adopt this guidance.

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

*(All Registrants)*

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

The following should be read in conjunction with the Registrants' Condensed Consolidated Financial Statements and the accompanying Notes and with the Registrants' 2017 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

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

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.
- "Results of Operations" for all Registrants includes a "Statement of Income Analysis" which discusses significant changes in principal line items on the Statements of Income, comparing the three and nine months ended September 30, 2018 with the same periods in 2017. 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 "2018 Outlook" discussion identifies key factors expected to impact 2018 earnings. For PPL Electric, LKE, LG&E and KU, a summary of earnings and adjusted gross margins is also provided.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of the Registrants' liquidity positions and credit profiles. This section also includes a discussion of rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.

**Overview**

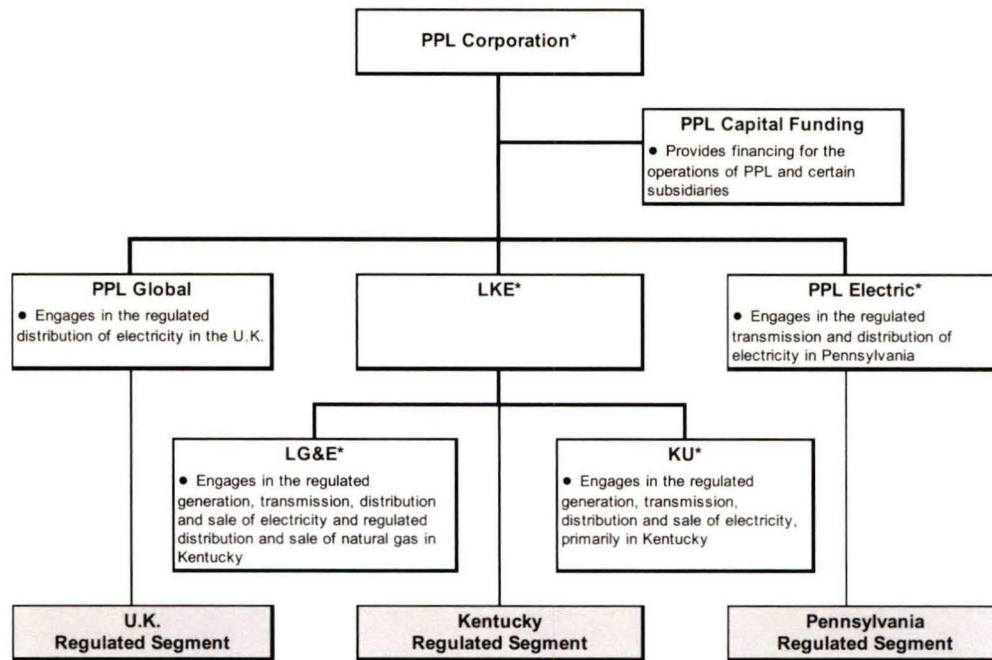
**Introduction**

*(PPL)*

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

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





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

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

*(PPL Electric)*

PPL Electric, headquartered in Allentown, Pennsylvania, is a wholly owned subsidiary of PPL 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.

*(LKE)*

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

*(LG&E)*

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

*(KU)*

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

## [Table of Contents](#)

a public utility by the KPSC, 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 Virginia customers under the Old Dominion Power name and its Kentucky and Tennessee customers under the KU name.

### **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 provides strong earnings and dividend growth potential that will create significant value for its shareowners and positions PPL well for continued growth and success.

PPL's strategy 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 our 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, 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.

Rate base growth in the domestic utilities is expected to result in earnings growth for the foreseeable future. RAV growth is expected in the U.K. Regulated segment during the RIIO-ED1 price control period, which ends on March 31, 2023, and to result in earnings growth in 2018 through at least 2020. See "Item 1. Business - Segment Information - U.K. Regulated Segment" in PPL's 2017 Form 10-K for additional information on RIIO-ED1.

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

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. 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 we operate (U.K., U.S. federal and state). This is supported by our strong culture of integrity and delivering on



## [Table of Contents](#)

commitments to customers, regulators and shareowners, and a commitment to continue to improve our customer service, reliability and operational efficiency.

### **Financial and Operational Developments**

#### *Equity Forward Contracts (PPL)*

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 63.25 million shares of PPL common stock. Full settlement of these forward sale agreements will occur no later than November 2019. The forward sale agreements are classified as equity transactions. PPL only receives proceeds and issues shares of common stock upon any settlements of the forward sale agreements. PPL intends to use net proceeds that it receives upon any settlements for general corporate purposes.

In September 2018, PPL settled a portion of the initial forward sale agreements by issuing 20 million shares of PPL common stock, and received net cash proceeds of \$520 million. For the unsettled portion of the agreements, the only impact to the financial statements is the inclusion of incremental shares within the calculation of diluted EPS using the Treasury Stock Method.

See Note 8 to the Financial Statements for additional information.

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

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 have 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 is 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. See Note 6 to the Financial Statements for the final amounts reported in PPL's 2017 federal income tax return, provisional adjustment amounts for the year ended December 31, 2017, the related measurement period adjustments and the resulting tax impact for the three and nine months ended September 30, 2018.

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 is complete as of September 30, 2018 with respect to the three items discussed above. The Registrants continue to analyze the impact of the TCJA on the deductibility of executive compensation awarded on or before November 2, 2017. The Registrants do not currently anticipate a material change from what was reflected in the December 31, 2017 financial statements and expect to record the impact, if any, of changes in the deductibility of executive compensation in the fourth quarter of 2018.

#### *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. LKE recognized a deferred tax charge of \$9 million



## [Table of Contents](#)

in the second quarter of 2018 primarily associated with the remeasurement of non-regulated accumulated deferred income tax balances.

As indicated in Note 1 in the Registrants' 2017 Form 10-K, 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 may result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In the second quarter of 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 a separate regulatory proceeding, LG&E and KU have requested to begin returning state excess deferred income taxes to customers in conjunction with the 2018 Kentucky base rate case, which was filed on September 28, 2018. See Note 7 for additional information related to the rate case proceedings. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

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

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

PPL has executed hedges to mitigate the foreign exchange risk to the Company's U.K. earnings. As of October 26, 2018, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2018 at an average rate of \$1.31 per GBP, 100% hedged for 2019 at an average rate of \$1.39 per GBP and 50% hedged for 2020 at an average rate of \$1.49 per GBP.

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

### *Regulatory Requirements*

#### *(All Registrants)*

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

### *TCJA Impact on LG&E and KU Rates (PPL, LKE, LG&E and KU)*

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. submitted a complaint with the KPSC against LG&E and KU, as well as other utility companies in Kentucky, alleging that their respective rates would no longer be fair, just and reasonable following the enactment of the TCJA reducing the federal corporate tax rate from 35% to 21%. The complaint requested the KPSC to issue an Order requiring LG&E and KU to begin deferring, as of January 1, 2018, the revenue requirement effect of all income tax expense savings resulting from the federal corporate income tax reduction, including the amortization of excess deferred income taxes by recording those savings in a regulatory liability account and establishing a process by which the federal corporate income tax savings will be passed back to customers.

On January 29, 2018, LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General reached a settlement agreement to commence returning savings related to the TCJA to their customers through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism from April 1, 2018 through April 30, 2019 and thereafter until tax-reform related savings are reflected in changes in base rates. The estimated impact of the rate reduction represents approximately \$91 million in KU electricity revenues (\$70 million through the new bill credit and \$21



## [Table of Contents](#)

million through existing rate mechanisms), \$69 million in LG&E electricity revenues (\$49 million through the new bill credit and \$20 million through existing rate mechanisms) and \$17 million in LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019.

On March 20, 2018, the KPSC issued an Order approving, with certain modifications, the settlement agreement reached between LG&E, KU, Kentucky Industrial Utility Customers, Inc. and the Office of the Attorney General. The KPSC estimates that, pursuant to its modifications, electricity revenues would incorporate reductions of approximately \$108 million for KU (\$87 million through the new bill credit and \$21 million through existing rate mechanisms) and \$79 million for LG&E (\$59 million through the new bill credit and \$20 million through existing rate mechanisms). This represents \$27 million (\$17 million at KU and \$10 million at LG&E) in additional reductions from the amounts proposed by the settlement. The KPSC's modifications to the settlement include certain changes in assumptions or inputs used in assessing tax reform or calculating LG&E's and KU's electricity rates. LG&E gas rate reductions were not modified significantly from the amount included in the settlement agreement.

On March 26, 2018, LG&E and KU filed a petition for reconsideration and request for hearing with the KPSC, taking exception to the KPSC's modifications and the process, and also requested certain relief from implementing the amounts represented by the additional reductions until the matter is fully resolved. On March 28, 2018, the Office of the Attorney General filed a response to the petition and gave notice of its withdrawal from the settlement agreement.

On March 28, 2018, the KPSC issued an Order granting LG&E's and KU's request for reconsideration and amending its March 20, 2018 Order by suspending the approved rates, allowing LG&E and KU, on an interim basis, to return savings related to the TCJA at the rates agreed to in the January 29, 2018 settlement.

On September 28, 2018, the KPSC issued an Order on reconsideration, implementing rates reflecting electricity revenue reductions of \$101 million for KU (\$80 million through the new bill credit and \$21 million through existing rate mechanisms), \$74 million for LG&E electricity revenues (\$54 million through the new bill credit and \$20 million through existing rate mechanisms) and \$16 million LG&E gas revenues (substantially all through the new bill credit) for the period January 2018 through April 2019. This represents lower revenue reduction amounts than the March 20, 2018 Order of approximately \$13 million (\$7 million at KU and \$6 million at LG&E). LG&E and KU have been implementing interim partial rate reductions since April 2018, as authorized by the KPSC on March 28, 2018, and recording reserves up to the higher reduction amounts originally approved in the March 20, 2018 Order. The September 28, 2018 Order is not expected to have a material adverse impact on LG&E's and KU's financial condition or results of operations.

Additionally, on January 8, 2018, the VSCC ordered KU, as well as other utilities in Virginia, to accrue regulatory liabilities reflecting the Virginia jurisdictional revenue requirement impacts of the reduced federal corporate tax rate. On March 22, 2018, KU reached a settlement agreement regarding its rate case in Virginia. New rates, inclusive of TCJA impacts, were effective June 1, 2018. The settlement also stipulates that actual tax savings for the five month period prior to new rates taking effect would be addressed through KU's annual information filing for calendar year 2018. On May 8, 2018, the VSCC approved the settlement agreement. The TCJA and rate case are not expected to have a significant impact on KU's financial condition or results of operations related to Virginia.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA on FERC-jurisdictional rates. LG&E and KU have not made any submission in response to the Notice of Inquiry, but do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

*(PPL and PPL Electric)*

### *TCJA Impact on PPL Electric Rates*

On February 12, 2018, the PUC issued a Secretarial Letter requesting certain information from regulated utilities and inviting comment from interested parties on potential revision to customer rates as a result of enactment of the TCJA. PPL Electric submitted its response to the Secretarial Letter on March 9, 2018. On March 15, 2018, the PUC issued a Temporary Rates Order to allow time to determine the manner in which rates could be adjusted in response to the TCJA. The PUC issued another Temporary Rates Order on May 17, 2018 to address the impact of the TCJA and indicated that utilities without a currently pending general rate proceeding would receive a utility specific order. The PUC issued an Order specific to PPL Electric on May 17, 2018 which required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates to include a negative surcharge of 0.56%, which was based on PPL Electric's 2017 taxable income, to be effective July 1, 2018,

## Table of Contents

and (b) to record a deferred regulatory liability to reflect the tax savings associated with the TCJA for the period January 1 through June 30, 2018. On June 8, 2018, PPL Electric submitted a petition to the PUC to increase the negative surcharge proposed in the May 17, 2018 Order from 0.56% to 7.05% to reflect the estimated 2018 tax savings associated with the TCJA. The PUC approved PPL Electric's petition on June 14, 2018 and PPL Electric filed a tariff on June 15, 2018 reflecting the increased negative surcharge. The estimated 2018 full year impact of the rate reduction is \$72 million in PPL Electric's operating revenues, of which \$39 million relates to the period January 1, 2018 through June 30, 2018 and was recorded as a noncurrent regulatory liability in the second quarter of 2018 to be distributed to customers pursuant to a future rate adjustment. The remaining \$33 million is the estimated impact for the period July 1, 2018 through December 31, 2018 and is being passed back to customers through the negative surcharge which began on July 1, 2018.

On March 15, 2018, the FERC issued a Notice of Inquiry seeking information on whether and how it should address changes to FERC-jurisdictional rates relating to accumulated deferred income taxes and bonus depreciation resulting from passage of the TCJA. On March 16, 2018, PPL Electric filed a waiver request, pursuant to Rule 207(a)(5) of the Rules of Practice and Procedure of the FERC, to accelerate incorporation of the changes to the federal corporate income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA tax rate reduction to be initially incorporated in PPL Electric's June 1, 2019 transmission formula rate. The waiver was approved on April 23, 2018 and PPL Electric submitted its transmission formula rate, reflecting the TCJA rate reduction, on April 27, 2018. In addition, on May 21, 2018, PPL Electric, as part of a PJM Transmission Owners joint filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing requested guidance on how the reduction in accumulated deferred income taxes, resulting from the TCJA reduced federal corporate income tax rate, should be treated for ratemaking purposes. PPL Electric is currently awaiting FERC's decision on this matter. The changes, related to accumulated deferred income taxes impacting the transmission formula rate revenues, have not been significant since the new rate went into effect on June 1, 2018.

### *Pennsylvania Alternative Ratemaking*

On June 28, 2018, Governor Tom Wolf signed House Bill 1782 (now known as Act 58 of 2018, and to be 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 is August 27, 2018.

Under the new law, a public utility can 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 the following: decoupling mechanisms, performance-based rates, formula rates, multiyear rate plans, or a combination of those mechanisms or other mechanisms.

The alternative rate mechanisms can include reconcilable surcharges and rates established under current law, including returns on and return of capital investments. Act 58 explicitly provides that it does not invalidate or void any rate mechanisms approved by the PUC prior to the legislation's effective date. Act 58 also specifies customer notice requirements concerning the utility's application for alternative rates or rate mechanisms.

On August 23, 2018, the PUC issued a Tentative Implementation Order seeking comments on its proposed interpretation and implementation of Act 58, Section 1330 of the Public Utility Code, 66 Pa. C.S. 1330. PPL Electric and various other parties filed comments on October 8, 2018. This matter remains pending before the PUC.

PPL Electric views the passage of Act 58 to be a favorable regulatory development that is expected to expand the rate-making mechanisms available to Pennsylvania regulated utility companies.

*(PPL)*

### *RIO-ED1 Mid-period Review*

In December 2017, Ofgem initiated a consultation on a potential RIO-ED1 mid-period review (MPR). The RIO framework allows for an MPR of outputs halfway through the price control. Ofgem was consulting on three potential approaches:

- whether to implement an MPR as currently defined;
- whether to implement an MPR with an extension for WPD rail electrification; and
- whether to implement an MPR with a significant extension of scope to include financial parameters.

Ofgem's initial assessment as set forth in its December 2017 consultation publication was that an MPR as currently defined under RIO-ED1 was not required. In addition, Ofgem recognized that the U.K. rail electrification program applicable in the WPD distribution areas was outside the scope of the MPR and that implementing an MPR to include financial parameters could



## Table of Contents

undermine the stability of the regulatory regime. The consultation, however, requested interested party comments on those conclusions. The period for submission of comments to the consultation closed on February 2, 2018. Formal consultation responses were submitted by PPL and WPD. On April 30, 2018, Ofgem announced its decision not to conduct an MPR.

### *RIIO-2 Framework Review*

On March 7, 2018, Ofgem issued its consultation document on the RIIO-2 framework, which covers 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 this RIIO-2 consultation process. Ofgem consulted on a wide range of issues, including cost of debt and equity methodologies, the length of the price control period, indexation methodologies, innovation, stakeholder engagement in the business planning process and performance incentive mechanisms. The purpose of the RIIO-2 framework consultation was to build on lessons learned from the current price controls while supporting low costs to consumers, improved customer service and reliability, and the U.K.'s continued shift to a low-carbon future. Comments on the RIIO-2 framework were due in May 2018. On July 30, 2018, Ofgem published its decision following their RIIO-2 framework consultation after consideration of comments received. Ofgem confirmed the following points in the decision document:

- There will be a five-year default length for the price control period, compared to eight years in the current RIIO-ED1 price control.
- There is intent to shift the inflation index used for calculating RAV and allowed returns from RPI to CPIH. Ofgem stated overall, consumers and investors as a whole will be neither better nor worse off in net present value terms as a result of the shift to CPIH and a transition period may be required.
- 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.
- Ofgem will retain the option for fast-tracking for electricity distribution companies only. Fast tracking will be further considered as part of the electricity distribution sector specific consultation.
- A new enhanced engagement model will be introduced which will require distribution companies to set up a customer engagement group to provide Ofgem with a public report of their views on the companies' business plans from the perspective of local stakeholders. 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.
- Ofgem intends to expand the role of competition for projects that are new, separable and high value. WPD does not currently have any planned projects that would meet the high value threshold.
- A focus of RIIO-2 will be on whole-system outcomes. Ofgem envisions network companies and system operators working together to ensure the energy system as a whole is efficient and delivers 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 the energy transition.

Ofgem also indicated further work is needed on other price control principles, including but not limited to, cost of equity, cost of debt, financeability and incentives with decisions on these items expected to be made in the sector specific consultations or within the individual company business plan submissions. The promulgation of sector specific price controls is expected to begin with the gas and electricity transmission networks in December 2018, with electricity distribution price control work scheduled to begin in 2020, at which time Ofgem plans to publish its RIIO-ED2 strategy consultation document. Although the electricity distribution consultation does not commence until 2020, WPD is ensuring that they are included in any RIIO-2 related engagement. PPL cannot predict the outcome of this process or the long-term impact it or the final RIIO-ED2 regulations will have on its financial condition or results of operations.

### *FERC Transmission Rate Filing (PPL, LKE, LG&E and KU)*

On August 3, 2018, LG&E and KU submitted an application 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 mitigation for certain horizontal market power concerns arising out of the 1998 merger for certain transmission service between MISO and LG&E and KU. The affected transmission customers are a limited number of municipal entities in Kentucky or Tennessee. The amounts at issue are generally waivers or credits for either LG&E and KU or for MISO transmission charges depending upon the direction of transmission service incurred by the municipalities. LG&E and KU estimate that such charges may average approximately \$22 million annually, depending upon actual transmission customer and market volumes, structures and prices, with such charges allocated according to LG&E's and KU's respective transmission system ownership ratio. 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.

## Table of Contents

LG&E and KU currently receive recovery of such expenses in other rate mechanisms. LG&E and KU cannot predict the outcome of the proceeding, including any effects on their financial condition or results of operations.

### *Rate Case Proceedings*

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

On September 28, 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. The proposed base rate increases would result in an electricity rate increase of 6.9% at KU and electricity and gas rate increases of 3% and 7.5% at LG&E. As discussed in the "TCJA Impact on LG&E and KU Rates" section below, LG&E's and KU's applications seek to include applicable changes associated with the TCJA in the calculation of the proposed base rates and to terminate the TCJA bill credit mechanism when the new base rates go into effect.

New rates are expected to become effective on May 1, 2019. The applications are based on a forecasted test year of May 1, 2019 through April 30, 2020 with a requested return-on-equity of 10.42%. LG&E and KU cannot predict the outcome of these proceedings.

#### *(LKE and KU)*

In September 2017, KU filed a request seeking approval from the VSCC to increase annual Virginia base electricity revenue by \$7 million, representing an increase of 10.4%. On March 22, 2018, KU reached a settlement agreement regarding the case, including the impact of the TCJA on rates, resulting in an increase in annual Virginia base electricity revenue by \$2 million. This represents an increase of 2.8% with rates effective June 1, 2018. On May 8, 2018, the VSCC issued an Order approving the settlement agreement.

### *Acquisition of Solar Energy Solution Provider (PPL)*

During the second quarter of 2018, PPL completed the acquisition of all the outstanding membership interests of Safari Energy, LLC (Safari Energy), a privately held provider of solar energy solutions for commercial customers in the U.S. For its clients, Safari Energy develops highly structured turnkey solutions, managing projects through all phases of development, from inception to financing, design, engineering, permitting, construction, interconnection and asset management. Headquartered in New York City, Safari Energy has completed over 200 solar projects in 19 states, with over 80 projects underway. The acquisition is not material to PPL and the financial results of Safari Energy are reported within Corporate and Other.

## Results of Operations

### *(PPL)*

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing the three and nine months ended September 30, 2018 with the same periods in 2017. 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 "2018 Outlook" discussion identifies key factors expected to impact 2018 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.

[Table of Contents](#)

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

A "Statement of Income Analysis, Earnings and Adjusted Gross Margins" is presented separately for PPL Electric, LKE, LG&E and KU. The "Statement of Income Analysis" discussion below describes significant changes in principal line items on the Statements of Income, comparing the three and nine months ended September 30, 2018 with the same periods in 2017. The "Earnings" discussion provides a summary of earnings. The "Adjusted Gross Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

(All Registrants)

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

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

### Statement of Income Analysis

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

	Three Months			Nine Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues	\$ 1,872	\$ 1,845	\$ 27	\$ 5,846	\$ 5,521	\$ 325
Operating Expenses						
Operation						
Fuel	206	202	4	609	576	33
Energy purchases	149	143	6	538	494	44
Other operation and maintenance	479	438	41	1,453	1,340	113
Depreciation	275	257	18	817	745	72
Taxes, other than income	77	69	8	234	214	20
Total Operating Expenses	1,186	1,109	77	3,651	3,369	282
Other Income (Expense) - net	106	(35)	141	297	(112)	409
Interest Expense	244	230	14	718	669	49
Income Taxes	103	116	(13)	362	321	41
Net Income	\$ 445	\$ 355	\$ 90	\$ 1,412	\$ 1,050	\$ 362



[Table of Contents](#)

**Operating Revenues**

The increase (decrease) in operating revenues for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Domestic:		
PPL Electric Distribution price (a)	\$ (6)	\$ 5
PPL Electric Distribution volume	17	49
PPL Electric PLR (b)	5	31
PPL Electric Transmission Formula Rate (c)	3	53
PPL Electric TCJA refund (d)	(20)	(57)
LKE Volumes (e)	19	122
LKE Base rates	—	58
LKE ECR	5	18
LKE TCJA refund (d)	(30)	(109)
LKE DSM	(2)	(13)
LKE Fuel and other energy prices	(8)	(15)
Other	4	14
<b>Total Domestic</b>	<b>(13)</b>	<b>156</b>
U.K.:		
Price	19	19
Volume	(2)	2
Foreign currency exchange rates	8	117
Engineering recharge income	18	37
Other	(3)	(6)
<b>Total U.K.</b>	<b>40</b>	<b>169</b>
<b>Total</b>	<b>\$ 27</b>	<b>\$ 325</b>

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

(b) The increases were primarily due to higher energy volumes, partially offset by lower energy prices.

(c) Transmission Formula Rate revenues include the impacts of the TCJA which reduced the new revenue requirement that went into effect June 1, 2018.

(d) Represents the estimated income tax savings owed to or already returned to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

(e) Increases were primarily due to favorable weather in 2018.

**Fuel**

Fuel increased \$33 million for the nine months ended September 30, 2018 compared with 2017, primarily due to a \$40 million increase in volumes driven by weather in 2018, partially offset by an \$8 million decrease in commodity costs.

**Energy Purchases**

Energy purchases increased \$6 million for the three months ended September 30, 2018 compared with 2017, primarily due to a \$17 million increase in PLR volumes, partially offset by a \$7 million decrease in PLR prices at PPL Electric.

Energy purchases increased \$44 million for the nine months ended September 30, 2018 compared with 2017, primarily due to a \$42 million increase in PLR volumes, partially offset by a \$9 million decrease in PLR prices at PPL Electric and an \$18 million increase in natural gas volumes driven by weather in 2018, partially offset by a \$6 million decrease in market prices for natural gas at LG&E.

**Other Operation and Maintenance**

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2018 compared with 2017 was due to:

[Table of Contents](#)

	Three Months	Nine Months
Domestic:		
LKE storm costs	\$ 8	\$ 10
LKE timing and scope of generation maintenance outages	—	7
LKE vegetation management	2	5
LKE gas distribution maintenance and compliance	1	4
PPL Electric vegetation management	(1)	(11)
PPL Electric storm costs	(1)	15
PPL Electric payroll-related costs	3	(11)
PPL Electric Act 129	(1)	(3)
PPL Electric bad debts	2	9
PPL Electric Act 129 Smart Meter	—	4
Other	11	16
U.K.:		
Foreign currency exchange rates	2	23
Network maintenance	2	6
Third-party engineering	14	29
Other	(1)	10
<b>Total</b>	<b>\$ 41</b>	<b>\$ 113</b>

**Depreciation**

Depreciation increased \$18 million for the three months ended September 30, 2018 compared with 2017, primarily due to additional assets placed into service, net of retirements, related to the ongoing efforts to ensure the reliability of the delivery system, the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program at PPL Electric and additional assets placed into service, net of retirements at LG&E and KU.

Depreciation increased \$72 million for the nine months ended September 30, 2018 compared with 2017, primarily due to additional assets placed into service, net of retirements, related to the ongoing efforts to ensure the reliability of the delivery system, the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program at PPL Electric, higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements at LG&E and KU and the impact of foreign currency exchange rates at WPD.

**Other Income (Expense) - net**

Other income (expense) - net increased \$141 million for the three months ended September 30, 2018 compared with 2017 primarily due to higher realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD of \$121 million and an increase in non-service cost credits from defined benefit plans of \$20 million.

Other income (expense) - net increased \$409 million for the nine months ended September 30, 2018 compared with 2017, primarily due to higher realized and unrealized gains on foreign currency contracts to economically hedge GBP denominated earnings from WPD of \$329 million and an increase in non-service cost credits from defined benefit plans of \$72 million.

**Interest Expense**

The increase (decrease) in interest expense for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Long-term debt interest expense	\$ 11	\$ 27
Foreign currency exchange rates	2	19
Short-term debt interest expense	1	6
Other	—	(3)
<b>Total</b>	<b>\$ 14</b>	<b>\$ 49</b>



[Table of Contents](#)

**Income Taxes**

The increase (decrease) in income taxes for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Change in pre-tax income	\$ 28	\$ 136
Reduction in U.S. federal income tax rate (a)	(40)	(128)
Valuation allowances adjustments	1	8
U.S. income tax on foreign earnings - net of foreign tax credit (b)	9	26
Impact of U.K. Finance Acts	(1)	5
Amortization of excess deferred income taxes (a)	(11)	(30)
Kentucky state tax reform (c)	—	9
Stock-based compensation	—	8
Other	1	7
Total	<u>\$ (13)</u>	<u>\$ 41</u>

- (a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.
- (b) The increases are primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017. The related tax benefit was recognized over the annual period as a result of utilizing an estimated annual effective tax rate.
- (c) During the second quarter of 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.

**Segment Earnings**

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

	Three Months			Nine Months		
	2018	2017	\$ Change	2018	2017	\$ Change
U.K. Regulated	\$ 245	\$ 126	\$ 119	\$ 836	\$ 560	\$ 276
Kentucky Regulated	122	125	(3)	332	299	33
Pennsylvania Regulated	112	95	17	335	251	84
Corporate and Other (a)	(34)	9	(43)	(91)	(60)	(31)
Net Income	<u>\$ 445</u>	<u>\$ 355</u>	<u>\$ 90</u>	<u>\$ 1,412</u>	<u>\$ 1,050</u>	<u>\$ 362</u>

- (a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. Income taxes were \$25 million and \$7 million higher for the three and nine months ended in 2018 compared with 2017, primarily due to the utilization of an estimated tax rate, which required tax benefits realized in the first quarter of 2017 to be recognized over the annual period. Interest expense was \$5 million and \$13 million higher for the three and nine months ended in 2018 compared with 2017.

**Earnings from Ongoing Operations**

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

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

- 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.



[Table of Contents](#)

- 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 14 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

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

	Three Months			Nine Months		
	2018	2017	\$ Change	2018	2017	\$ Change
U.K. Regulated	\$ 214	\$ 163	\$ 51	\$ 730	\$ 682	\$ 48
Kentucky Regulated	120	125	(5)	339	300	39
Pennsylvania Regulated	117	95	22	340	251	89
Corporate and Other	(29)	5	(34)	(86)	(64)	(22)
<b>Earnings from Ongoing Operations</b>	<b>\$ 422</b>	<b>\$ 388</b>	<b>\$ 34</b>	<b>\$ 1,323</b>	<b>\$ 1,169</b>	<b>\$ 154</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 59% of PPL's Net Income for the nine months ended September 30, 2018 and 39% of PPL's assets at September 30, 2018.

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

	Three Months			Nine Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating revenues	\$ 517	\$ 477	\$ 40	\$ 1,716	\$ 1,547	\$ 169
Other operation and maintenance	131	113	18	400	326	74
Depreciation	61	58	3	186	170	16
Taxes, other than income	33	33	—	101	94	7
<b>Total operating expenses</b>	<b>225</b>	<b>204</b>	<b>21</b>	<b>687</b>	<b>590</b>	<b>97</b>
Other Income (Expense) - net	102	(36)	138	284	(105)	389
Interest Expense	106	103	3	310	294	16
Income Taxes	43	8	35	167	(2)	169
<b>Net Income</b>	<b>245</b>	<b>126</b>	<b>119</b>	<b>836</b>	<b>560</b>	<b>276</b>
Less: Special Items	31	(37)	68	106	(122)	228
<b>Earnings from Ongoing Operations</b>	<b>\$ 214</b>	<b>\$ 163</b>	<b>\$ 51</b>	<b>\$ 730</b>	<b>\$ 682</b>	<b>\$ 48</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 during the periods ended September 30.

Income Statement Line Item	Three Months		Nine Months	
	2018	2017	2018	2017
Foreign currency economic hedges, net of tax of (\$7), \$20, (\$27), \$66 (a) Other Income (Expense) - net	\$ 28	\$ (37)	\$ 103	\$ (122)
U.S. tax reform (b) Income Taxes	3	—	3	—
<b>Total Special Items</b>	<b>\$ 31</b>	<b>\$ (37)</b>	<b>\$ 106</b>	<b>\$ (122)</b>

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.

[Table of Contents](#)

(b) Represents adjustments to certain provisional amounts recognized in the December 31, 2017 Statement of Income relating to the enactment of the TCJA. See "Tax Cuts and Jobs Act (TCJA)" in Note 6 to the Financial Statements for additional information.

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

	Three Months	Nine Months
U.K.		
U.K. Adjusted Gross Margins	\$ 21	\$ 24
Other operation and maintenance	(1)	(12)
Depreciation	(2)	(4)
Other Income (Expense) - net	16	46
Interest expense	(1)	3
Other	(2)	(3)
Income taxes	1	(17)
U.S.		
Interest expense and other	(3)	(6)
Income taxes	(1)	(47)
Foreign currency exchange, after-tax	23	64
Earnings from Ongoing Operations	51	48
Special items, after-tax	68	228
Net Income	<u>\$ 119</u>	<u>\$ 276</u>

U.K.

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of U.K. Adjusted Gross Margins.
- Higher other income (expense) - net for the three and nine month periods primarily from higher pension income due to an increase in expected returns on higher asset balances.

U.S.

- Higher income taxes for the nine month period primarily due to a \$35 million tax benefit on accelerated pension contributions in the first quarter of 2017 and a \$13 million increase from a reduction in tax benefits on interest deductibility due to the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

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 24% of PPL's Net Income for the nine months ended September 30, 2018 and 34% of PPL's assets at September 30, 2018.

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



[Table of Contents](#)

	Three Months			Nine Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating revenues	\$ 802	\$ 818	\$ (16)	\$ 2,417	\$ 2,350	\$ 67
Fuel	206	202	4	609	576	33
Energy purchases	22	22	—	135	120	15
Other operation and maintenance	216	197	19	632	594	38
Depreciation	119	114	5	354	324	30
Taxes, other than income	18	17	1	53	49	4
Total operating expenses	581	552	29	1,783	1,663	120
Other Income (Expense) - net	—	(1)	1	(2)	(9)	7
Interest Expense	69	65	4	205	196	9
Income Taxes	30	75	(45)	95	183	(88)
Net Income	122	125	(3)	332	299	33
Less: Special Items	2	—	2	(7)	(1)	(6)
Earnings from Ongoing Operations	\$ 120	\$ 125	\$ (5)	\$ 339	\$ 300	\$ 39

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 during the periods ended September 30.

	Income Statement Line Item	Three Months		Nine Months	
		2018	2017	2018	2017
Adjustment to investment, net of tax of \$0, \$0, \$0, \$0 (a)	Other Income (Expense) - net	\$ —	\$ —	\$ —	\$ (1)
Kentucky state tax reform (b)	Income Taxes	—	—	(9)	—
U.S. tax reform (c)	Income Taxes	2	—	2	—
Total Special Items		\$ 2	\$ —	\$ (7)	\$ (1)

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

(b) During the second quarter of 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.

(c) Represents adjustments to certain provisional amounts recognized in the December 31, 2017 Statement of Income relating to the enactment of the TCJA. See "Tax Cuts and Jobs Act (TCJA)" in Note 6 to the Financial Statements for additional information.

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

	Three Months	Nine Months
Kentucky Adjusted Gross Margins	\$ (19)	\$ 24
Other operation and maintenance	(23)	(46)
Depreciation	(3)	(26)
Taxes, other than income	—	(5)
Other Income (Expense) - net	1	6
Interest Expense	(4)	(9)
Income Taxes	43	95
Earnings from Ongoing Operations	(5)	39
Special items, after-tax	2	(6)
Net Income	\$ (3)	\$ 33

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Kentucky Adjusted Gross Margins.
- Higher other operation and maintenance expense for the three month period primarily due to an \$8 million increase in storm costs, a \$2 million increase in vegetation management expense and increases in other costs that were not individually significant in comparison to the prior year.



## Table of Contents

- Higher other operation and maintenance expense for the nine month period primarily due to a \$10 million increase in storm costs, a \$7 million increase in costs related to the timing and scope of generation maintenance outages, a \$5 million increase in vegetation management expenses, a \$4 million increase in costs related to gas distribution maintenance and compliance and increases in other costs that were not individually significant in comparison to the prior year.
- Higher depreciation expense for the nine month period due to a \$14 million increase related to additional assets placed into service, net of retirements and a \$12 million increase related to higher depreciation rates effective July 1, 2017.
- Higher interest expense for the nine month period due to higher interest rates and increased borrowings under LG&E's term loan credit facility and KU's commercial paper program.
- Lower income taxes for the three month period primarily due to a \$21 million decrease related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, an \$18 million decrease related to lower pre-tax income.
- Lower income taxes for the nine month period primarily due to a \$60 million decrease related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, a \$22 million decrease related to lower pre-tax income and a \$14 million decrease related to higher amortization of excess deferred income taxes as a result of the TCJA.

## Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment. The Pennsylvania Regulated segment represents 24% of PPL's Net Income for the nine months ended September 30, 2018 and 26% of PPL's assets at September 30, 2018.

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

	Three Months			Nine Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating revenues	\$ 548	\$ 547	\$ 1	\$ 1,704	\$ 1,620	\$ 84
Energy purchases	127	121	6	403	374	29
Other operation and maintenance	127	133	(6)	419	435	(16)
Depreciation	89	77	12	262	228	34
Taxes, other than income	27	27	—	81	79	2
Total operating expenses	370	358	12	1,165	1,116	49
Other Income (Expense) - net	9	6	3	23	11	12
Interest Expense	40	36	4	116	105	11
Income Taxes	35	64	(29)	111	159	(48)
Net Income	112	95	17	335	251	84
Less: Special Item	(5)	—	(5)	(5)	—	(5)
Earnings from Ongoing Operations	\$ 117	\$ 95	\$ 22	\$ 340	\$ 251	\$ 89

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

	Income Statement Line Item	Three Months		Nine Months	
		2018	2017	2018	2017
IT transformation, net of tax of \$2, \$0, \$2, \$0 (a)	Other operation and maintenance	\$ (5)	\$ —	\$ (5)	\$ —
Total Special Item		\$ (5)	\$ —	\$ (5)	\$ —

- (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. See Note 10 to the Financial Statements for additional information on separation benefits.

## Table of Contents

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

	<u>Three Months</u>	<u>Nine Months</u>
Pennsylvania Adjusted Gross Margins	\$ (4)	\$ 39
Other operation and maintenance	7	27
Depreciation	(8)	(23)
Taxes, other than income	—	(1)
Other Income (Expense) - net	4	12
Interest Expense	(4)	(11)
Income Taxes	27	46
Earnings from Ongoing Operations	22	89
Special Item, after tax	(5)	(5)
Net Income	\$ 17	\$ 84

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Pennsylvania Adjusted Gross Margins.
- Lower other operation and maintenance expense for the three month period primarily due to \$14 million of lower corporate service costs allocated to PPL Electric, partially offset by \$3 million of higher nonrecoverable storm expenses and \$2 million of higher bad debt expense.
- Lower other operation and maintenance expense for the nine month period primarily due to \$31 million of lower corporate service costs allocated to PPL Electric, \$11 million of lower payroll related expenses and \$11 million of lower vegetation management expenses, partially offset by \$12 million of higher nonrecoverable storm expenses and \$9 million of higher bad debt expense.
- Higher depreciation expense for the three and nine month periods 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.
- Higher interest expense for the nine month period primarily due to the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds and the June 2018 issuance of \$400 million of 4.15% First Mortgage Bonds.
- Lower income taxes for the three month period primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018 of \$18 million and lower pre-tax income resulting in \$7 million of lower income taxes.
- Lower income taxes for the nine month period primarily due to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018 of \$56 million and \$13 million of lower income taxes due to amortization of excess deferred income taxes, partially offset by higher pre-tax income resulting in \$14 million of higher income taxes.

## Reconciliation of Earnings from Ongoing Operations

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



[Table of Contents](#)

	2018 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
<b>Net Income</b>	\$ 245	\$ 122	\$ 112	\$ (34)	\$ 445
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of (\$7)	28	—	—	—	28
U.S. tax reform	3	2	—	(5)	—
IT transformation, net of tax of \$2	—	—	(5)	—	(5)
<b>Total Special Items</b>	31	2	(5)	(5)	23
<b>Earnings from Ongoing Operations</b>	\$ 214	\$ 120	\$ 117	\$ (29)	\$ 422

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

	2018 Nine Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
<b>Net Income</b>	\$ 836	\$ 332	\$ 335	\$ (91)	\$ 1,412
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of (\$27)	103	—	—	—	103
U.S. tax reform	3	2	—	(5)	—
Kentucky state tax reform	—	(9)	—	—	(9)
IT transformation, net of tax of \$2	—	—	(5)	—	(5)
<b>Total Special Items</b>	106	(7)	(5)	(5)	89
<b>Earnings from Ongoing Operations</b>	\$ 730	\$ 339	\$ 340	\$ (86)	\$ 1,323

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

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

**Adjusted Gross Margins**

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



[Table of Contents](#)

- "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, LKE, LG&E and KU, as well as the Kentucky Regulated segment's, LKE's and LG&E's distribution and sale of natural gas. In calculating this measure, fuel, energy purchases and certain variable costs of production (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues. In addition, certain other expenses, recorded in "Other operation and maintenance", "Depreciation" and "Taxes, other than income" on the Statements of Income, associated with approved cost recovery mechanisms are offset against the recovery of those expenses, which are included in revenues. These mechanisms allow for direct recovery of these expenses and, in some cases, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from electricity and gas operations.
- "Pennsylvania Adjusted Gross Margins" is a single financial performance measure of the electricity transmission and distribution operations of the Pennsylvania Regulated segment and PPL Electric. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," (which are primarily Act 129, 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 and PPL Electric's electricity delivery operations.

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

Changes in Adjusted Gross Margins

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

	Three Months			Nine Months		
	2018	2017	\$ Change	2018	2017	\$ Change
<b>U.K. Regulated</b>						
U.K. Adjusted Gross Margins	\$ 467	\$ 441	\$ 26	\$ 1,578	\$ 1,446	\$ 132
Impact of changes in foreign currency exchange rates			5			108
U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates			\$ 21			\$ 24
<b>Kentucky Regulated</b>						
Kentucky Adjusted Gross Margins						
LG&E	\$ 240	\$ 245	\$ (5)	\$ 697	\$ 678	\$ 19
KU	288	302	(14)	847	842	5
Total Kentucky Adjusted Gross Margins	\$ 528	\$ 547	\$ (19)	\$ 1,544	\$ 1,520	\$ 24
<b>Pennsylvania Regulated</b>						
Pennsylvania Adjusted Gross Margins						
Distribution	\$ 225	\$ 233	\$ (8)	\$ 695	\$ 710	\$ (15)
Transmission	138	134	4	411	357	54
Total Pennsylvania Adjusted Gross Margins	\$ 363	\$ 367	\$ (4)	\$ 1,106	\$ 1,067	\$ 39

## Table of Contents

### *U.K. Adjusted Gross Margins*

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the three months ended September 30, 2018 compared with 2017, primarily due to \$19 million from the April 1, 2018 price increase.

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the nine months ended September 30, 2018 compared with 2017, primarily due to \$29 million from the April 1, 2018 price increase, partially offset by \$10 million from the April 1, 2017 price decrease, driven by lower true-up mechanisms partially offset by higher base demand revenue.

### *Kentucky Adjusted Gross Margins*

Kentucky Adjusted Gross Margins decreased for the three months ended September 30, 2018 compared with 2017, primarily due to \$30 million of estimated income tax savings owed to customers (\$14 million at LG&E and \$16 million at KU) related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, partially offset by \$8 million of increased sales volumes related to favorable weather in 2018 (\$5 million at LG&E and \$3 million at KU) and returns on additional environmental capital investments of \$4 million (\$2 million at LG&E and \$2 million at KU).

Kentucky Adjusted Gross Margins increased for the nine months ended September 30, 2018 compared with 2017, primarily due to \$59 million of increased sales volumes related to favorable weather in 2018 (\$21 million at LG&E and \$38 million at KU), higher base rates of \$58 million (\$32 million at LG&E and \$26 million at KU) as new base rates were approved by the KPSC effective July 1, 2017 and returns on additional environmental capital investments of \$14 million (\$8 million at LG&E and \$6 million at KU), partially offset by \$109 million of estimated income tax savings owed to customers (\$51 million at LG&E and \$58 million at KU) related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

### *Pennsylvania Adjusted Gross Margins*

#### Distribution

Distribution Adjusted Gross Margins decreased for the three months ended September 30, 2018 compared with 2017, primarily due to a \$17 million negative surcharge, which was effective as of July 1, 2018, related to the estimated income tax savings 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. This decrease was partially offset by \$11 million of higher electricity sales volumes primarily due to weather.

Distribution Adjusted Gross Margins decreased for the nine months ended September 30, 2018 compared with 2017, primarily due to a \$37 million net of gross receipts tax impact of the estimated income tax savings owed to customers for the period January 1, 2018 through June 30, 2018 and \$17 million from the negative surcharge beginning on July 1, 2018, 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. These decreases were partially offset by \$36 million of higher electricity sales volumes primarily due to weather and \$6 million of returns on additional Smart Meter capital investments.

#### Transmission

Transmission Adjusted Gross Margins increased for the three months ended September 30, 2018 compared with 2017, primarily due to an increase of \$23 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by \$16 million from the impact of the reduced federal income taxes as a result of the TCJA.

Transmission Adjusted Gross Margins increased for the nine months ended September 30, 2018 compared with 2017, primarily due to increases of \$49 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and \$25 million as a result of a higher PPL zonal peak load billing factor in the first five months of 2018, partially offset by \$22 million from the impact of the reduced federal income taxes as a result of the TCJA.



[Table of Contents](#)

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 periods ended September 30.

	2018 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 508 (c)	\$ 802	\$ 548	\$ 14	\$ 1,872
<b>Operating Expenses</b>					
Fuel	—	206	—	—	206
Energy purchases	—	22	127	—	149
Other operation and maintenance	41	26	23	389	479
Depreciation	—	18	10	247	275
Taxes, other than income	—	2	25	50	77
Total Operating Expenses	41	274	185	686	1,186
<b>Total</b>	<b>\$ 467</b>	<b>\$ 528</b>	<b>\$ 363</b>	<b>\$ (672)</b>	<b>\$ 686</b>
	2017 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 467 (c)	\$ 818	\$ 547	\$ 13	\$ 1,845
<b>Operating Expenses</b>					
Fuel	—	202	—	—	202
Energy purchases	—	22	121	—	143
Other operation and maintenance	26	30	29	353	438
Depreciation	—	16	5	236	257
Taxes, other than income	—	1	25	43	69
Total Operating Expenses	26	271	180	632	1,109
<b>Total</b>	<b>\$ 441</b>	<b>\$ 547</b>	<b>\$ 367</b>	<b>\$ (619)</b>	<b>\$ 736</b>
	2018 Nine Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 1,687 (c)	\$ 2,417	\$ 1,704	\$ 38	\$ 5,846
<b>Operating Expenses</b>					
Fuel	—	609	—	—	609
Energy purchases	—	135	403	—	538
Other operation and maintenance	109	74	92	1,178	1,453
Depreciation	—	52	26	739	817
Taxes, other than income	—	3	77	154	234
Total Operating Expenses	109	873	598	2,071	3,651
<b>Total</b>	<b>\$ 1,578</b>	<b>\$ 1,544</b>	<b>\$ 1,106</b>	<b>\$ (2,033)</b>	<b>\$ 2,195</b>



	2017 Nine Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 1,517 (c)	\$ 2,350	\$ 1,620	\$ 34	\$ 5,521
<b>Operating Expenses</b>					
Fuel	—	576	—	—	576
Energy purchases	—	120	374	—	494
Other operation and maintenance	71	82	89	1,098	1,340
Depreciation	—	48	14	683	745
Taxes, other than income	—	4	76	134	214
Total Operating Expenses	71	830	553	1,915	3,369
<b>Total</b>	<b>\$ 1,446</b>	<b>\$ 1,520</b>	<b>\$ 1,067</b>	<b>\$ (1,881)</b>	<b>\$ 2,152</b>

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$8 million and \$29 million for the three and nine months ended September 30, 2018 and \$11 million and \$30 million for the three and nine months ended September 30, 2017.

## 2018 Outlook

*(PPL)*

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

*(PPL's U.K. Regulated Segment)*

Higher net income is projected in 2018 compared with 2017. The increase in net income reflects the 2017 unfavorable impact of U.S. tax reform and unrealized losses on foreign currency economic hedges. Excluding these 2017 special items, the increase is expected to be driven primarily by higher assumed GBP exchange rates and higher pension income, partially offset by higher taxes.

*(PPL's Kentucky Regulated Segment and LKE, LG&E and KU)*

Higher net income is projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, earnings in 2018 compared with 2017 are projected to be slightly higher, driven by favorable weather and higher base electricity and gas rates effective July 1, 2017, partially offset by higher operation and maintenance expense, higher depreciation expense, higher interest expense and a lower tax shield on holding company interest and expenses.

*(PPL's Pennsylvania Regulated Segment and PPL Electric)*

Higher net income is projected in 2018 compared with 2017, primarily driven by higher transmission earnings, partially offset by higher depreciation expense and higher interest expense.

*(PPL's Corporate and Other Category)*

Lower costs are projected in 2018 compared with 2017, which reflects the 2017 unfavorable impact of U.S. tax reform. Excluding this 2017 special item, costs are projected to be higher in 2018 compared to 2017, due to a lower tax shield on holding company interest expense.

*(All Registrants)*

Earnings in future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 7 and 10 to the Financial Statements and "Item 1A. Risk Factors" in this Form 10-Q (as applicable) and "Item 1. Business" and "Item 1A. Risk Factors" in the Registrants' 2017 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

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

### Statement of Income Analysis

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

	Three Months			Nine Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues	\$ 548	\$ 547	\$ 1	\$ 1,704	\$ 1,620	\$ 84
Operating Expenses						
Operation						
Energy purchases	127	121	6	403	374	29
Other operation and maintenance	127	133	(6)	419	435	(16)
Depreciation	89	77	12	262	228	34
Taxes, other than income	27	27	—	81	79	2
Total Operating Expenses	370	358	12	1,165	1,116	49
Other Income (Expense) - net	5	4	1	18	8	10
Interest Income from Affiliate	4	2	2	5	3	2
Interest Expense	41	36	5	117	105	12
Income Taxes	35	64	(29)	111	159	(48)
Net Income	\$ 111	\$ 95	\$ 16	\$ 334	\$ 251	\$ 83

### Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Distribution price (a)	\$ (6)	\$ 5
Distribution volume	17	49
PLR (b)	5	31
Transmission Formula Rate (c)	3	53
TCJA refund (d)	(20)	(57)
Other	2	3
Total	\$ 1	\$ 84

- (a) Distribution price variance is primarily due to reconcilable cost recovery mechanisms approved by the PUC.  
 (b) The increases were primarily due to higher energy volumes, partially offset by lower energy prices as described below.  
 (c) Transmission Formula Rate revenues include the impacts of the TCJA which reduced the new revenue requirement that went into effect June 1, 2018.  
 (d) Represents the estimated income tax savings owed to or already returned to distribution customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

### Energy Purchases

Energy purchases increased \$6 million for the three months ended September 30, 2018 compared with 2017, primarily due to higher PLR volumes of \$17 million, partially offset by lower PLR prices of \$7 million.

Energy purchases increased \$29 million for the nine months ended September 30, 2018 compared with 2017, primarily due to higher PLR volumes of \$42 million, partially offset by lower PLR prices of \$9 million.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Corporate service costs	\$ (6)	\$ (23)
Vegetation management	(1)	(11)
Storm costs	(1)	15
Payroll-related costs	3	(11)
Act 129	(1)	(3)
Bad debts	2	9
Act 129 Smart Meter	—	4
Other	(2)	4
<b>Total</b>	<b>\$ (6)</b>	<b>\$ (16)</b>

## Depreciation

Depreciation increased \$12 million and \$34 million for the three and nine months ended September 30, 2018 compared with 2017, 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.

## Other Income (Expense) - net

Other income (expense) - net increased \$10 million for the nine months ended September 30, 2018 compared with 2017, primarily due to a \$4 million increase related to higher AFUDC equity rates and a \$4 million increase in non-service cost credits from defined benefit plans.

## Interest Expense

Interest expense increased \$12 million for the nine months ended September 30, 2018 compared with 2017, primarily due to the May 2017 issuance of \$475 million of 3.95% First Mortgage Bonds due 2047 and the June 2018 issuance of \$400 million of 4.15% First Mortgage Bonds due 2048.

## Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Change in pre-tax income	\$ (5)	\$ 15
Reduction in U.S. federal income tax rate (a)	(18)	(56)
Amortization of excess deferred income taxes (a)	(5)	(13)
Stock-based compensation	—	5
Other	(1)	1
<b>Total</b>	<b>\$ (29)</b>	<b>\$ (48)</b>

(a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

## Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net Income	\$ 111	\$ 95	\$ 334	\$ 251
Special Item, gain (loss), after-tax (a)	(5)	—	(5)	—



## [Table of Contents](#)

- (a) In June 2018, PPL EU Services' Information Technology (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. See Note 10 to the Financial Statements for additional information on separation benefits.

Excluding a special item, earnings increased for the three month period in 2018 compared with 2017, driven primarily by returns on additional capital investments in transmission, higher sales volumes primarily due to weather, and lower operation and maintenance expense, partially offset by higher depreciation expense.

Excluding a special item, earnings increased for the nine month period in 2018 compared with 2017, driven primarily by returns on additional capital investments in transmission, higher sales volumes primarily due to weather, and lower operation and maintenance expense, partially offset by higher depreciation expense and higher interest expense.

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

	Three Months	Nine Months
<b>Pennsylvania Adjusted Gross Margins</b>	<b>\$ (4)</b>	<b>\$ 39</b>
Other operation and maintenance	8	27
Depreciation	(8)	(23)
Taxes, other than income	—	(1)
Other Income (Expense) - net	3	12
Interest Expense	(5)	(12)
Income Taxes	27	46
Special Item, gain (loss), after tax (a)	(5)	(5)
<b>Net Income</b>	<b>\$ 16</b>	<b>\$ 83</b>

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

### **Adjusted Gross Margins**

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

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

	2018 Three Months			2017 Three Months		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	<b>\$ 548</b>	<b>\$ —</b>	<b>\$ 548</b>	<b>\$ 547</b>	<b>\$ —</b>	<b>\$ 547</b>
<b>Operating Expenses</b>						
Energy purchases	127	—	127	121	—	121
Other operation and maintenance	23	104	127	29	104	133
Depreciation	10	79	89	5	72	77
Taxes, other than income	25	2	27	25	2	27
<b>Total Operating Expenses</b>	<b>185</b>	<b>185</b>	<b>370</b>	<b>180</b>	<b>178</b>	<b>358</b>
<b>Total</b>	<b>\$ 363</b>	<b>\$ (185)</b>	<b>\$ 178</b>	<b>\$ 367</b>	<b>\$ (178)</b>	<b>\$ 189</b>

[Table of Contents](#)

	2018 Nine Months			2017 Nine Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 1,704	\$ —	\$ 1,704	\$ 1,620	\$ —	\$ 1,620
<b>Operating Expenses</b>						
Energy purchases	403	—	403	374	—	374
Other operation and maintenance	92	327	419	89	346	435
Depreciation	26	236	262	14	214	228
Taxes, other than income	77	4	81	76	3	79
<b>Total Operating Expenses</b>	<b>598</b>	<b>567</b>	<b>1,165</b>	<b>553</b>	<b>563</b>	<b>1,116</b>
<b>Total</b>	<b>\$ 1,106</b>	<b>\$ (567)</b>	<b>\$ 539</b>	<b>\$ 1,067</b>	<b>\$ (563)</b>	<b>\$ 504</b>

- (a) Represents amounts excluded from Adjusted Gross Margins.  
(b) As reported on the Statements of Income.

**LKE: Statement of Income Analysis, Earnings and Adjusted Gross Margins**

**Statement of Income Analysis**

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

	Three Months			Nine Months		
	2018	2017	\$ Change	2018	2017	\$ Change
<b>Operating Revenues</b>	\$ 802	\$ 818	\$ (16)	\$ 2,417	\$ 2,350	\$ 67
<b>Operating Expenses</b>						
Operation						
Fuel	206	202	4	609	576	33
Energy purchases	22	22	—	135	120	15
Other operation and maintenance	216	197	19	632	594	38
Depreciation	119	114	5	354	324	30
Taxes, other than income	18	17	1	53	49	4
<b>Total Operating Expenses</b>	<b>581</b>	<b>552</b>	<b>29</b>	<b>1,783</b>	<b>1,663</b>	<b>120</b>
Other Income (Expense) - net	—	(1)	1	(2)	(9)	7
Interest Expense	52	49	3	154	148	6
Interest Expense with Affiliate	7	5	2	18	13	5
Income Taxes	32	79	(47)	102	195	(93)
<b>Net Income</b>	<b>\$ 130</b>	<b>\$ 132</b>	<b>\$ (2)</b>	<b>\$ 358</b>	<b>\$ 322</b>	<b>\$ 36</b>

**Operating Revenues**

The increase (decrease) in operating revenues for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Volumes (a)	\$ 19	\$ 122
Base rates	—	58
ECR	5	18
TCJA refund (b)	(30)	(109)
DSM	(2)	(13)
Fuel and other energy prices	(8)	(15)
Other	—	6
<b>Total</b>	<b>\$ (16)</b>	<b>\$ 67</b>

## Table of Contents

- (a) Increases were primarily due to favorable weather in 2018.  
 (b) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

### Fuel

Fuel increased \$33 million for the nine months ended September 30, 2018 compared with 2017, primarily due to a \$40 million increase in volumes driven by weather in 2018, partially offset by an \$8 million decrease in commodity costs.

### Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Storm costs	\$ 8	\$ 10
Timing and scope of generation maintenance outages	—	7
Vegetation management	2	5
Gas distribution maintenance and compliance	1	4
Other	8	12
Total	<u>\$ 19</u>	<u>\$ 38</u>

### Depreciation

Depreciation increased \$30 million for the nine months ended September 30, 2018 compared with 2017, primarily due to a \$15 million increase related to higher depreciation rates effective July 1, 2017 and a \$12 million increase related to additional assets placed into service, net of retirements.

### Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Reduction in U.S. federal income tax rate (a)	\$ (23)	\$ (64)
Change in pre-tax income	(19)	(22)
Amortization of excess deferred income taxes (a)	(3)	(14)
Kentucky state tax reform (b)	—	9
Other	(2)	(2)
Total	<u>\$ (47)</u>	<u>\$ (93)</u>

- (a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.  
 (b) During the second quarter of 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.

### Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net Income	\$ 130	\$ 132	\$ 358	\$ 322
Special items, gains (losses), after-tax	2	—	(7)	(1)

Excluding special items, earnings increased for the nine month period in 2018 compared with 2017, primarily due to higher sales volumes driven by favorable weather, higher base electricity and gas rates effective July 1, 2017 and returns on additional environmental capital investments, partially offset by higher other operation and maintenance expense, higher depreciation expense and higher interest expense.



[Table of Contents](#)

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

	Three Months	Nine Months
Adjusted Gross Margins	\$ (19)	\$ 24
Other operation and maintenance	(23)	(46)
Depreciation	(3)	(26)
Taxes, other than income	—	(5)
Other Income (Expense) - net	1	6
Interest Expense	(5)	(11)
Income Taxes	45	100
Special items, gains (losses), after-tax (a)	2	(6)
Net Income	<u>\$ (2)</u>	<u>\$ 36</u>

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

**Adjusted Gross Margins**

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

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

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 802	\$ —	\$ 802	\$ 818	\$ —	\$ 818
<b>Operating Expenses</b>						
Fuel	206	—	206	202	—	202
Energy purchases	22	—	22	22	—	22
Other operation and maintenance	26	190	216	30	167	197
Depreciation	18	101	119	16	98	114
Taxes, other than income	2	16	18	1	16	17
Total Operating Expenses	<u>274</u>	<u>307</u>	<u>581</u>	<u>271</u>	<u>281</u>	<u>552</u>
<b>Total</b>	<u>\$ 528</u>	<u>\$ (307)</u>	<u>\$ 221</u>	<u>\$ 547</u>	<u>\$ (281)</u>	<u>\$ 266</u>

	2018 Nine Months			2017 Nine Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 2,417	\$ —	\$ 2,417	\$ 2,350	\$ —	\$ 2,350
<b>Operating Expenses</b>						
Fuel	609	—	609	576	—	576
Energy purchases	135	—	135	120	—	120
Other operation and maintenance	74	558	632	82	512	594
Depreciation	52	302	354	48	276	324
Taxes, other than income	3	50	53	4	45	49
Total Operating Expenses	<u>873</u>	<u>910</u>	<u>1,783</u>	<u>830</u>	<u>833</u>	<u>1,663</u>
<b>Total</b>	<u>\$ 1,544</u>	<u>\$ (910)</u>	<u>\$ 634</u>	<u>\$ 1,520</u>	<u>\$ (833)</u>	<u>\$ 687</u>

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

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

### Statement of Income Analysis

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

	Three Months			Nine Months		
	2018	2017	\$ Change	2018	2017	\$ Change
<b>Operating Revenues</b>						
Retail and wholesale	\$ 357	\$ 361	\$ (4)	\$ 1,095	\$ 1,055	\$ 40
Electric revenue from affiliate	5	2	3	21	23	(2)
<b>Total Operating Revenues</b>	<b>362</b>	<b>363</b>	<b>(1)</b>	<b>1,116</b>	<b>1,078</b>	<b>38</b>
<b>Operating Expenses</b>						
<b>Operation</b>						
Fuel	83	76	7	234	225	9
Energy purchases	17	18	(1)	121	107	14
Energy purchases from affiliate	2	3	(1)	10	8	2
Other operation and maintenance	95	87	8	277	258	19
Depreciation	49	47	2	146	136	10
Taxes, other than income	9	8	1	27	25	2
<b>Total Operating Expenses</b>	<b>255</b>	<b>239</b>	<b>16</b>	<b>815</b>	<b>759</b>	<b>56</b>
Other Income (Expense) - net	(3)	(3)	—	(5)	(6)	1
Interest Expense	20	17	3	57	53	4
Income Taxes	18	39	(21)	51	99	(48)
<b>Net Income</b>	<b>\$ 66</b>	<b>\$ 65</b>	<b>\$ 1</b>	<b>\$ 188</b>	<b>\$ 161</b>	<b>\$ 27</b>

### Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Volumes (a)	\$ 14	\$ 58
Base rates	—	32
ECR	1	8
TCJA refund (b)	(14)	(51)
Fuel and other energy prices	(3)	(13)
DSM	(1)	(6)
Other	2	10
<b>Total</b>	<b>\$ (1)</b>	<b>\$ 38</b>

(a) Increases were primarily due to favorable weather in 2018.

(b) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

### Fuel

Fuel increased \$7 million for the three months ended September 30, 2018 compared with 2017, primarily due to an \$8 million increase in volumes driven by weather in 2018.

[Table of Contents](#)

## Energy Purchases

Energy purchases increased \$14 million for the nine months ended September 30, 2018 compared with 2017, primarily due to an \$18 million increase in natural gas volumes driven by weather in 2018, partially offset by a \$6 million decrease in market prices for natural gas.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Storm costs	\$ 4	\$ 6
Gas distribution maintenance and compliance	1	4
Timing and scope of generation maintenance outages	—	2
Other	3	7
<b>Total</b>	<b>\$ 8</b>	<b>\$ 19</b>

## Depreciation

Depreciation increased \$10 million for the nine months ended September 30, 2018 compared with 2017, due to a \$6 million increase related to additional assets placed into service, net of retirements and a \$4 million increase related to higher depreciation rates effective July 1, 2017.

## Income Taxes

The increase (decrease) in income taxes for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Reduction in U.S. federal income tax rate (a)	\$ (12)	\$ (33)
Change in pre-tax income	(8)	(8)
Amortization of excess deferred income taxes (a)	(1)	(6)
Other	—	(1)
<b>Total</b>	<b>\$ (21)</b>	<b>\$ (48)</b>

(a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

## Earnings

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net Income	\$ 66	\$ 65	\$ 188	\$ 161
Special items, gains (losses), after-tax (a)	—	—	—	—

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

Earnings increased for the nine month period in 2018 compared with 2017, primarily due to higher sales volumes driven by favorable weather, higher base electricity and gas rates effective July 1, 2017 and returns on additional environmental capital investments, partially offset by higher other operation and maintenance expense and higher depreciation expense.

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



[Table of Contents](#)

	Three Months	Nine Months
Adjusted Gross Margins	\$ (5)	\$ 19
Other operation and maintenance	(11)	(23)
Depreciation	(1)	(11)
Taxes, other than income	—	(3)
Other Income (Expense) - net	—	1
Interest Expense	(3)	(4)
Income Taxes	21	48
Net Income	<u>\$ 1</u>	<u>\$ 27</u>

**Adjusted Gross Margins**

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

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

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 362	\$ —	\$ 362	\$ 363	\$ —	\$ 363
<b>Operating Expenses</b>						
Fuel	83	—	83	76	—	76
Energy purchases, including affiliate	19	—	19	21	—	21
Other operation and maintenance	10	85	95	13	74	87
Depreciation	8	41	49	7	40	47
Taxes, other than income	2	7	9	1	7	8
Total Operating Expenses	122	133	255	118	121	239
<b>Total</b>	<u>\$ 240</u>	<u>\$ (133)</u>	<u>\$ 107</u>	<u>\$ 245</u>	<u>\$ (121)</u>	<u>\$ 124</u>

	2018 Nine Months			2017 Nine Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 1,116	\$ —	\$ 1,116	\$ 1,078	\$ —	\$ 1,078
<b>Operating Expenses</b>						
Fuel	234	—	234	225	—	225
Energy purchases, including affiliate	131	—	131	115	—	115
Other operation and maintenance	29	248	277	33	225	258
Depreciation	23	123	146	24	112	136
Taxes, other than income	2	25	27	3	22	25
Total Operating Expenses	419	396	815	400	359	759
<b>Total</b>	<u>\$ 697</u>	<u>\$ (396)</u>	<u>\$ 301</u>	<u>\$ 678</u>	<u>\$ (359)</u>	<u>\$ 319</u>

- (a) Represents amounts excluded from Adjusted Gross Margins.  
(b) As reported on the Statements of Income.

## KU: Statement of Income Analysis, Earnings and Adjusted Gross Margins

### Statement of Income Analysis

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

	Three Months			Nine Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues						
Retail and wholesale	\$ 445	\$ 457	\$ (12)	\$ 1,322	\$ 1,295	\$ 27
Electric revenue from affiliate	2	3	(1)	10	8	2
<b>Total Operating Revenues</b>	<b>447</b>	<b>460</b>	<b>(13)</b>	<b>1,332</b>	<b>1,303</b>	<b>29</b>
Operating Expenses						
<b>Operation</b>						
Fuel	123	126	(3)	375	351	24
Energy purchases	5	4	1	14	13	1
Energy purchases from affiliate	5	2	3	21	23	(2)
Other operation and maintenance	114	104	10	331	312	19
Depreciation	70	67	3	208	188	20
Taxes, other than income	9	9	—	26	24	2
<b>Total Operating Expenses</b>	<b>326</b>	<b>312</b>	<b>14</b>	<b>975</b>	<b>911</b>	<b>64</b>
Other Income (Expense) - net	1	—	1	1	(4)	5
Interest Expense	24	24	—	74	72	2
Income Taxes	21	47	(26)	59	120	(61)
<b>Net Income</b>	<b>\$ 77</b>	<b>\$ 77</b>	<b>\$ —</b>	<b>\$ 225</b>	<b>\$ 196</b>	<b>\$ 29</b>

### Operating Revenues

The increase (decrease) in operating revenues for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Volumes (a)	\$ 8	\$ 64
Base rates	—	26
ECR	4	10
TCJA refund (b)	(16)	(58)
DSM	(1)	(7)
Fuel and other energy prices	(4)	(2)
Other	(4)	(4)
<b>Total</b>	<b>\$ (13)</b>	<b>\$ 29</b>

(a) Increases were primarily due to favorable weather in 2018.

(b) Represents estimated income tax savings owed to customers related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 7 to the Financial Statements for additional information.

### Fuel

Fuel increased \$24 million for the nine months ended September 30, 2018 compared with 2017, primarily due to a \$30 million increase in volumes driven by weather in 2018, partially offset by a \$6 million decrease in commodity costs.

[Table of Contents](#)

**Other Operation and Maintenance**

The increase (decrease) in other operation and maintenance for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Timing and scope of generation maintenance outages	\$ —	\$ 6
Vegetation management	1	5
Storm costs	5	4
Other	4	4
<b>Total</b>	<b>\$ 10</b>	<b>\$ 19</b>

**Depreciation**

Depreciation increased \$20 million for the nine months ended September 30, 2018 compared with 2017, primarily due to an \$11 million increase related to higher depreciation rates effective July 1, 2017 and a \$6 million increase related to additional assets placed into service, net of retirements.

**Income Taxes**

The increase (decrease) in income taxes for the periods ended September 30, 2018 compared with 2017 was due to:

	Three Months	Nine Months
Reduction in U.S. federal income tax rate (a)	\$ (14)	\$ (40)
Change in pre-tax income	(10)	(12)
Amortization of excess deferred income taxes (a)	(2)	(8)
Other	—	(1)
<b>Total</b>	<b>\$ (26)</b>	<b>\$ (61)</b>

(a) The decreases are related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018. See Note 6 to the Financial Statements for additional information.

**Earnings**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net Income	\$ 77	\$ 77	\$ 225	\$ 196
Special items, gains (losses), after-tax	—	—	—	(1)

Earnings increased for the nine month period in 2018 compared with 2017, primarily due to higher sales volumes driven by favorable weather, higher base electricity rates effective July 1, 2017 and returns on environmental capital investments, partially offset by higher other operation and maintenance expense and higher depreciation expense.

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

	Three Months	Nine Months
Adjusted Gross Margins	\$ (14)	\$ 5
Other operation and maintenance	(11)	(23)
Depreciation	(2)	(15)
Taxes, other than income	—	(2)
Other Income (Expense) - net	1	4
Interest Expense	—	(2)
Income Taxes	26	61
Special items, gains (losses), after-tax (a)	—	1
<b>Net Income</b>	<b>\$ —</b>	<b>\$ 29</b>



[Table of Contents](#)

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

**Adjusted Gross Margins**

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

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

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 447	\$ —	\$ 447	\$ 460	\$ —	\$ 460
<b>Operating Expenses</b>						
Fuel	123	—	123	126	—	126
Energy purchases, including affiliate	10	—	10	6	—	6
Other operation and maintenance	16	98	114	17	87	104
Depreciation	10	60	70	9	58	67
Taxes, other than income	—	9	9	—	9	9
Total Operating Expenses	159	167	326	158	154	312
<b>Total</b>	<b>\$ 288</b>	<b>\$ (167)</b>	<b>\$ 121</b>	<b>\$ 302</b>	<b>\$ (154)</b>	<b>\$ 148</b>

	2018 Nine Months			2017 Nine Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 1,332	\$ —	\$ 1,332	\$ 1,303	\$ —	\$ 1,303
<b>Operating Expenses</b>						
Fuel	375	—	375	351	—	351
Energy purchases, including affiliate	35	—	35	36	—	36
Other operation and maintenance	45	286	331	49	263	312
Depreciation	29	179	208	24	164	188
Taxes, other than income	1	25	26	1	23	24
Total Operating Expenses	485	490	975	461	450	911
<b>Total</b>	<b>\$ 847</b>	<b>\$ (490)</b>	<b>\$ 357</b>	<b>\$ 842</b>	<b>\$ (450)</b>	<b>\$ 392</b>

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

**Financial Condition**

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

**Liquidity and Capital Resources**

*(All Registrants)*

The Registrants had the following at:

	<u>PPL (a)</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&amp;E</u>	<u>KU</u>
<b><u>September 30, 2018</u></b>					
Cash and cash equivalents	\$ 842	\$ 414	\$ 29	\$ 11	\$ 18
Short-term debt	1,549	—	304	176	128
Long-term debt due within one year	330	—	330	234	96
Notes payable with affiliates		—	80	—	—
<b><u>December 31, 2017</u></b>					
Cash and cash equivalents	\$ 485	\$ 49	\$ 30	\$ 15	\$ 15
Short-term debt	1,080	—	244	199	45
Long-term debt due within one year	348	—	98	98	—
Notes payable with affiliates		—	225	—	—

(a) At September 30, 2018, \$57 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 5 to the Financial Statements in PPL's 2017 Form 10-K for additional information on undistributed earnings of WPD.

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

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&amp;E</u>	<u>KU</u>
<b>2018</b>					
Operating activities	\$ 2,210	\$ 650	\$ 787	\$ 410	\$ 485
Investing activities	(2,466)	(837)	(825)	(420)	(404)
Financing activities	618	552	37	6	(78)
<b>2017</b>					
Operating activities	\$ 1,754	\$ 575	\$ 920	\$ 418	\$ 501
Investing activities	(2,168)	(858)	(575)	(293)	(289)
Financing activities	738	513	(318)	(121)	(188)
<b>Change - Cash Provided (Used)</b>					
Operating activities	\$ 456	\$ 75	\$ (133)	\$ (8)	\$ (16)
Investing activities	(298)	21	(250)	(127)	(115)
Financing activities	(120)	39	355	127	110

**Operating Activities**

The components of the change in cash provided by (used in) operating activities for the nine months ended September 30, 2018 compared with 2017 were as follows.

[Table of Contents](#)

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Net income	\$ 362	\$ 83	\$ 36	\$ 27	\$ 29
Non-cash components	(386)	(39)	(88)	(44)	(69)
Working capital	134	13	49	78	76
Defined benefit plan funding	274	(4)	(94)	(56)	(31)
Other operating activities	72	22	(36)	(13)	(21)
Total	\$ 456	\$ 75	\$ (133)	\$ (8)	\$ (16)

*(PPL)*

PPL's cash provided by operating activities in 2018 increased \$456 million compared with 2017.

- Net income increased \$362 million between periods and included a decrease in non-cash charges of \$386 million. The decrease in non-cash charges was primarily due to an increase in unrealized gains on hedging activities and an increase in the U.K. net periodic defined benefit credits (primarily due to an increase in expected returns on higher asset balances) partially offset by an 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, the replacement of aging infrastructure, the roll-out of the Act 129 Smart Meter program and higher depreciation rates effective July 1, 2017).
- The \$134 million increase in cash from changes in working capital was primarily due to a decrease in unbilled revenue (primarily due to colder weather in the fourth quarter of 2017), a decrease in net regulatory assets and liabilities (primarily due to an increase in regulatory liabilities due to the impact of the TCJA and timing of rate recovery mechanisms) and an increase in accounts payable (primarily due to timing of payments).
- Defined benefit plan funding was \$274 million lower in 2018. The decrease was primarily due to the acceleration of WPD's contributions to its U.K. pension plans in 2017.

*(PPL Electric)*

PPL Electric's cash provided by operating activities in 2018 increased \$75 million compared with 2017.

- Net income increased \$83 million between the periods and included a decrease in non-cash charges of \$39 million. The decrease in non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and net operating losses) partially offset by an 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, the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program).
- The \$13 million increase in cash from changes in working capital was primarily due to a decrease in accounts receivable (which was primarily due to tax proceeds from the filing of the 2017 federal income tax return), a decrease in unbilled revenues (primarily due to colder weather in the fourth quarter of 2017) and a decrease in materials and supplies within Other (primarily due to inventory optimization efforts) partially offset by an increase in net regulatory assets and liabilities (primarily due to a decrease in the transmission service charge regulatory liability as a result of the June 1, 2018 Transmission Formula Rate filing, an increase in recoverable storm costs and an increase in recoverable costs related to the Act 129 Smart Meter program).
- The \$22 million increase in cash provided by other operating activities was primarily due to an increase in non-current regulatory liabilities (primarily due to the TCJA regulatory liability) partially offset by an increase in non-current regulatory assets (primarily due to recoverable storm costs).

*(LKE)*

LKE's cash provided by operating activities in 2018 decreased \$133 million compared with 2017.

- Net income increased \$36 million between the periods and included a decrease in non-cash charges of \$88 million. The decrease in non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and the impacts of federal and state tax reform), partially offset by an increase



## Table of Contents

in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).

- The increase in cash from changes in working capital was primarily driven by a decrease in other current liabilities (primarily due to timing of payments), a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), an increase in accounts payable (primarily due to timing of payments) and a decrease in unbilled revenues (primarily due to colder weather in the fourth quarter of 2017), partially offset by a decrease in taxes payable (primarily due to timing of payments), and an increase in fuel inventory (primarily due to timing of fuel purchases and payments).
- Defined benefit plan funding was \$94 million higher in 2018.
- The decrease in cash from LKE's other operating activities was primarily driven by an increase in ARO expenditures.

### *(LG&E)*

LG&E's cash provided by operating activities in 2018 decreased \$8 million compared with 2017.

- Net income increased \$27 million between the periods and included a decrease in non-cash charges of \$44 million. The decrease in non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and the impacts of federal and state tax reform), partially offset by an increase in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).
- The increase in cash from changes in working capital was primarily driven by an increase in accounts payable (primarily due to timing of payments), a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms), an increase in taxes payable (primarily due to timing of payments) and a decrease in unbilled revenues (primarily due to colder weather in the fourth quarter of 2017), partially offset by a decrease in other current liabilities (primarily due to timing of payments).
- Defined benefit plan funding was \$56 million higher in 2018.

### *(KU)*

KU's cash provided by operating activities in 2018 decreased \$16 million compared with 2017.

- Net income increased \$29 million between the periods and included a decrease in non-cash charges of \$69 million. The decrease in non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and the impacts of federal and state tax reform), partially offset by an increase in depreciation expense (primarily due to higher depreciation rates effective July 1, 2017 and additional assets placed into service, net of retirements).
- The increase in cash from changes in working capital was primarily driven by a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms), an increase in taxes payable (primarily due to timing of payments), a decrease in unbilled revenues (primarily due to colder weather in the fourth quarter of 2017), partially offset by an increase in fuel inventory (primarily due to timing of fuel purchases and payments).
- Defined benefit plan funding was \$31 million higher in 2018.
- The decrease in cash from KU's other operating activities was primarily driven by an increase in ARO expenditures.

## Investing Activities

### *(All Registrants)*

#### *Expenditures for Property, Plant and Equipment*

Investment in PP&E is the primary investing activity of the Registrants. The change in cash used in expenditures for PP&E for the nine months ended September 30, 2018 compared with 2017 was as follows.

## Table of Contents

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&amp;E</u>	<u>KU</u>
Decrease (Increase)	\$ (192)	\$ 16	\$ (247)	\$ (127)	\$ (122)

For PPL, the increase in expenditures was due to higher project expenditures at LKE, LG&E and KU partially offset by lower project expenditures at WPD and PPL Electric. The increase in expenditures for LKE, LG&E and KU was primarily due to increased spending for environmental water projects at LG&E's Mill Creek and Trimble County plants and increased spending for environmental water projects at KU's Ghent plant. The decrease in expenditures at WPD was primarily due to a decrease in expenditures to enhance system reliability partially offset by an increase in foreign currency exchange rates. The decrease in expenditures for PPL Electric was primarily due to timing differences on capital spending projects related to the ongoing efforts to improve reliability and replace aging infrastructure.

## Financing Activities

*(All Registrants)*

The components of the change in cash provided by (used in) financing activities for the nine months ended September 30, 2018 compared with 2017 were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&amp;E</u>	<u>KU</u>
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$ (703)	\$ (72)	\$ 91	\$ 100	\$ (9)
Debt issuance/retirement with affiliate, net		—	250	—	—
Stock issuances/redemptions, net	403	—	—	—	—
Dividends	(46)	(40)	—	37	(25)
Capital contributions/distributions, net		(146)	99	43	45
Change in short-term debt, net	212	295	55	(44)	99
Notes payable with affiliate		—	(141)	(10)	—
Other financing activities	14	2	1	1	—
Total	<u>\$ (120)</u>	<u>\$ 39</u>	<u>\$ 355</u>	<u>\$ 127</u>	<u>\$ 110</u>

See Note 8 to the Financial Statements in this Form 10-Q for information on 2018 short-term and long-term debt activity, equity transactions and PPL dividends. See Note 7 to the Financial Statements in the Registrants' 2017 Form 10-K for information on 2017 activity.

## Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets except for borrowings under LG&E's term loan agreement which are reflected in "Long-term debt" on the Balance Sheets. At September 30, 2018, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

[Table of Contents](#)

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,350	\$ —	\$ 711	\$ 639
PPL Electric Credit Facility	650	—	1	649
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	700	200	176	324
KU Credit Facilities	598	—	326	272
<b>Total LKE</b>	<b>1,373</b>	<b>200</b>	<b>502</b>	<b>671</b>
Total U.S. Credit Facilities (a)	\$ 3,373	\$ 200	\$ 1,214	\$ 1,959
Total U.K. Credit Facilities (b)	£ 1,185	£ 427	£ —	£ 756

(a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric - 7%, LKE - 18%, LG&E - 33% and KU - 37%.

(b) The amounts borrowed at September 30, 2018 were a USD-denominated borrowing of \$200 million and GBP-denominated borrowings which equated to \$354 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £156 million as of the date borrowed. At September 30, 2018, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1.0 billion.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 17% of the total committed capacity.

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	\$ 300	\$ 80	\$ —	\$ 220
LG&E Money Pool (a)	500	—	176	324
KU Money Pool (a)	500	—	128	372

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

See Note 11 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

PPL, PPL Electric, LG&E and KU maintain commercial paper programs to provide an additional financing source to fund short-term liquidity needs, as necessary. Commercial paper issuances, included in "Short-term debt" on the Balance Sheets, are supported by the respective Registrant's Syndicated Credit Facility. The following commercial paper programs were in place at September 30, 2018:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 691	\$ 309
PPL Electric	650	—	650
LG&E	350	176	174
KU	350	128	222
<b>Total LKE</b>	<b>700</b>	<b>304</b>	<b>396</b>
<b>Total PPL</b>	<b>\$ 2,350</b>	<b>\$ 995</b>	<b>\$ 1,355</b>



## [Table of Contents](#)

### Long-term Debt *(All Registrants)*

See Note 8 to the Financial Statements for information regarding the Registrants' long-term debt activities.

*(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 connection 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 63.25 million shares of PPL common stock. Full settlement of these forward sale agreements will occur no later than November 2019. PPL only receives proceeds and issues shares of common stock upon any settlements of the forward sale agreements. PPL intends to use net proceeds that it receives upon any settlement for general corporate purposes.

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.

See Note 8 to the Financial Statements for additional information.

#### *ATM Program*

For the nine months ended September 30, 2018, PPL issued 4.2 million shares of common stock and received proceeds of \$119 million. See Note 8 to the Financial Statements for further discussion of the ATM program.

### Common Stock Dividends *(PPL)*

In August 2018, PPL declared a quarterly common stock dividend, payable October 1, 2018, of 41.0 cents per share (equivalent to \$1.64 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

### Rating Agency Actions

*(All Registrants)*

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

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of the Registrants and their subsidiaries are based on information provided by the Registrants and other sources. The ratings of Moody's and S&P are not a recommendation to buy, sell or hold any securities of the Registrants or their subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities.

The credit ratings of the Registrants and their subsidiaries affect their liquidity, access to capital markets and cost of borrowing under their credit facilities. A downgrade in the Registrants' or their subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets. The Registrants and their subsidiaries have no credit rating triggers that would result in the reduction of access to capital markets or the acceleration of maturity dates of outstanding debt.

The rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2018:

## Table of Contents

*(PPL)*

In March 2018, Moody's and S&P assigned ratings of Baa1 and A- to WPD (South Wales)'s £30 million 0.01% Index-linked Senior Notes due 2036.

In May 2018, Moody's and S&P assigned ratings of Baa1 and A- to WPD (West Midlands)'s £30 million 0.01% Index-linked Senior Notes due 2028.

In October 2018, Moody's and S&P assigned ratings of Baa3 and BBB+ to WPD plc's £350 million 3.5% Senior Notes due 2026.

*(PPL and PPL Electric)*

In June 2018, Moody's and S&P assigned ratings of A1 and A to PPL Electric's \$400 million 4.15% First Mortgage Bonds due 2048.

*(PPL, LKE and LG&E)*

In February 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Trimble, Kentucky's \$28 million 2.30% Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2026, previously issued on behalf of LG&E.

In April 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Trimble, Kentucky's \$35 million 2.55% Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027, previously issued on behalf of LG&E.

In April 2018, Moody's assigned a rating of A1 and S&P confirmed its rating of A to the County of Jefferson, Kentucky's \$35 million 2.55% Pollution Control Revenue Bonds, 2001 Series B (Louisville Gas and Electric Company Project) due 2027, previously issued on behalf of LG&E.

## Ratings Triggers

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

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at September 30, 2018.

*(All Registrants)*

For additional information on the Registrants' liquidity and capital resources, see "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Registrants' 2017 Form 10-K.

## **Risk Management**

### Market Risk

*(All Registrants)*

See Notes 13 and 14 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



[Table of Contents](#)

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 September 30, 2018.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
<b>PPL</b>				
Cash flow hedges				
Interest rate swaps (c)	\$ 97	\$ —	\$ (1)	2026
Cross-currency swaps (c)	702	125	(78)	2028
Economic hedges				
Interest rate swaps (d)	147	(19)	(2)	2033
<b>LKE</b>				
Economic hedges				
Interest rate swaps (d)	147	(19)	(2)	2033
<b>LG&amp;E</b>				
Economic hedges				
Interest rate swaps (d)	147	(19)	(2)	2033

(a) Includes accrued interest, if applicable.

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

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

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

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at September 30, 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 September 30, 2018 is shown below.

	10% Adverse Movement in Rates
PPL	\$ 647
PPL Electric	190
LKE	176
LG&E	63
KU	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



## Table of Contents

translation risk of expected earnings, firm commitments, recognized assets or liabilities, anticipated transactions and net investments.

The following foreign currency hedges were outstanding at September 30, 2018.

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through
Economic hedges (b)	£ 1,783	\$ 144	\$ (216)	2020

(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 risk of expected earnings denominated in GBP.

*(All Registrants)*

### *Commodity Price Risk*

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

- PPL Electric is 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*

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 in PPL's 2017 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

### Credit Risk *(All Registrants)*

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Risk Management - Credit Risk" in the Registrants' 2017 Form 10-K for additional information.

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

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in this exchange rate resulted in a foreign currency translation loss of \$330 million for the nine months ended September 30, 2018, which primarily reflected a \$549 million decrease to PP&E and a \$110 million decrease to goodwill, partially offset by a \$319 million decrease to long-term debt and a \$10 decrease to other net liabilities. Changes in this exchange rate resulted in a foreign currency translation gain of \$194 million for the nine months ended September 30, 2017, which primarily reflected a \$345 million increase to PP&E and a \$75 million increase to goodwill partially offset by a \$203 million increase to long-term debt and a \$23 million increase to other net liabilities. The impact of foreign currency translation is recorded in AOCL.

### **Related Party Transactions** *(All Registrants)*

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants.

## Table of Contents

See Note 11 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

### **Acquisitions, Development and Divestitures** *(All Registrants)*

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results. See Note 8 to the Financial Statements in the Registrants' 2017 Form 10-K for information on the more significant activities.

### **Environmental Matters**

*(All Registrants)*

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

See below for further discussion of the EPA's CCR Rule and Note 10 to the Financial Statements for a discussion of other significant environmental matters including Legal Matters, NAAQS, Climate Change, and ELGs. Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2017 Form 10-K for additional information.

#### *EPA's CCR Rule (PPL, LKE, LG&E and KU)*

Over the next several years, LG&E and KU anticipate undertaking extensive measures, including significant capital expenditures, in complying with the provisions of the EPA's CCR Rule. Although LG&E and KU have identified compliance strategies and are finalizing closure plans and schedules as required by the CCR Rule, remaining regulatory uncertainties could substantially impact current plans. As a result of a judicial settlement, legislative amendments, and the EPA's review of the current program, the EPA is in the process of undertaking significant revisions to the CCR Rule. On July 30, 2018, the EPA published certain amendments to the CCR Rule which include extending the deadline for commencement of closure of certain impoundments from April 2019 to October 31, 2020. The EPA has announced that additional amendments to the rule will be proposed in late 2018. On August 21, 2018, the D.C. Circuit Court of Appeals vacated and remanded portions of the CCR Rule, including the provisions allowing unlined impoundments to continue operating and provisions exempting certain inactive impoundments from regulation. The exact impact of the judicial decision will be highly dependent on the EPA's rulemaking actions on remand and any subsequent legal challenges. LG&E and KU are evaluating the specific plan impacts of developments to date and will continue to monitor the EPA's ongoing regulatory proceedings.

In connection with the CCR Rule, LG&E and KU have recorded adjustments to existing AROs beginning in 2015 and continue to record adjustments as required. See Note 16 and Note 19 to the Financial Statements in the Registrants' 2017 Form 10-K for additional information on AROs. LG&E and KU continue to perform technical evaluations related to their plans to close impoundments at all of their generating plants. Although LG&E and KU believe their recorded liabilities appropriately reflect their obligations under current rules, changes to current compliance strategies as a result of ongoing regulatory proceedings or other developments could result in additional closure costs. It is not currently possible to determine the magnitude of any potential cost increases related to changes in compliance strategies or plans, and the timing of future cash outflows are indeterminable at this time. As rules are revised, technical evaluations are completed, and the timing and details of impoundment closures develop further on a plant-by-plant basis, LG&E and KU will update their cost estimates and record any changes as necessary to their ARO liability, which could be material. These costs are subject to rate recovery.

#### **New Accounting Guidance** *(All Registrants)*

See Note 2 and 17 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

**Application of Critical Accounting Policies** *(All Registrants)*

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following table summarizes the accounting policies by Registrant that are particularly important to an understanding of the reported financial condition or results of operations, and require management to make estimates or other judgments of matters that are inherently uncertain. See "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrants' 2017 Form 10-K for a discussion of each critical accounting policy.

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

**Income Taxes** *(All Registrants)*

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 have 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 is 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. See Note 6 to the Financial Statements for the final amounts reported in PPL's 2017 federal income tax return, provisional adjustment amounts for the year ended December 31, 2017, the related measurement period adjustments and the resulting tax impact for the three and nine months ended September 30, 2018.

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 is complete as of September 30, 2018 with respect to the three items discussed above. The Registrants continue to analyze the impact of the TCJA on the deductibility of executive compensation awarded on or before November 2, 2017. The Registrants do not currently anticipate a material change from what was reflected in the December 31, 2017 financial statements and expect to record the impact, if any, of changes in the deductibility of executive compensation in the fourth quarter of 2018.



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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

**Item 4. Controls and Procedures**

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of September 30, 2018, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

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

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

For information regarding legal, tax, regulatory, environmental or other administrative proceedings that became reportable events or were pending in the third quarter of 2018, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2017 Form 10-K; and
- Notes 7 and 10 to the Financial Statements.

**Item 1A. Risk Factors**

There have been no material changes in the Registrants' risk factors from those disclosed in "Item 1A. Risk Factors" of the Registrants' 2017 Form 10-K.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Effective October 25, 2018, the Compensation, Governance and Nominating Committee approved amendments of the 2012 Amended and Restated Stock Incentive Plan and the Incentive Compensation Plan for Key Employees. The amendments add a one-year minimum vesting requirement for equity awards with the exception of change-in-control events; death, retirement and disability; and additional awards issued in the aggregate up to 5% of the authorized shares that can be issued under the respective equity plan.

## Item 6. Exhibits

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

- [\\*4\(a\)](#) - 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
- [\\*4\(b\)](#) - 2018 Series A Carroll County Loan Agreement, dated as of August 1, 2018, by and between Kentucky Utilities Company and County of Carroll, Kentucky
- [\\*4\(c\)](#) - 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
- [\\*4\(d\)](#) - Trust Deed, dated October 16, 2018, between Western Power Distribution plc as Issuer, and HSBC Corporate Trustee Company (UK) Limited as Trustee
- [\\*110\(a\)](#) - Amended and Restated Incentive Compensation Plan for Key Employees, effective October 25, 2018
- [\\*110\(b\)](#) - PPL Corporation Amended and Restated 2012 Stock Incentive Plan, effective October 25, 2018
- [\\*12\(a\)](#) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [\\*12\(b\)](#) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- [\\*12\(c\)](#) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- [\\*12\(d\)](#) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
- [\\*12\(e\)](#) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2018, filed by the following officers for the following companies:

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

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2018, furnished by the following officers for the following companies:

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

## Table of Contents

101.INS	- XBRL Instance Document
101.SCH	- XBRL Taxonomy Extension Schema
101.CAL	- XBRL Taxonomy Extension Calculation Linkbase
101.DEF	- XBRL Taxonomy Extension Definition Linkbase
101.LAB	- XBRL Taxonomy Extension Label Linkbase
101.PRE	- XBRL Taxonomy Extension Presentation Linkbase



Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation

(Registrant)

Date: November 1, 2018

/s/ Stephen K. Breininger

Stephen K. Breininger  
Vice President and Controller  
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: November 1, 2018

/s/ Marlene C. Beers

Marlene C. Beers  
Vice President-Finance and Regulatory Affairs and  
Controller  
(Principal Financial Officer and Principal Accounting  
Officer)

LG&E and KU Energy LLC

(Registrant)

Louisville Gas and Electric Company

(Registrant)

Kentucky Utilities Company

(Registrant)

Date: November 1, 2018

/s/ Kent W. Blake

Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting  
Officer)

[CONFORMED COPY]

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**KENTUCKY UTILITIES COMPANY**

**TO**

**THE BANK OF NEW YORK MELLON,**

**Trustee**

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**Supplemental Indenture No. 6  
dated as of August 1, 2018**

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**Supplemental to the Indenture  
dated as of October 1, 2010**

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**Establishing**

**First Mortgage Bonds, Collateral Series 2018CCA**

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## SUPPLEMENTAL INDENTURE NO. 6

SUPPLEMENTAL INDENTURE No. 6, dated as of the 1st day of August, 2018, made and entered into by and between KENTUCKY UTILITIES COMPANY, a corporation duly organized and existing under the laws of the Commonwealths of Kentucky and Virginia, having its principal corporate offices at One Quality Street, Lexington, Kentucky 40507 (hereinafter sometimes called the "Company"), and THE BANK OF NEW YORK MELLON, a New York banking corporation, having its corporate trust office at 500 Ross Street, 12th Floor, Pittsburgh, Pennsylvania 15262 and having its principal place of business at 225 Liberty Street, New York, New York 10281 (hereinafter sometimes called the "Trustee"), as Trustee under the Indenture, dated as of October 1, 2010 (hereinafter called the "Original Indenture"), between the Company and said Trustee, as heretofore supplemented, this Supplemental Indenture No. 6 being supplemental thereto. The Original Indenture, as heretofore supplemented, and this Supplemental Indenture No. 6 are hereinafter sometimes, collectively, called the "Indenture."

### Recitals of the Company

The Original Indenture was authorized, executed and delivered by the Company to provide for the issuance from time to time of its Securities (such term and all other capitalized terms used herein without definition having the meanings assigned to them in the Original Indenture), to be issued in one or more series as contemplated therein, and to provide security for the payment of the principal of and premium, if any, and interest, if any, on such Securities.

The Company has heretofore executed and delivered supplemental indentures for the purpose of creating series of Securities as set forth in Exhibit A hereto.

The Original Indenture and Supplemental Indentures No. 1, No. 2 and No. 3, and financing statements in respect thereof, have been duly recorded and filed in the various official records in the Commonwealth of Kentucky as set forth in Supplemental Indenture No. 4, and Supplemental Indenture No. 4 has been duly recorded and filed in the various official records in the Commonwealth of Kentucky as set forth in Supplemental Indenture No. 5.

Supplemental Indenture No. 5 has been duly recorded and filed in the various official records in the Commonwealth of Kentucky as set forth in Exhibit B hereto.

Pursuant to Article Three of the Original Indenture, the Company wishes to establish a series of Securities, such series of Securities to be hereinafter sometimes called "Securities of Series No. 9".

As contemplated in Section 301 of the Original Indenture, the Company further wishes to establish the designation and certain terms of the Securities of Series No. 9. The Company has duly authorized the execution and delivery of this Supplemental Indenture No. 6 to establish the designation and certain terms of such series of Securities and has duly authorized the issuance of such Securities; and all acts necessary to make this Supplemental Indenture No. 6 a valid agreement of the Company, and to make the Securities of Series No. 9 valid obligations of the Company, have been performed.

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE NO. 6 WITNESSETH, that, for and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to secure the payment of the principal of and premium, if any, and interest, if any, on all Securities from time to time Outstanding and the performance of the covenants therein and in the Indenture contained, the Company hereby grants, bargains, sells, conveys, assigns, transfers,



mortgages, pledges, sets over and confirms to the Trustee, and grants to the Trustee a security interest in and lien on, the real property specifically referred to in Exhibit C attached hereto and incorporated herein by reference and all right, title and interest of the Company in and to all property personal and mixed located thereon (other than Excepted Property), as and to the extent, and subject to the terms and conditions, set forth in the Original Indenture, as heretofore amended; and it is further mutually covenanted and agreed, for the benefit of the Holders of the Securities of Series No. 9, as follows:

## ARTICLE ONE

### SECURITIES OF SERIES NO. 9

#### SECTION 101. Creation of Series No. 9.

There is hereby created a series of Securities designated "First Mortgage Bonds, Collateral Series 2018CCA", and the Securities of such series shall:

- (a) be issued in the aggregate principal amount of \$17,875,000 and shall be limited to such aggregate principal amount (except as contemplated in Section 301(b) of the Original Indenture);
- (b) be dated September 5, 2018;
- (c) have a Stated Maturity of February 1, 2026, subject to prior redemption by the Company;
- (d) have such additional terms as are established in an Officer's Certificate as contemplated in Section 301 of the Original Indenture; and
- (e) be in substantially the form or forms established therefor in an Officer's Certificate, as contemplated by Section 201 of the Original Indenture.

## ARTICLE TWO

### MISCELLANEOUS PROVISIONS

#### SECTION 201. Single Instrument.

This Supplemental Indenture No. 6 is an amendment and supplement to the Original Indenture as heretofore amended and supplemented. As amended and supplemented by this Supplemental Indenture No. 6, the Original Indenture, as heretofore supplemented, is in all respects ratified, approved and confirmed, and the Original Indenture, as heretofore supplemented, and this Supplemental Indenture No. 6 shall together constitute the Indenture.

#### SECTION 202. Trustee.

The Trustee accepts the amendment of the Original Indenture effected by this Supplemental Indenture No. 6 upon the terms and conditions set forth in the Original Indenture, as heretofore amended and

supplemented, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee, which terms and provisions shall in like manner define and limit its liabilities and responsibilities in the performance of the trust created by the Original Indenture, as heretofore amended and supplemented, and as hereby amended. The Recitals of the Company contained in this Supplemental Indenture No. 6 shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness and makes no representations as to the validity or sufficiency of this Supplemental Indenture No. 6.

**SECTION 203. Effect of Headings.**

The Article and Section headings in this Supplemental Indenture No. 6 are for convenience only and shall not affect the construction hereof.

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This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture No. 6 to be duly executed as of the day and year first written above.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough

Name: Daniels K. Arbough

Title: Treasurer

ATTEST:

/s/ John R. Crockett III

Name: John R. Crockett III

Title: General Counsel, Chief Compliance  
Officer and Corporate Secretary

THE BANK OF NEW YORK MELLON, as Trustee

By: /s/ Francine Kincaid

Name: Francine Kincaid

Title: Vice President

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By: /s/ Bret S. Derman

Bret S. Derman  
Notary Public, State of New York  
No. 02DE6196933  
Qualified in Kings County  
Certified Filed in New York County  
Commission Expires  
November 17, 2020

The Bank of New York Mellon hereby certifies that its precise name and address as Trustee hereunder are:

The Bank of New York Mellon  
500 Ross Street, 12th Floor  
Pittsburgh, Pennsylvania 15262  
Attn: Corporate Trust Administration

THE BANK OF NEW YORK MELLON, as Trustee

By: /s/ Francine Kincaid

Name: Francine Kincaid  
Title: Vice President

**CERTIFICATE OF PREPARER**

The foregoing instrument was prepared by:

James J. Dimas, Senior Corporate Attorney  
Kentucky Utilities Company  
220 West Main Street  
Louisville, Kentucky 40202

/s/ James J. Dimas

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James J. Dimas



**KENTUCKY UTILITIES COMPANY**

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**Bonds Issued and Outstanding  
under the Indenture**

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<u>Supplemental Indenture No.</u>	<u>Dated as of</u>	<u>Series No.</u>	<u>Series Designation</u>	<u>Date of Securities</u>	<u>Principal Amount Issued</u>	<u>Principal Amount Outstanding<sup>1</sup></u>
1	October 15, 2010	1	Collateral Series 2010	October 28, 2010	\$350,779,405	\$245,852,405
2	November 1, 2010	2	1.625% Series due 2015	November 16, 2010	\$250,000,000	None
		3	3.250% Series due 2020	November 16, 2010	\$500,000,000	\$500,000,000
		4	5.125% Series due 2040	November 16, 2010	\$750,000,000	\$750,000,000
3	November 1, 2013	5	4.65% Series due 2043	November 14, 2013	\$250,000,000	\$250,000,000
4	September 1, 2015	6	3.30% Series due 2025	September 28, 2015	\$250,000,000	\$250,000,000
		7	4.375% Series due 2045	September 28, 2015	\$250,000,000	\$250,000,000
5	August 1, 2016	8	Collateral Series 2016CCA	August 25, 2016	\$96,000,000	\$96,000,000

<sup>1</sup> As of August 1, 2018.

**KENTUCKY UTILITIES COMPANY**

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**Filing and Recording  
of  
Supplemental Indenture No. 5, dated as of August 1, 2016,  
to  
Indenture, dated as of October 1, 2010**

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COUNTY NAME	BOOK AND PAGE NUMBER
Adair	MB 345, Pg 630
Anderson	MB 562, Pg 489
Ballard	MB 85, Pg 487
Barren	MB 571, Pg 910
Bath	MB 226, Pg 676
Bell	MB 338, Pg 755
Bourbon	MB 600, Pg 70
Boyle	MB 697, Pg 578
Bracken	MB 289, Pg 701
Bullitt	DB 900, Pg 684
Caldwell	MB 317, Pg 545
Carroll	MB 233, Pg 65
Casey	MB 246 Pg 337
Christian	MB 1448, Pg 281
Clark	MB 833, Pg 823
Clay	MB 219, Pg 48
Crittenden	MB 217, Pg 50
Estill	MB J10, Pg 311
Fayette	MB 8629, Pg 386
Fleming	MB 335, Pg 238
Franklin	MB 1387, Pg 759
Fulton	MB 183, Pg 283
Gallatin	MB 224, Pg 33
Garrard	MB 350, Pg 355
Grayson	MB 22L, Pg 506
Green	MB 303, Pg 574
Hardin	MB 2171, Pg 881
Harlan	MB 443, Pg 258
Harrison	MB 394, Pg 160
Hart	MB 374, Pg 155

Henry	MB 341, Pg 469
Hickman	MB 113, Pg 117
Hopkins	MB 1163, Pg 91
Jessamine	MB 1255, Pg 200
Knox	MB 434, Pg 752
Larue	MB 351 Pg 587
Laurel	MB 1125, Pg 781
Lee	MB 114, Pg 187
Lincoln	MB 437, Pg 326
Livingston	MB 303, Pg 84
Lyon	MB 237, Pg 610
Madison .	MB 1694, Pg 314
Marion	MB 403, Pg 155
Mason	MB 435, Pg 253
McCracken	MB 1505, Pg 619
McLean	MB 194, Pg 493
Mercer	MB 635, Pg 702
Montgomery	MB 528, Pg 757
Muhlenberg	MB 682, Pg 460
Nelson	MB 1106, Pg 794
Nicholas	MB 156, Pg 711
Ohio	MB 520, Pg 245
Oldham	MB 2220, Pg 953
Owen	MB 264, Pg 764
Pendleton	DB 337, Pg 355
Pulaski	MB 1490, Pg 656
Robertson	MB 64, Pg 323
Rockcastle	Misc. Book 48, Pg 383
Rowan	MB A374, Pg 527
Russell	MB 385, Pg 565
Scott	MB C43, Pg 864
Shelby	MB 1017, Pg 115
Taylor	MB 555, Pg 677
Trimble	MB 209, Pg 463
Union	MB 424, Pg 120
Washington	MB 276, Pg 716
Webster	MB 330, Pg 302
Whitley	MB 606, Pg 730
Woodford	MB 777, Pg 418



**KENTUCKY UTILITIES COMPANY**

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**REAL PROPERTY**

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**Schedule of real property owned in fee located in the Commonwealth of Kentucky****Bourbon County, Kentucky:**

**First:** A parcel of land with improvements thereon located on the West side of East Main Street, formerly the old Maysville and Lexington turnpike, and extending back from said Street to low water mark on Stoner Creek in the City of Paris, Bourbon County, Kentucky, and better described as follows: BEGINNING at a point on the West side of East Main Street in Paris, Kentucky, at a point where same intersects with the old mill race, the second lot herein described, thence along the South side of the old Mill race, in a westerly direction, a distance of 220 feet, more or less, to low water mark on Stoner Creek and at end of mill race; thence up Stoner Creek, at low water mark, to a point on Stoner Creek, in line of the East concrete abutment of the bridge over this creek; thence in a northeasterly direction with the line of this abutment, and with the western margin of East Main Street, to the place of beginning.

**Second:** A parcel of land adjoining the above lot known as the old mill race, and adjoining the above lot on its North side; this lot has a frontage of 25 feet, more or less, on the West side of East Main Street and extends back therefrom in a westerly direction between lines approximately 25 feet wide a distance of 220 feet, more or less, to low water mark on Stoner Creek and is adjoined on the North side by property formerly owned by Ed Doyle.

Being the same property conveyed to Kentucky Utilities Company by Deed dated January 5, 2018, of record in Deed Book 306, Page 254 in the Office of the Clerk of Bourbon County, Kentucky.

**Carroll County, Kentucky:****Tract I:**

Beginning at a concrete marker on the north side of Black Rock Road, some one hundred, twenty-five (125) feet, measured at grade, west of Montgomery Road; thence running perpendicular to Black Rock Road, northwardly two hundred, twenty-five (225) feet, measured at grade, more or less to a concrete marker, a new made corner with A. Owen; thence westwardly parallel to Black Rock Road one hundred, ninety-three (193) feet, measured at grade, to a concrete marker, another corner with A. Owen; thence southwardly, parallel with the east boundary hereof, two hundred, twenty-five (225) feet, measured at grade, to a point in the north right-of-way line of Black Rock Road, a concrete marker; thence eastwardly parallel to the north boundary hereof, a distance of one hundred, ninety-three (193) feet, measured at grade, to the place of beginning, containing 0.997 acre, more or less.

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Tract II:

A certain tract of land located in Carroll Co., Kentucky, on the west side of Montgomery Road and on the north side of Black Rock Road, at the intersection of Montgomery Road and Black Rock Road and further described as follows:

Unless noted otherwise, any monument referred to as a "set iron pin" is a ½" x 18" rebar with a plastic cap stamped "BATTS PLS 2119". The basis of bearings is from a magnetic bearing observed on November 25, 2003.

Beginning at a set mag nail at the intersection of Black Rock Road and Montgomery Road in the north line of Bart W. Hale (D.B. 151 PG. 584); thence a new division line with the centerline of Montgomery Road for the following 2 calls, North 06 degrees 07 minutes 12 seconds East, a distance of 105.05 feet to a set mag nail; thence North 01 degrees 02 minutes 07 seconds West, a distance of 274.68 feet to a set mag nail corner to Tract 1 created this date; thence leaving the road a new division line with Tract 1 for the following 2 calls, South 88 degrees 17 minutes 59 seconds West, a distance of 11.75 feet to a set iron pin; thence South 88 degrees 17 minutes 59 seconds West, a distance of 421.95 feet to a set iron pin; thence leaving the line of Tract 1 a new division line for the following 2 calls, South 11 degrees 53 minutes 27 seconds East, a distance of 255.34 feet to a set iron pin witnessed by a post; thence South 11 degrees 53 minutes 27 seconds East, a distance of 20.03 feet to a point in the centerline of Black Rock Road in the line of Bart W. Hale (D.B. 151 PG. 584); thence with the line of Hale and the centerline of Black Rock Road South 89 degrees 51 minutes 22 seconds East, a distance of 56.69 feet to a point corner to Steven M. Owen (D.B. 107 PG. 208); thence with the line of Owen for the following 5 calls, North 01 degrees 55 minutes 28 seconds West, a distance of 26.95 feet to a set iron pin; thence North 01 degrees 55 minutes 36 seconds West, a distance of 225.00 feet to a set iron pin; thence South 76 degrees 35 minutes 56 seconds East, a distance of 193.00 feet to a set iron pin; thence South 04 degrees 42 minutes 48 seconds East, a distance of 225.00 feet to a set iron pin; thence South 04 degrees 42 minutes 48 seconds East, a distance of 20.05 feet to a point in the centerline of Black Rock Road in the line of Bart W. Hale (D.B. 151 PG. 584); thence with the line of Hale and the centerline of Black Rock Road for the following 3 calls, South 73 degrees 51 minutes 17 seconds East, a distance of 23.47 feet to a set mag nail; thence South 68 degrees 14 minutes 47 seconds East, a distance of 50.20 feet to a set mag nail; thence South 52 degrees 48 minutes 19 seconds East, a distance of 56.82 feet to the point of beginning. The above described parcel contains 1.756 acres and is subject to all right of ways, casements, and passways of record and in existence. This legal description is derived from a survey by R.B. Batts PLS #2119 done from November 25, 2003 to Dec. 01, 2003.

Being the same property conveyed to Kentucky Utilities Company by Deed dated September 21, 2016, of record in Deed Book 202, Page 67 in the Office of the Clerk of Carroll County, Kentucky.

Fayette County, Kentucky:

Property 1:

Being all of Parcel 3, as shown by the Consolidation Record Plat of The Property of The Lexington Habitat for Humanity, Inc., of record in Plat Cabinet I, Slide 618, in the office of the Fayette County Clerk.

Being the same property conveyed to Kentucky Utilities Company by Deed dated November 29, 2017, of record in Deed Book 3542, Page 562 in the Office of the Clerk of Fayette County, Kentucky.

Property 2:

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Being Tract A on the Plat attached as Exhibit A-1 to the Quitclaim Deed of record in Deed Book 3542, Page 566 in the Office of the Clerk of Fayette County, Kentucky, and more particularly described as follows:

The below described area was claimed by deed recorded in Deed Book 47, Page 262 dated 1869 in the Office of the Clerk of Fayette County, Kentucky, and has not been conveyed since. The Fayette County Property Valuation Administration shows area to be owned by Linda Jacobs (D.B. 1679, Pg. 477); however, is not claimed by the record deed nor any other record deeds shown by Property Valuation Administration, and being more particularly described as follows:

**BEGINNING** at a 2" x 1/4" MAG nail with washer (PLS# 4048) set, as will be typical for all MAG nails set, said MAG nail being on the southern Right-of-Way of Eastern Ave. (45' Right-of-Way per Plat Cabinet I, Slide 618) 22.5' southeast of centerline alignment of Eastern Ave., and being the western most property corner of Daniel Lee Kemp and Gina E. Kemp (D.B. 2519, Pg. 68, Parcel 1) and being the northern most corner of Linda Jacobs (D.B. 1679, Pg. 477), said pin having Kentucky State Plane Coordinate System – North Zone Coordinates of N=197849.97, E=1571527.44 lying in Lexington, Fayette County, Kentucky,

Thence leaving the southern Right-of-Way of Eastern Ave. (45' Right-of-Way per Plat Cabinet I, Slide 618) and along the property of Daniel Lee Kemp and Gina E. Kemp (D.B. 2519, Pg. 68, Parcel 1) S41°25'44"E – 50.26 feet to an iron pin set (18" x 5/8" rebar with a 2" aluminum cap stamped PLS #4048), as will be typical for all iron pins set, said iron pin being the southernmost corner of Daniel Lee Kemp and Gina E. Kemp (D.B. 2519, Pg. 68, Parcel 1), a corner of Linda Jacobs (D.B. 1679, Pg. 477), and being in the line of Kentucky Utilities Company (D.B. 1634, Pg. 351);

Thence leaving the property of Daniel Lee Kemp and Gina E. Kemp (D.B. 2519, Pg. 68, Parcel 1) and along the property line of Kentucky Utilities Company (D.B. 1634, Pg. 351) the following two courses: S48°25'09"W – 10.64 feet to an iron pin found (PLS # 3000), said iron pin found being the western most corner of Kentucky Utilities Company (D.B. 1634, Pg. 351), and a corner of Linda Jacobs (D.B. 1679, Pg. 477), and S41°07'23"E – 60.08 feet to an iron pin set, said iron pin being the southwest corner of Kentucky Utilities Company (D.B. 1634, Pg. 351), and the northwest corner of Kentucky Utilities Company (D.B. 1226, Pg. 828);

Thence leaving Kentucky Utilities Company (D.B. 1634, Pg. 351) and along the property line Kentucky Utilities Company (D.B. 1226, Pg. 828) S40°34'58"E – 14.80 feet to a 1/4" iron pin found (no ID cap), said 1/4" iron pin being in the property line of Kentucky Utilities Company (D.B. 1226, Pg. 828), being the southeast most corner of Linda Jacobs, the northern most corner of the vacant property being surveyed, and being the Point of Beginning for this description;

Thence continuing first with Kentucky Utilities Company (D.B. 1226, Pg. 828) and then with Kentucky Utilities Company (D.B. 426, Pg. 333) S40°17'56"E – 24.12 feet to an iron pin found (PLS #3000), said iron pin being in the line of Kentucky Utilities Company (D.B. 426, Pg. 333) and the northern most corner of Kentucky Utilities Company (D.B. 1400, Pg. 225), and the eastern most corner of the vacant property being surveyed;

Thence leaving Kentucky Utilities Company (D.B. 426, Pg. 333) and with Kentucky Utilities Company (D.B. 1400, Pg. 225), S48°50'26"W – 22.90 feet to a pinched pipe found, said pipe being the western most corner of Kentucky Utilities Company (D.B. 1400, Pg. 225), and being a corner of the vacant property being surveyed;



Thence leaving Kentucky Utilities Company (D.B. 426, Pg. 333), S42°35'09"W - 1.96 feet to an iron pin found (PLS #3000), said pin being the northern most corner of Fleetwood Land Management LLC. (D.B. 3106, Pg. 685 tract 3);

Thence with the property line of Fleetwood Land Management LLC. (D.B. 3106, Pg. 685 tract 3), S50°22'30"W 17.11 feet to a 5/8" iron pin found (no id cap), said pin being the western most corner of Fleetwood Land Management LLC. (D.B. 3106, Pg. 685 tract 3), being the on the line of Fleetwood Land Management LLC. (D.B. 3106, Pg. 685 tract 2), and being the southernmost corner of the vacant property being surveyed;

Thence leaving the corner of Fleetwood Land Management LLC. (D.B. 3106, Pg. 685 tract 3), and with the line of Fleetwood Land Management LLC. (D.B. 3106, Pg. 685 tract 2), N41°27'33"W - 20.56 feet to a 5/8" iron pin found (no id cap), said pin being the northern most corner of Fleetwood Land Management LLC. (D.B. 3106, Pg. 685 tract 2), being on the line of Earlease Burnett (D.B. 2251, Pg. 212), and being the western most corner of the vacant property being surveyed;

Thence leaving the corner of Fleetwood Land Management LLC. (D.B. 3106, Pg. 685 tract 2), and with the line of Earlease Burnett (D.B. 2251, Pg. 212), N48°58'35"E - 13.32 feet to a 5/8" iron pin set (PLS #4048), said pin being the eastern most corner of Earlease Burnett (D.B. 2251, Pg. 212);

Thence with the line of Earlease Burnett (D.B. 2251, Pg. 212), N41°44'40"W - 3.14 feet to a 5/8" iron pin found (PLS #4048), said pin being the southernmost corner of Linda Jacobs (D.B. 1679, Pg. 477), and being on the line of Earlease Burnett (D.B. 2251, Pg. 212);

Thence leaving the line of Earlease Burnett (D.B. 2251, Pg. 212), and with the line of Linda Jacobs (D.B. 1679, Pg. 477), N48°27'02"E - 29.13 feet to the Point of Beginning and containing 0.022 acres by survey.

This description prepared by physical survey conducted by John Henry Russell, AGE Engineering Services, Inc., PLS #4048, dated November 1, 2017.

Being the same property conveyed to Kentucky Utilities Company by Quitclaim Deed dated November 29, 2017, of record in Deed Book 3542, Page 566 in the Office of the Clerk of Fayette County, Kentucky.

**Property 3:**

Being all of Parcel 1, comprising 0.237 acres, a shown on Minor Consolidation Plat of KY River Coal & Lane Allen Park, Kentucky Utilities Co., & LFUCG, Parkers Mill & New Circle Road, Lexington, Fayette County, Kentucky, of record in Plat Cabinet R, Slide 416, in the Fayette County Clerk's office.

Being the same property conveyed to Kentucky Utilities Company by Deed dated September 13, 2016, of record in Deed Book 3432, Page 187 in the Office of the Clerk of Fayette County, Kentucky.

**Gallatin County, Kentucky:**

**Property 1:**

Being all of Lot 18 of Montgomery Road Division as recorded in Plat B9 of the Gallatin County Clerk's Records at Warsaw, Kentucky.

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Being the same property conveyed to Kentucky Utilities Company by Deed dated October 12, 2017, of record in Deed Book 125, Page 331 in the Office of the Clerk of Gallatin County, Kentucky.

Property 2:

Being all of Lot 10 of Montgomery Road Division as recorded in Plat B-3 of the Gallatin County Clerk's Records at Warsaw, Kentucky.

Being the same property conveyed to Kentucky Utilities Company by Deed dated December 16, 2016, of record in Deed Book 123, Page 494 in the Office of the Clerk of Gallatin County, Kentucky.

Property 3:

Being all of Lot 9 of the Montgomery Road Division, Section 3, as appears on Plat Slide B3 in the Gallatin County Clerk's Office, and being more particularly described as follows:

Beginning at iron pin set (5/8" x 18" steel rebar pin with aluminum survey cap bearing P.L.S. #3916, as will be typical for all set corner monuments), said pin being:

- 20 feet, measured perpendicularly, east of the centerline of Wards Run Road
- having Kentucky State Plane Coordinates (NORTH ZONE – NAD83) of N=453054.90 E=1425400.08
- being the northwest corner of the land being surveyed and also being the southwest corner of Lot 2 of the Montgomery Road Division, Section 3 (Plat Slide B3)
- being N18°03'26"W – 0.94 feet from an iron pin found PLS# 2709-3612
- lying near the community of Ghent, Gallatin County, KY
- **and being the POINT OF BEGINNING for this description;**

Thence leaving said edge of right-of-way and with the southern boundary line of Lot 2, N67°15'15"E – 196.91 feet to an iron pin found (PLS# 1961), said pin being the Southeast Corner of Lot 2 and being a western corner of Lot 3 of the Montgomery Road Division, Section 3 (Plat Slide B3), said pin being N20°49'15"W – 1.22 feet from an Iron Pin Found (PLS# 2709-3612);

Thence leaving Lot 2 and with the western boundary line of first Lot 3 and second Lot 8, S17°52'39"E – passing an Iron Pin Found (PLS# 1989), at 125.36 feet, said pin being the corner of Lot 3 and Lot 8 and continuing with the line of Lot 8, passing an iron pin found with no identification cap at 184.00 feet and continuing an additional 0.82 feet for a total distance of 184.82 feet to the Northeast Corner of Lot 10 lying within an existing utility pole, said corner being the southeast corner of the land being surveyed and being a western corner of Lot 8 of the Montgomery Road Division, Section 3 (Plat Slide B3);

Thence leaving said corner and with the northern boundary line of Lot 10, S60°04'43"W – passing an iron witness pin set at 2.13 feet and continuing an additional 153.40 feet for a total distance of 155.53 feet to an iron pin found with no identification cap, said pin being the northwest corner of Lot 10 of the Montgomery Road Division, Section 3 (Plat Slide B3) and being the southwest corner of the lot being surveyed, said pin being 20.83 feet east from the centerline of Wards Run Road;

Thence leaving said corner and with the eastern right-of-way of Wards Run Road (see Plat Slide B3) the following three courses:  
N34°02'51"W – 68.48 feet to a point,

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N29°38'11"W – 60.81 feet to a point, and  
N27°24'04"W – 76.31 feet to the Point of Beginning and containing 0.796 acres by survey.

This description prepared from a physical survey conducted by David L. King II, AGE Engineering Services, Inc., Ky. P.L.S. #3916, dated May 31, 2018.

Being the same property conveyed to Kentucky Utilities Company by Deed dated June 20, 2018, of record in Deed Book 126, Page 730 in the Office of the Clerk of Gallatin County, Kentucky.

Garrard County, Kentucky:

BEING TRACT A as shown on the Minor Plat approved by the Garrard County, Kentucky Fiscal Court on May 8, 2018, and attached as Exhibit A-1 to the Deed of record in Deed Book 293, Page 728 in the Office of the Clerk of Garrard County, Kentucky, and being more particularly described as follows:

COMMENCING at an iron pin found (no ID cap), said iron pin being on the northern edge of a 30' Right-of-Way of Ronclar Drive, 15' from centerline and being the southeast property corner of David J. Hopkins and Susan E. Hopkins (Deed Book 288, Page 253) and being the southwest property corner of the parent tract, Ronnie Lane (Deed Book 94, Page 119 and Deed Book 95, Page 414), said point having Kentucky State Plane Coordinate System – South Zone Coordinates of N=2169338.56, E=1945493.19;

Thence along the northern edge of a 30' Right-of-Way of Ronclar Drive, 15' from centerline along a curve to the Right (Radius – 129.29 feet, Arc Length – 40.00 feet, Chord Bearing – N64°40'32"E and Chord Distance – 39.84 feet) to an iron pin set (PLS# 4180), said iron pin being 18" x 5/8" rebar with a 2" aluminum cap as will be typical for all iron pins set, on the northern edge of a 30' Right-of-Way of Ronclar Drive, 15' from centerline, said pin having Kentucky State Plane Coordinate System – South Zone Coordinates of N=2169355.60, E=1945529.20 lying in Garrard County, Kentucky, and being the Point of Beginning for this description;

Thence leaving the northern edge of a 30' Right-of-Way of Ronclar Drive and with a new line severing the parent tract (Deed Book 94, Page 119 and Deed Book 95, Page 414) the following thirty-four courses: N47°31'50"W – 132.71 feet to a iron pin set in a fence, thence along the existing fence N40°07'22"E – 397.62 feet to a iron pin set in the edge of the existing transmission easement (see Deed Book 44, Page 320), thence along the existing transmission easement parallel to and 100' southwest from the centerline alignment of the transmission line S59°04'32"E passing an iron witness pin set at 171.84 feet and continuing 40.00 feet for a total distance of 211.84 feet to an unmarked point in the center of a drain, thence with the center of the drain N86°52'01"W – 8.72 feet to a point in center of drain, N67°18'40"W – 15.06 feet to a point in center of drain, S72°40'27"W – 7.09 feet to a point in center of drain, S39°37'57"W – 8.68 feet to a point in center of drain, S19°04'41"E – 9.68 feet to a point in center of drain, S26°52'46"E – 27.59 feet to a point in center of drain, S09°03'52"E – 21.15 feet to a point in center of drain, S05°37'33"W – 16.82 feet to a point in center of drain, S37°13'53"W – 21.03 feet to a point in center of drain, S00°31'48"W – 25.47 feet to a point in center of drain, S26°55'10"W – 16.13 feet to a point in center of drain, S45°53'04"W – 31.50 feet to a point in center of drain, S08°36'30"W – 23.61 feet to a point in center of drain, S49°20'05"W – 25.85 feet to a point in center of drain, S68°12'34"W – 12.80 feet to a point in center of drain, S52°39'36"W – 34.43 feet to a point in center of drain, S31°52'21"W – 11.46 feet to a point in center of drain, N82°13'13"W – 6.50 feet to a point in center of drain, N38°43'31"W – 3.14 feet to a point in center of drain, N81°52'03"W – 12.96 feet to a point in center of drain, N82°00'02"W – 13.33 feet to a point in center of drain, S59°34'46"W – 4.52 feet to a point in center of drain, S56°16'22"W – 4.28 feet to a point in center of drain, S37°41'02"W



– 9.23 feet to a point in center of drain, S47°01'51"W – 13.21 feet to a point in center of drain, S22°12'27"W – 12.65 feet to a point in center of drain, S10°46'38"W – 12.72 feet to a point in center of drain, S19°30'50"W – 15.03 feet to a point in center of drain, S66°05'35"W – 8.25 feet to a point in center of drain, S82°12'20"W – 11.18 feet to a point in center of drain and S30°08'21"W – 12.75 feet to an iron pin set on Right-of-Way, said iron pin being on the northern edge of a 30' Right-of-Way of Ronclar Drive, 15' from centerline;

Thence along northern edge of a 30' Right-of-Way of Ronclar Drive, 15' from centerline, the following six courses: N66°11'41"W – 19.85 feet to a point on Right-of-Way, N74°32'19"W – 23.79 feet to a point on Right-of-Way, N83°12'46"W – 23.55 feet to a point on Right-of-Way, S89°36'21"W – 23.57 feet to a point on Right-of-Way, S81°04'38"W – 23.76 feet to a point on Right-of-Way and S70°11'54"W – 5.53 feet the Point of Beginning and containing 2.225 acres by survey.

This description prepared from a physical survey conducted by Lucas B. Harris, AGE Engineering Services, Inc., Kentucky P.L.S. #4180, dated the 8<sup>th</sup> day of May, 2018

Being the same property conveyed to Kentucky Utilities Company by Deed dated May 22, 2018, of record in Deed Book 293, Page 728 in the Office of the Clerk of Garrard County, Kentucky.

Larue County, Kentucky:

Being Tract C as shown on the Retracement/Minor Plat (the "Plat") dated October 13, 2017, as prepared by AGE Engineering Services, Inc., attached as Exhibit A to the Deed of record in Deed Book 250, Page 4, in the Office of the Clerk of Larue County, Kentucky.

Being the same property conveyed to Kentucky Utilities Company by Deed dated December 21, 2017, of record in Deed Book 250, Page 4 in the Office of the Clerk of Larue County, Kentucky.

Laurel County, Kentucky:

Being Lots 7 and 8 in the J.K. Lewis Subdivision East London, Kentucky, as is shown by plat of same recorded in Deed Book 220, Page 450 in the Office of the Clerk of Laurel County, Kentucky.

Being the same property conveyed to Kentucky Utilities Company by Deed dated December 21, 2017, of record in Deed Book 738, Page 488 in the Office of the Clerk of Laurel County, Kentucky.

Madison County, Kentucky:

Property 1:

Being Tract 1 as shown on the Minor Plat approved by the Richmond Planning Commission on December 19, 2016, and recorded on December 21, 2016, in Plat Book 27, Page 227, in the Office of the Clerk of Madison County, Kentucky.

Being the same property conveyed to Kentucky Utilities Company by Deed dated January 26, 2017, of record in Deed Book 740, Page 571 in the Office of the Clerk of Madison County, Kentucky.

Property 2:

Tract I: A certain lot situated on Water Street in Richmond, Kentucky, in Madison County, Kentucky:

Beginning at an iron pin in the south line of Water Street, said pin being 157.2 (feet) from the intersection of the south line of Water Street with the West line of Collins Street, a corner to Robert Jett; thence with Jett's line S25° 31' W 65.1 feet to an iron pin and corner to Margaret Phelps; thence with Phelps' line N61° 35' W 41.1 feet to a post and corner to James Baker and Paul Burnam; thence with the Baker-Burnam line N28° 25' (E) 65.0 feet to iron pin in the south line of Water Street and corner; thence with the south line of Water Street S61° 35' E 27.8 feet to the beginning.

Tract II: A lot situated on the south side of Water Street in Richmond, Kentucky, bounded on the north by Water Street, on the west by the property of Hamhock Liquor Dispensary, Inc., on the east by Collins Street and on the south by property of Spurlin, and known as Lot "B" of the Robert Jett property as shown on a plat recorded in Deed Book 259, page 188 in the Madison County Clerk's office.

Being the same property conveyed to Kentucky Utilities Company by Deed dated September 20, 2016, of record in Deed Book 736, Page 5 in the Office of the Clerk of Madison County, Kentucky.

**COUNTY OF CARROLL, KENTUCKY**

**And**

**KENTUCKY UTILITIES COMPANY**

A Kentucky and Virginia Corporation

\* \* \* \* \*

**LOAN AGREEMENT**

\* \* \* \* \*

Dated as August 1, 2018

\* \* \* \* \*

NOTICE: The interest of the County of Carroll, Kentucky, in and to this Loan Agreement has been assigned to U.S. Bank National Association, as Trustee, under the Indenture of Trust dated as of August 1, 2018

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## TABLE OF CONTENTS

ARTICLE I DEFINITIONS	3
Section 1.1.    Definitions	3
ARTICLE II REPRESENTATIONS, WARRANTIES, AND COVENANTS	3
Section 2.1.    Representations, Warranties, And Covenants By The Issuer	3
Section 2.2.    Representations, Warranties, And Covenants By The Company	4
ARTICLE III COMPLETION AND OWNERSHIP OF THE PROJECT	8
Section 3.1.    Completion And Equipping Of The Project	8
Section 3.2.    Agreement As To Ownership Of The Project	8
Section 3.3.    Use Of The Project	8
Section 3.4.    Financing Of Additional Facilities	9
ARTICLE IV ISSUANCE OF 2018 SERIES A BONDS; APPLICATION OF PROCEEDS	9
Section 4.1.    Agreement To Issue 2018 Series A Bonds; Application Of 2018 Series A Bond Proceeds	9
Section 4.2.    Payment And Discharge Of Refunded 2007 Series A Bonds	9
Section 4.3.    Investment Of Moneys In The Bond Fund And The Rebate Fund	9
Section 4.4.    Special Arbitrage Certifications	10
Section 4.5.    Opinion Of Bond Counsel	11
Section 4.6.    First Mortgage Bonds	11
ARTICLE V PROVISIONS FOR PAYMENT	12
Section 5.1.    Loan Payments And Other Amounts Payable	12
Section 5.2.    Payments Assigned	13
Section 5.3.    Taxes And Other Governmental Charges	14
Section 5.4.    Obligations Of The Company Unconditional	14
Section 5.5.    Rebate Fund	15
Section 5.6.    Redemption Of The 2018 Series A Bonds In Advance of Scheduled Maturity	15
Section 5.7.    Cancellation Of 2018 Series A Bonds	15
ARTICLE VI MAINTENANCE; DAMAGE, DESTRUCTION, AND CONDEMNATION; USE OF NET PROCEEDS; INSURANCE	15
Section 6.1.    Maintenance	15
Section 6.2.    Insurance	16
ARTICLE VII SPECIAL COVENANTS	16
Section 7.1.    No Warranty Of Condition Or Suitability By The Issuer	16
Section 7.2.    The Company To Maintain Its Corporate Existence; Conditions Under Which Exceptions Are Permitted	16
Section 7.3.    Financial Statements	17
Section 7.4.    Further Assurances And Corrective Instruments	17
Section 7.5.    The Issuer Representative	17
Section 7.6.    The Company Representative	17
Section 7.7.    Financing Statements	17
Section 7.8.    The Company's Performance Under Indenture	18
ARTICLE VIII ASSIGNMENT; INDEMNIFICATION; REDEMPTION	18
Section 8.1.    Assignment	18
Section 8.2.    Release And Indemnification Covenants	18
Section 8.3.    Assignment Of Interest In Agreement By The Issuer	19
Section 8.4.    Redemption Of 2018 Series A Bonds	19
Section 8.5.    Reference To 2018 Series A Bonds Ineffective After 2018 Series A Bonds Paid	19
ARTICLE IX EVENTS OF DEFAULT AND REMEDIES	19
Section 9.1.    Events Of Default Defined	19

Section 9.2.	Remedies On Default	21
Section 9.3.	No Remedy Exclusive	21
Section 9.4.	Agreement To Pay Reasonable Attorneys' Fees And Expenses	22
Section 9.5.	Waiver Of Events Of Default	22
<b>ARTICLE X PREPAYMENT OF LOAN</b>		22
Section 10.1.	Options To Prepay Loan	22
Section 10.2.	Additional Option To Prepay Loan	24
Section 10.3.	Obligations To Prepay Loan	24
Section 10.4.	Notice Of Prepayment; Redemption Procedures	26
Section 10.5.	Relative Position Of This Article And Indenture	26
Section 10.6.	Concurrent Discharge Of First Mortgage Bonds	26
<b>ARTICLE XI MISCELLANEOUS</b>		26
Section 11.1.	Term Of Agreement	26
Section 11.2.	Notices	27
Section 11.3.	Binding Effect; Bond Counsel Opinions	28
Section 11.4.	Severability	29
Section 11.5.	Amounts Remaining In Bond Fund And Rebate Fund	29
Section 11.6.	Amendments, Changes, And Modifications	29
Section 11.7.	Execution In Counterparts	29
Section 11.8.	Applicable Law	29
Section 11.9.	Interpretation	29
Section 11.10.	No Pecuniary Liability Of The Issuer	30
Section 11.11.	Payments Due On Other Than Business Days	30

**EXHIBIT A - DESCRIPTION OF THE PROJECT**

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## LOAN AGREEMENT

This **LOAN AGREEMENT** (this “**Agreement**”), dated as of August 1, 2018, by and between the **COUNTY OF CARROLL, KENTUCKY** (the “**Issuer**”), a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky, and **KENTUCKY UTILITIES COMPANY**, a corporation organized and existing under the laws of Kentucky and Virginia (the “**Company**”);

### PREAMBLE

**WHEREAS**, all capitalized terms not otherwise defined in this preamble shall have the meanings set forth in **ARTICLE I** hereof, unless the context or use clearly indicates another meaning or intent; and

**WHEREAS**, pursuant to the Act, the Issuer has the power to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder; and

**WHEREAS**, the Issuer is authorized pursuant to the Act to issue negotiable bonds and lend the proceeds from the sale of such bonds to the Company to refinance the Costs of Construction of Environmental Facilities, including the securing of a letter of credit, other credit facilities, or collateral; and

**WHEREAS**, the Issuer is further authorized pursuant to the Act to enter into a loan agreement, which may include such provisions as the Issuer shall deem appropriate to effect the securing of a refinancing undertaken in respect of Environmental Facilities, including the securing of a letter of credit, other credit facilities, or collateral; and

**WHEREAS**, the Act further provides that title to the Environmental Facilities shall not be acquired by the Issuer in the case of a loan transaction; and

**WHEREAS**, the Company is a public utility pursuant to Chapter 278 of the Kentucky Revised Statutes, and as such is engaged in the business of generating electricity and providing electric services to the public at large; and

**WHEREAS**, the Company undertook the acquisition, construction, installation, and equipping of certain solid waste disposal facilities to serve the Ghent Generating Station in Carroll County, Kentucky, described herein and in **Exhibit A** attached hereto as the “**Project**”, which constitute Environmental Facilities under the Act; and

**WHEREAS**, the Issuer previously issued the Refunded 2007 Series A Bonds pursuant to the Act to finance a portion of the Costs of Construction of the Project; and

**WHEREAS**, the Issuer previously issued the Refunded 2007 Series A Bonds for the purpose of financing the costs of the Project constituting certain Environmental Facilities located within Carroll County, Kentucky at the Company’s Ghent Generating Station consisting of solid waste



disposal facilities. The Issuer entered into the 2007 Series A Indenture with U.S. Bank National Association (successor to Deutsche Bank Trust Company Americas), as Trustee, Paying Agent, and Bond Registrar thereunder and it is provided in ARTICLE VIII of the 2007 Series A Indenture that the Refunded 2007 Series A Bonds, or any of them, shall be deemed to have been paid within the meaning of such 2007 Series A Indenture when there shall have been irrevocably deposited with the Prior 2007 Series A Trustee, either cash or Governmental Obligations, as defined in the 2007 Series A Indenture, maturing as to principal and interest in such amounts and at such times as will ensure the availability of sufficient moneys to pay the principal and the applicable redemption premium, if any, on the Refunded 2007 Series A Bonds plus interest thereon to the date of payment and discharge thereof (whether at maturity, upon redemption, or otherwise), plus sufficient moneys to pay all necessary and proper fees, compensation, and expenses of the Prior 2007 Series A Trustee, authenticating agent, bond registrar, and any paying agent; together with irrevocable instructions to call and redeem the Refunded 2007 Series A Bonds; and

**WHEREAS**, the Company has heretofore, by the issuance of the Refunded 2007 Series A Bonds, financed all or a portion of the qualified costs of the acquisition, construction, installation, and equipping of certain solid waste disposal facilities, and facilities functionally related and subordinate to such facilities to serve the Ghent Generating Station of the Company, which facilities constitute the Project, as defined in the Indenture and as described in **Exhibit A** hereto, which Project is located within the corporate boundaries of the Issuer and consists of certain solid waste disposal facilities, and facilities functionally related and subordinate to such facilities and which Project qualifies for refinancing within the meaning of the Act; and

**WHEREAS**, the Project has been completed and placed in operation in whole or in part and has contributed to the collection, storage, treatment, and final disposal of solid waste in the Commonwealth of Kentucky; and

**WHEREAS**, in connection with the issuance of the Refunded 2007 Series A Bonds, the right was reserved to the Issuer, upon direction by the Company, to redeem the Refunded 2007 Series A Bonds in advance of their maturity; and the Refunded 2007 Series A Bonds are by their terms subject to redemption at the option of the Issuer in whole or in part on and after June 1, 2018, at the price of 100% of the aggregate principal amount thereof and accrued interest, if any, to their redemption date, as provided in the 2007 Series A Indenture; and the redemption and discharge of the Refunded 2007 Series A Bonds will result in benefits to the general public and the Company and should be carried out forthwith in the public interest by the issuance by the Issuer of the 2018 Series A Bonds, and the application of the proceeds of the 2018 Series A Bonds, together with funds to be provided by the Company, for, among other things, the refunding, payment, and discharge of the Refunded 2007 Series A Bonds on or before the 90<sup>th</sup> day from the Issuance Date of the 2018 Series A Bonds; and

**WHEREAS**, pursuant to and in accordance with the provisions of the Act and an Ordinance duly adopted by the Fiscal Court of the Issuer on June 26, 2018, and in furtherance of the purposes of the Act, the Issuer proposes to issue, sell, and deliver its 2018 Series A Bonds, the proceeds of which will be lent to the Company to cause the outstanding principal amount of the Refunded 2007

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Series A Bonds to be refunded, paid, and discharged in full on or before the 90<sup>th</sup> day from the Issuance Date; and

**WHEREAS**, the 2018 Series A Bonds are to be issued under and pursuant to and are to be secured by the Indenture of Trust dated as of August 1, 2018 by and between the Issuer and U.S. Bank National Association, as trustee (the “**Trustee**”);

**NOW, THEREFORE** for and in consideration of the premises and the mutual covenants and agreements hereinafter contained, the parties hereto agree each with the other, as follows:

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## **ARTICLE I DEFINITIONS**

**Section 1.1. Definitions.** The terms used in this Loan Agreement, except as otherwise defined herein and unless the context requires otherwise, have the meanings set forth in the Indenture. All accounting terms not otherwise defined in the Indenture or herein have the meanings assigned to them in accordance with generally accepted accounting principles then in effect.

## **ARTICLE II REPRESENTATIONS, WARRANTIES, AND COVENANTS**

**Section 2.1. Representations, Warranties, And Covenants By The Issuer.** The Issuer represents, warrants, and covenants that:

(a) The Issuer is a public body corporate and politic duly created and existing as a county and de jure political subdivision under the Constitution and laws of the Commonwealth of Kentucky and, pursuant to the Act, the Issuer has the power and duty to issue the 2018 Series A Bonds, to enter into this Agreement, the Indenture, and the transactions contemplated hereby, and to carry out its obligations hereunder and thereunder. The Issuer is not in default under or in violation of the Constitution or any of the laws of the Commonwealth of Kentucky relevant to the issuance of the 2018 Series A Bonds or the consummation of the transactions contemplated hereby or in connection with such issuance, and has been duly authorized to issue the 2018 Series A Bonds and to execute and deliver this Agreement and the Indenture. The Issuer agrees that it will do or cause to be done in a timely manner all things necessary to preserve and keep in full force and effect its existence and to carry out the terms of this Agreement.

(b) The Issuer agrees to loan funds derived from the sale of the 2018 Series A Bonds to the Company to provide for the refunding, payment, and discharge of the outstanding principal amount of the Refunded 2007 Series A Bonds and to the end that solid waste be collected, stored, treated, and disposed of at the Project Site.

(c) To accomplish the foregoing, the Issuer agrees to issue \$17,875,000 aggregate principal amount of its 2018 Series A Bonds following the execution of this Agreement on the terms and conditions set forth in the Indenture. The proceeds from the sale of the 2018 Series A Bonds shall be allocated and applied exclusively and in whole to refund, pay, and discharge the respective outstanding principal amount of the Refunded 2007 Series A Bonds on or before the 90<sup>th</sup> day from the Issuance Date.

(d) The Issuer will cooperate with the Company and take all actions necessary for the Company to comply with Section 2.2(m), (q), and (t) hereof and take other actions reasonably requested by the Company in furtherance of this Agreement.

(e) The Project Site is located within the Issuer's jurisdictional boundaries.

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**Section 2.2. Representations, Warranties, And Covenants By The Company.** The Company represents, warrants, and covenants that:

(a) The Company (1) is a corporation duly incorporated, validly existing, and in good standing under the laws of the Commonwealths of Kentucky and Virginia; (2) is duly qualified, authorized, and licensed to transact business in each jurisdiction wherein failure to qualify would have a material adverse effect on the conduct of its business; and (3) is not in violation of any provision of its Articles of Incorporation, its Bylaws, or any laws of the Commonwealths of Kentucky and Virginia relevant to the transactions contemplated hereby or in connection with the issuance of the 2018 Series A Bonds.

(b) The Company has full and complete legal power and authority to execute and deliver this Agreement, the First Mortgage Indenture Supplement, and the First Mortgage Bonds to be issued pursuant thereto, and has by proper corporate action duly authorized the execution and delivery of this Agreement, the First Mortgage Indenture Supplement, and the First Mortgage Bonds.

(c) The Project currently refinanced by application of the proceeds of the Refunded 2007 Series A Bonds and Company funds was designed and constructed to collect, store, treat, and dispose of solid waste at the Project Site. The Project was and is necessary for the public health and welfare and has been designed solely for the purposes of the collection, storage, treatment, and final disposal of solid wastes, consisting of contaminated scrubber sludge solid wastes created by operation of desulfurization facilities at the Project Site.

(d) All of the proceeds of the 2018 Series A Bonds, exclusive of accrued interest, if any, shall be used on or before the 90<sup>th</sup> day from the Issuance Date exclusively and only to redeem, pay, and discharge the principal of the Refunded 2007 Series A Bonds, not less than substantially all of the net proceeds of the Refunded 2007 Series A Bonds (i.e., at least 95% of the net proceeds thereof, including investment income thereon) were used to finance the Cost of Construction of solid waste disposal facilities, together with facilities functionally related and subordinate to such facilities, and all of such solid waste disposal facilities consist either of land or of property of a character subject to the allowance for depreciation provided in Code Section 167. The Company will provide any additional moneys required to pay and discharge the Refunded 2007 Series A Bonds within 90 days following the Issuance Date.

(e) The Project is of the type authorized and permitted by the Act, and the Cost of Construction of the Project was not less than \$17,875,000. All statements of fact contained herein respecting the Ghent Generating Station, including the Project, which is an integral component of the Ghent Generating Station, and the Issuer's authorization of the Project, including the Project's construction, Ghent Generating Station expenditures, including Project expenditures, and construction and acquisition contracts and related matters are true and correct in all respects and are incorporated herein.

(f) No Event of Default, and no event of the type described in clauses (a) through (e) of Section 9.1 hereof, has occurred and is continuing and no condition exists which, with the giving of notice or the lapse of time, or both, would constitute an Event of Default or a default under any agreement or instrument to which the Company is a party or by which the Company is or may

be bound or to which any of the property or assets of the Company is or may be subject which would impair in any material respect its ability to carry out its obligations under this Agreement, the First Mortgage Indenture Supplement, the First Mortgage Bonds, or the transactions contemplated hereby or thereby. Neither the execution and delivery of this Agreement, the First Mortgage Indenture Supplement, the First Mortgage Bonds, the consummation of the transactions contemplated hereby or thereby or by the Indenture, nor the fulfillment of or compliance with the terms and conditions hereof or thereof conflicts with or results in a breach of the terms, conditions, or provisions of any corporate restriction or any agreement or instrument to which the Company is now a party or by which it is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge, or encumbrance whatsoever upon any of the property or assets of the Company under the terms of any instrument or agreement.

**(g)** The Company intends to continue to operate or cause the Project to be operated as solid waste disposal facilities and facilities functionally related and subordinate thereto until all of the 2018 Series A Bonds are paid and discharged.

**(h)** No portion of the proceeds of 2018 Series A Bonds will be invested at a yield in excess of the yield on the 2018 Series A Bonds except: (1) during any permitted temporary period provided by the Code; (2) proceeds of a reasonably required reserve or replacement fund; and (3) as part of a minor portion of the proceeds of the 2018 Series A Bonds, not in excess of the lesser of 5% of the proceeds of the 2018 Series A Bonds or \$100,000. As used herein, "yield" shall have the meaning assigned to it for purposes of Code Section 148.

**(i)** No portion of the proceeds from the sale of the 2018 Series A Bonds will be deposited to the account of any reasonably required reserve or replacement fund or used to pay any costs of issuance of the 2018 Series A Bonds or any redemption premium or accrued interest on the Refunded 2007 Series A Bonds, but such proceeds will be applied and used solely and exclusively to refund, pay, and discharge the outstanding principal amount of the Refunded 2007 Series A Bonds on or before the 90<sup>th</sup> day after the Issuance Date.

**(j)** The Company will provide any additional moneys, including investment proceeds of the 2018 Series A Bonds, required for the payment and discharge of the Refunded 2007 Series A Bonds, payment of redemption premium, if any, and accrued interest in respect thereto and payment of all underwriting discount and costs of issuance of the 2018 Series A Bonds. Any investment proceeds of the 2018 Series A Bonds allocated to the Project shall be used exclusively to pay interest or redemption premium due, if any, on the Refunded 2007 Series A Bonds on the Redemption Date.

**(k)** The Company will cause no investment of 2018 Series A Bond proceeds to be made and will make no other use of or omit to take any action with respect to the proceeds of the 2018 Series A Bonds or any funds reasonably expected to be used to pay the 2018 Series A Bonds which will cause the 2018 Series A Bonds or any of them to be "arbitrage bonds" within the meaning of Code Section 148 or would otherwise result in the loss or impairment of the exclusion of the interest on such 2018 Series A Bonds from gross income for federal income tax purposes.

**(l)** The average maturity of the 2018 Series A Bonds does not exceed one hundred twenty percent (120%) of the average reasonably expected remaining economic life (as of the Issuance Date) of the Project refinanced by the proceeds of the 2018 Series A Bonds.

**(m)** The Company will provide all information requested by the Issuer necessary to evidence compliance with the requirements of the Code, including the information in United States Internal Revenue Service Form 8038 to be filed by the Issuer with respect to the 2018 Series A Bonds and the solid waste disposal facilities constituting the Project, and such information will be true and correct in all material respects.

**(n)** Within the meaning of Code Section 149, no portion of the payment of the principal or interest on the 2018 Series A Bonds, or the Refunded 2007 Series A Bonds was or shall be guaranteed directly or indirectly by the United States or any agency or instrumentality thereof.

**(o)** All of the proceeds of the Refunded 2007 Series A Bonds have been fully expended and the Project has been completed. All of the actual Cost of Construction of the Project represent amounts paid or incurred which were properly chargeable to the capital account of the Project or would have been so chargeable either with a proper election by the Company or but for a proper election by the Company to deduct such amounts. Substantially all (i.e. at least 95%) of the net proceeds of the sale of the Refunded 2007 Series A Bonds (including investment income therefrom), were used to finance Costs of Construction of the Project as described above.

**(p)** All of the depreciable properties which were taken into account in determining the qualifying costs of the Project constitute properties either: (1) used for the collection, storage, treatment, and final disposal of solid wastes; or (2) facilities which are functionally related and subordinate to the facilities constituting the Project. All of such functionally related and subordinate facilities are of a size and character commensurate with the size and character of the facilities constituting the Project.

**(q)** The Company will cause the Issuer to comply in all respects with the requirements of Code Section 148 in respect of the rebate of Excess Earnings with respect to the 2018 Series A Bonds to the United States of America.

**(r)** None of the proceeds of the 2018 Series A Bonds will be applied and none of the proceeds of the Refunded 2007 Series A Bonds were applied to provide any: (1) working capital; (2) office space (other than office space located on the premises of the Project where not more than a de minimis amount of the functions to be performed are not directly related to the day-to-day operations of the Project); (3) airplane; (4) skybox or other private luxury box; (5) health club facility; (6) facility primarily used for gambling; or (7) store, the principal business of which is the sale of alcoholic beverages for consumption off premises.

**(s)** Less than twenty-five percent (25%) of the net proceeds of the 2018 Series A Bonds will be applied and less than twenty-five percent (25%) of the net proceeds of the Refunded 2007 Series A Bonds were applied directly or indirectly to acquire land or any interest therein and no portion of such land, if acquired, was or is to be used for farming purposes. No portion of the proceeds of the 2018 Series A Bonds will be used and no portion of the proceeds of the Refunded

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2007 Series A Bonds were used to acquire existing property or any interest therein with respect to which the Company was not the first user for federal income tax purposes.

(f) Upon the Issuance Date, the Company will have caused the Issuer to comply with the public approval requirements of Code Section 147; and at or following the issuance of the 2018 Series A Bonds, the Company will cause the Issuer to comply with the information reporting requirements of Code Section 149 by the filing of Internal Revenue Service Form 8038 with the United States Internal Revenue Service.

(u) All of the documents, instruments, and written information furnished by the Company on behalf of the Company to the Issuer or the Trustee in connection with the issuance of the 2018 Series A Bonds are true and correct in all material respects as of the date of delivery thereof and did not, as of the date of delivery thereof, omit or fail to state any material facts necessary to be stated therein to make the information provided not misleading.

(v) The proceeds derived from the sale of the 2018 Series A Bonds will be used exclusively and solely to refund the outstanding principal amount of the Refunded 2007 Series A Bonds. The principal amount of the 2018 Series A Bonds does not exceed the outstanding principal amount of the Refunded 2007 Series A Bonds. The redemption of the outstanding principal amount of the Refunded 2007 Series A Bonds with proceeds of the 2018 Series A Bonds will occur not later than 90 days after the Issuance Date. Any earnings derived from the investment of proceeds of the 2018 Series A Bonds will be fully needed and used on such redemption date to pay a portion of the interest accrued and payable on the Refunded 2007 Series A Bonds on such date.

(w) It is not anticipated, as of the date hereof, that there will be created any "replacement proceeds", within the meaning of Treasury Regulation Section 1.148-1(c) with respect to the 2018 Series A Bonds; however, if any such replacement proceeds are deemed to have been created, such amounts will be invested in compliance with Code Section 148.

(x) The Company will not use or cause to be used any of the funds provided by the Issuer hereunder (including the earnings on any of such funds) in such a manner as to, or take or omit to take any action with respect to the use of such funds which would, impair the exclusion of the interest on any of the 2018 Series A Bonds from gross income for federal income tax purposes.

(y) The Company covenants to perform and observe all provisions of the Indenture required to be performed or observed by it.

(z) The Refunded 2007 Series A Bonds were issued on May 24, 2007.

(aa) Acquisition, construction, and installation of the Project has been accomplished and the Project is being utilized substantially in accordance with the purposes of the Project and in conformity with all applicable zoning, planning, building, environmental, and other applicable governmental regulations and all permits, variances, and orders issued or granted pursuant thereto, which permits, variances, and orders have not been withdrawn or otherwise suspended, and consistently with the Act.

**(bb)** The Company has used, is currently using, and presently intends to use or operate the Project in a manner consistent with the purposes of the Project and the Act until the date on which the 2007 Series A Bonds have been fully paid and knows of no reason why the Project will not be so operated.

**(cc)** There are no other obligations heretofore issued or to be issued by or on behalf of any state, territory, or possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia, which (i) were sold less than fifteen days before or after the date of sale of the 2018 Series A Bonds; (ii) were sold pursuant to the same plan of financing as the 2018 Series A Bonds; and (iii) are reasonably expected to be paid from substantially the same source of funds as the 2018 Series A Bonds, determined without regard to guarantees from parties unrelated to the obligor as is applicable to the 2018 Series A Bonds.

The Company need not comply with the covenants or representations in this Section 2.2 if and to the extent that the Issuer and the Company receive a Favorable Opinion of Bond Counsel regarding such noncompliance.

### **ARTICLE III COMPLETION AND OWNERSHIP OF THE PROJECT**

**Section 3.1. Completion And Equipping Of The Project.** The Company represents that it has previously caused components of the Project to be financed, constructed, in whole or in part, and placed in service, as applicable, as herein provided on the Project Site as previously evidenced by the filing of a completion certificate by the Company with Deutsche Bank Trust Company Americas, as prior Trustee for the Refunded 2007 Series A Bonds.

**Section 3.2. Agreement As To Ownership Of The Project.** The Issuer and the Company agree that title to and ownership of the Project shall remain in and be the sole property of the Company in which the Issuer shall have no interest. The Project is acknowledged to be subject to the lien of the First Mortgage Indenture. Notwithstanding any other provision hereof, the Company shall be permitted to sell or otherwise dispose of all or any portion of the Project, provided that the Company first receives a Favorable Opinion of Bond Counsel regarding such sale or disposition and provided further that upon any assignment, in whole or in part, of this Agreement, such assignment shall be in accordance with Section 8.1 hereof.

**Section 3.3. Use Of The Project.** The Issuer does hereby covenant and agree that it will not take any action during the term of this Agreement, other than pursuant to ARTICLE IX of this Agreement or ARTICLE IX of the Indenture, to interfere with the Company's ownership of the Project or to prevent the Company from having possession, custody, use, and enjoyment of the Project.

**Section 3.4. Financing Of Additional Facilities.** The Company and the Issuer hereby recognize that additional solid waste disposal facilities at the Project Site (other than the solid waste disposal facilities that constitute the Project) have in the past been and may in the future be acquired,

constructed, installed, and equipped at the Project Site, and that same may be financed with proceeds of one or more series of the Issuer's revenue bonds issued in addition to the 2018 Series A Bonds issued pursuant to the Indenture, to the extent permitted by law.

#### **ARTICLE IV ISSUANCE OF 2018 SERIES A BONDS; APPLICATION OF PROCEEDS**

**Section 4.1. Agreement To Issue 2018 Series A Bonds; Application Of 2018 Series A Bond Proceeds .** In order to provide funds to make the Loan, the Issuer will issue, sell, and deliver the 2018 Series A Bonds to the initial purchasers thereof and deposit the proceeds thereof with the Trustee into the Prior 2007 Series A Bond Fund held by the Prior 2007 Series A Trustee, for the benefit and payment of the Refunded 2007 Series A Bonds, in an amount equal to the then outstanding principal amount of the Refunded 2007 Series A Bonds.

**Section 4.2. Payment And Discharge Of Refunded 2007 Series A Bonds .** The Company covenants and agrees with the Issuer that it will, on or before the Issuance Date, give irrevocable instructions to the Prior 2007 Series A Trustee to call and redeem the Refunded 2007 Series A Bonds in accordance with their terms and on or before the Issuance Date will deposit into the Prior 2007 Series A Bond Fund cash or Governmental Obligations (as defined in the 2007 Series A Indenture) sufficient on the Issuance Date, to fully defease and discharge the Refunded 2007 Series A Bonds on the Issuance Date in accordance with ARTICLE VIII of the 2007 Series A Indenture, without reference to any interest earnings to be accrued during the period from the Issuance Date to the redemption date of the Refunded 2007 Series A Bonds. Such matters shall be confirmed by issuance of an appropriate written certificate of the Prior 2007 Series A Trustee confirming defeasance and full discharge of the Refunded 2007 Series A Bonds upon the Issuance Date.

**Section 4.3. Investment Of Moneys In The Bond Fund And The Rebate Fund .** Moneys held as a part of the Bond Fund or the Rebate Fund shall be invested or reinvested by the Trustee, at the written request of and as specifically directed by the Company, in one or more Permitted Investments. If the Trustee is not provided with written investment instructions, the Trustee shall hold such amounts uninvested in cash, without liability for interest. The written investment directions provided to the Trustee shall constitute a certification of the Company that such investments constitute Permitted Investments. The Trustee may make any and all such investments through its own investment department.

Any such investments shall be held by or under the control of the Trustee. All moneys invested shall be deemed at all times a part of the fund for which such investments were made. The interest accruing thereon and any profit realized from such investments shall be credited pro rata to such fund, and any loss resulting from such investments shall be charged pro rata to such fund. The Trustee shall sell and reduce to cash a sufficient amount of applicable investments whenever the cash balance in the Bond Fund is insufficient to pay the principal of, premium, if any, and interest on the 2018 Series A Bonds or any other amount payable from the Bond Fund when due or upon any required disbursement from the Rebate Fund, respectively. The Trustee will not be liable for any investment loss (including any loss upon a sale of any investment) or any fee, tax, or other charge in respect of any investments, reinvestments, or any liquidation of investments made pursuant



to this Agreement or the Indenture. The Rebate Fund shall never be commingled with any other fund or account.

To the extent permitted by applicable law, the Company and the Issuer each specifically waives compliance with 12 C.F.R. § 12 and hereby notify the Trustee that no brokerage confirmations need to be sent relating to the security transactions as they occur. Notwithstanding the foregoing, to the extent the Trustee receives and invests amounts in the Bond Fund and the Rebate Fund, the Trustee shall provide the Company with periodic cash transaction statements which shall include details of all investment transactions made by the Trustee with respect to such accounts.

#### **Section 4.4. Special Arbitrage Certifications.**

(a) The Company covenants and agrees that it will not take or authorize or permit any action to be taken and has not taken or authorized or permitted any action to be taken which results or would result in interest paid on any of the 2018 Series A Bonds being included in gross income of any owner thereof for purposes of federal income taxation (other than an owner who is a “substantial user” of the Project or a “related person” within the meaning of Code Section 147(a)) or adversely affects the validity of the 2018 Series A Bonds.

(b) The Company warrants, represents, and certifies to the Issuer that the proceeds of the 2018 Series A Bonds will not be used in any manner that would cause the 2018 Series A Bonds to be “arbitrage bonds” under Code Sections 103(b)(2) and 148 and other applicable sections thereof. To the best knowledge and belief of the Company, there are no facts, estimates, or circumstances that would materially change the foregoing conclusion.

(c) The Company hereby covenants that it will at all times comply and cause the Issuer to comply with the provisions of Section 148 and other applicable sections of the Code and will restrict the use of the proceeds of the 2018 Series A Bonds, in such manner and to such extent, if any, as may be necessary, and remit Excess Earnings with respect to all of the 2018 Series A Bonds, if any, to the United States of America pursuant to Code Section 148(f)(2) and carry out such actions so that the 2018 Series A Bonds will not constitute “arbitrage bonds” under Code Sections 103(b)(2) and 148. An officer or officers of the Issuer having responsibility with respect to the issuance of the 2018 Series A Bonds is or are hereby authorized and directed to give an appropriate certificate of the Issuer, for inclusion in the transcript of proceedings for the 2018 Series A Bonds, setting forth the reasonable expectations of the Issuer regarding the amount and use of the proceeds of the 2018 Series A Bonds and the facts, estimates, and circumstances on which they are based and related matters, all as of the date of delivery of and payment for the 2018 Series A Bonds pursuant to said Code Section 148. The Company shall provide the Issuer, and the Issuer’s certificate may be expressly based on, a certificate of the Company setting forth the facts, estimates, circumstances, and reasonable expectations of the Company on the date of delivery of and payment for the 2018 Series A Bonds regarding the amount and use of the proceeds of the 2018 Series A Bonds and related matters. If any such representation of the Company relied upon by the Issuer is untrue or inaccurate and the Issuer thereby suffers costs or damages, the Company shall indemnify the Issuer for any such costs or damages.

(d) Consistent with the foregoing, the Company covenants and certifies to the Issuer and to and for the benefit of the purchasers of the 2018 Series A Bonds, that no use will be made of the proceeds of the sale of the 2018 Series A Bonds which would cause the 2018 Series A Bonds to be classified as “arbitrage bonds” within the meaning of Code Sections 103(b)(2) and 148 and that the Company and the Issuer will, after issuance of the 2018 Series A Bonds, comply with the provisions of the Code at all times, including after the 2018 Series A Bonds are discharged, to the extent Excess Earnings with respect to the 2018 Series A Bonds are required to be rebated to the United States of America pursuant to Code Section 148(f)(2). Pursuant to such covenant, the Issuer and the Company obligate themselves throughout the term of this Agreement and thereafter not to violate the requirements of Code Section 148.

(e) The Company warrants, represents, and certifies to the Issuer that the proceeds of the 2018 Series A Bonds will be applied and invested in compliance with the current requirements of Code Section 149(g) and that consequently the 2018 Series A Bonds will not be “hedge bonds” under such Code Section 149(g).

(f) The Company hereby covenants and agrees that it will at all times comply with the provisions of Code Section 148, including Section 148(f) and with Section 6.06 of the Indenture. Specifically, the Company shall carry out, do, and perform all acts stipulated to be performed by the Company pursuant to Section 6.06 of the Indenture. The Company shall further undertake to assure and cause rebate payments, if any, to be calculated and made to the United States of America in accordance with Code Section 148(f)(2) from moneys on deposit in the Rebate Fund from time to time after the end of each Computation Period and following discharge of the 2018 Series A Bonds. The Company also covenants to take all necessary acts and steps as required to cause the Issuer to comply with the provisions of Sections 7.02 and 7.03 of the Indenture.

**Section 4.5. Opinion Of Bond Counsel.** The Company need not comply with the covenants or representations in Section 4.4 hereof if and to the extent that the Issuer and the Company (with a copy to the Trustee) receive a Favorable Opinion of Bond Counsel regarding such noncompliance.

**Section 4.6. First Mortgage Bonds.** The Company covenants and agrees with the Issuer that it will, for the purpose of providing security for the 2018 Series A Bonds, execute and deliver to the Trustee the First Mortgage Bonds in aggregate principal amount equal to the aggregate principal amount of the 2018 Series A Bonds. The First Mortgage Bonds shall mature as to principal identically as in the case of the 2018 Series A Bonds and, upon the giving of a Redemption Demand to the First Mortgage Trustee and completion of other conditions precedent set forth in the First Mortgage Indenture Supplement, shall bear interest as provided in the First Mortgage Indenture Supplement.

Upon the occurrence of an Event of Default under ARTICLE IX of this Agreement, that has resulted in a default in payment of the principal of, premium, if any, or interest on the 2018 Series A Bonds as and when the same come due, whether at maturity, redemption, acceleration, or otherwise, or a default in payment of the purchase price of any 2018 Series A Bond tendered for purchase, the acceleration of the maturity date of the 2018 Series A Bonds (to the extent not already due and payable) as a consequence of such Event of Default and the receipt by the First Mortgage Trustee

of a Redemption Demand from the Trustee, the First Mortgage Bonds shall bear interest, and principal and interest thereon will be payable, in accordance with the provisions specified in the First Mortgage Indenture Supplement.

Upon payment of the principal of, premium, if any, and interest on any of the 2018 Series A Bonds, whether at maturity or before maturity by redemption or otherwise, and the surrender thereof to, and cancellation thereof by, the Trustee, or upon provision for the payment thereof having been made in accordance with the provisions of ARTICLE VIII of the Indenture, First Mortgage Bonds in an amount equal to the aggregate principal amount of the 2018 Series A Bonds so surrendered and cancelled or for the payment of which provision has been made shall be deemed fully paid and the obligations of the Company thereunder terminated and such First Mortgage Bonds shall be surrendered by the Trustee to the First Mortgage Trustee, and shall be cancelled by the First Mortgage Trustee. All of the First Mortgage Bonds shall be registered in the name of the Trustee and shall be non-transferable, except to effect transfers to any successor trustee under the Indenture.

## ARTICLE V PROVISIONS FOR PAYMENT

### Section 5.1. Loan Payments And Other Amounts Payable.

(a) The Company hereby covenants and agrees to repay the Loan, as follows: on or before any Interest Payment Date for the 2018 Series A Bonds or any other date that any payment of interest, premium, if any, purchase price, or principal is required to be made in respect of the 2018 Series A Bonds at the times specified in accordance with the more specific provisions and requirements of the Indenture, until the principal of, premium, if any, and interest on the 2018 Series A Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, it will pay to the Trustee, for disbursement by the Trustee, as Paying Agent, or for disbursement by any Paying Agent such sums which will enable the Paying Agent to pay the amounts payable on such date, in immediately available funds, as principal of (whether at purchase, maturity, or upon redemption, acceleration, or otherwise), premium, if any, and interest on the 2018 Series A Bonds as provided in the Indenture; provided that such payments by the Company to enable the Tender Agent to pay the purchase price of 2018 Series A Bonds shall be made within the times required by Section 3.06 of the Indenture. It is understood and agreed that all payments payable by the Company under this Section 5.1(a) are assigned by the Issuer to the Trustee, the Paying Agent, and the Tender Agent, as applicable, for the benefit of the Holders. The Company assents to such assignment. The Issuer hereby directs the Company and the Company hereby agrees to pay to the Trustee or the Paying Agent or the Tender Agent, as appropriate, at the Designated Office of the Trustee or the Paying Agent or the Tender Agent, as appropriate, all payments payable by the Company pursuant to this Section 5.1(a).

(b) The Company will also pay the reasonable expenses of the Issuer related to the issuance of the 2018 Series A Bonds and incurred upon the request of the Company.

(c) The Company will also pay the agreed upon fees and expenses of the Trustee (including those referred to in Section 10.02 of the Indenture), the Bond Registrar, the Tender Agent, and the Paying Agent under the Indenture and all other amounts which may be payable to the Trustee,



the Bond Registrar, the Paying Agent, and the Tender Agent, as applicable from time to time, under the Indenture, such amounts to be paid directly to the Trustee, the Bond Registrar, the Paying Agent, and the Tender Agent for their respective own accounts as and when such amounts become due and payable.

(d) The Company further agrees to hold harmless the Trustee, the Bond Registrar, and the Paying Agent against any loss, liability, or expense, including reasonable attorneys' fees and expenses, incurred by it without negligence or bad faith on its part in connection with the issuance of the 2018 Series A Bonds or the acceptance or administration of the trusts under the Indenture, including the costs of defending itself against any claim or liability in connection therewith.

(e) The Company covenants, for the benefit of the Holders, if applicable, to pay or cause to be paid, to the Tender Agent for deposit in the Purchase Fund, such amounts as shall be necessary to enable the Tender Agent to pay the Purchase Price of 2018 Series A Bonds delivered to it for purchase, all as more particularly described in Sections 3.04 and 3.06 of the Indenture, and, in that regard, it will maintain an account with the Tender Agent and will pay in immediately available funds, a sum which will enable the Tender Agent to pay the purchase price of 2018 Series A Bonds delivered to it for purchase, as provided in the Indenture.

(f) If the Company should fail to make any of the payments required in this Section 5.1, the item or installment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company agrees to pay the same with interest thereon, to the extent permitted by law, from the date when such payment was due to the date of payment.

**Section 5.2. Payments Assigned.** As set forth in Section 5.1 hereof, it is understood and agreed that this Agreement and all payments made by the Company pursuant to this Agreement (except payments pursuant to Section 5.1(b) and (c) hereof or pursuant to Section 8.2 hereof) are assigned by the Issuer to the Trustee. The Company assents to such assignment and hereby agrees that, as to the Trustee, the Paying Agent, and the Tender Agent, as applicable from time to time, its obligation to make such payments shall be absolute, irrevocable, and unconditional and shall not be subject to cancellation, termination, or abatement or to any defense or any right of set-off, counterclaim, or recoupment arising out of any breach by any party, whether hereunder or otherwise, or out of any indebtedness or liability at any time owing by any party. Except as provided above, the Issuer hereby directs the Company and the Company hereby agrees to pay directly to the Trustee, the Paying Agent, the Bond Registrar, the Tender Agent, and the Issuer, as appropriate, all said payments payable by the Company pursuant to Section 5.1 hereof.

**Section 5.3. Taxes And Other Governmental Charges.** The Company agrees to pay during the term of this Agreement, as the same respectively become due, all taxes, assessments, and other governmental charges of any kind whatsoever that may at any time be lawfully assessed, levied, or charged against or with respect to the Project; provided, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Company shall be obligated to pay only such installments as may have become due

and provided further that nothing herein shall be construed as obligating the Company to pay taxes on any interest or principal on the 2018 Series A Bonds disbursed to the Holders.

The Company may, at its expense and in its own name, in good faith contest any such taxes, assessments, and other governmental charges and, upon any such contest, may permit the taxes, assessments, or other governmental charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless, in the opinion of its counsel, by nonpayment of any such items the security provided pursuant to the provisions of the Indenture will be materially endangered, in which event such taxes, charges for payments in lieu of taxes, assessments, or other governmental charges shall be paid forthwith. The Issuer will cooperate fully with the Company in any such contest. If the Company shall fail to pay any of the foregoing items required by this Section 5.3 to be paid by the Company, the Issuer or the Trustee may (but shall be under no obligation to) pay the same and any amounts so advanced therefor by the Issuer or the Trustee shall become an additional obligation of the Company to the one making the advancement, which amounts, together with interest thereon the Company agrees to pay at a rate which shall be one percent above the lowest minimum lending rate publicly quoted at such time as being charged by any commercial bank which is a member of the New York Clearing House on 90-day commercial loans to its prime commercial borrowers or the maximum rate permitted by law, whichever is lesser, until paid; but no such advancement shall operate to relieve the Company from any default hereunder. The Company may at its expense and in its own name and behalf apply for any tax exemption or exemption from payments in lieu of taxes allowed by the Commonwealth of Kentucky, or any political or taxing subdivision thereof under any existing or future provision of law which grants or may grant any such tax exemption or exemption from payments in lieu of taxes.

**Section 5.4. Obligations Of The Company Unconditional.** The obligation of the Company to make the payments pursuant to this Agreement and to make any payments required in respect of the Rebate Fund as provided in Section 6.06 of the Indenture shall be absolute and unconditional. Until such time as the principal of, premium, if any, and interest on the 2018 Series A Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Company (a) will not suspend or discontinue any payments pursuant to this Agreement; and (b) except as provided in ARTICLE X hereof, will not terminate this Agreement for any cause including failure of title to the Project or any part thereof, any acts or circumstances that may constitute failure of consideration, destruction of, or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the Commonwealth of Kentucky or any political subdivision thereof or any failure of the Issuer or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability, or obligation arising out of or connected with this Agreement. Nothing contained in this Section 5.4 shall be construed to release the Issuer from the performance of any of the agreements on its part herein contained; and if the Issuer should fail to perform any such agreement on its part, the Company may institute such action against the Issuer as the Company may deem necessary to compel performance so long as such action shall be in accordance with the agreements on the part of the Company contained in the preceding sentence. The Company may, however, at its own cost and expense and in its own name or in the name of the Issuer, prosecute or defend any action or proceeding or take any other action involving third persons which the Company deems

reasonably necessary in order to secure or protect its right of ownership, possession, occupancy, and use of the Project, and in such event the Issuer hereby agrees to cooperate fully with the Company.

**Section 5.5. Rebate Fund.** The Company agrees to make all payments to the Trustee and rebate all amounts to the United States of America as are required of it under the Code and the Indenture. The obligation of the Company to make such payments shall remain in effect and be binding upon the Company notwithstanding the release and discharge of the Indenture.

**Section 5.6. Redemption Of The 2018 Series A Bonds In Advance of Scheduled Maturity .** Under the terms of the Indenture, the 2018 Series A Bonds are and will be subject to redemption before their scheduled maturity. The Issuer and the Company agree that, if and when the Company shall direct the Trustee to redeem and call 2018 Series A Bonds, it shall do so on behalf of the Issuer.

**Section 5.7. Cancellation Of 2018 Series A Bonds.** The cancellation by the Bond Registrar of any 2018 Series A Bond or Bonds purchased by the Company and delivered to the Bond Registrar for cancellation or of any 2018 Series A Bond or Bonds redeemed or purchased by the Issuer through funds other than funds received as Loan payments hereunder shall constitute a Loan payment equal to the principal amount of the 2018 Series A Bond or Bonds so cancelled.

## **ARTICLE VI MAINTENANCE; DAMAGE, DESTRUCTION, AND CONDEMNATION; USE OF NET PROCEEDS; INSURANCE**

**Section 6.1. Maintenance.** So long as any 2018 Series A Bond is Outstanding, the Company will maintain, preserve, and keep the Project, or cause the Project to be maintained, preserved, and kept, in good repair, working order, and condition and will from time to time make or cause to be made all proper repairs, replacements, and renewals necessary to constitute the Project as Environmental Facilities; provided, however, that the Company will have no obligation to maintain, preserve, keep, repair, replace, or renew any element or portion of the Project (a) the maintenance, preservation, keeping, repair, replacement, or renewal of which becomes uneconomical to the Company because of damage or destruction by a cause not within the control of the Company, or condemnation of all or substantially all of the Project or the generating facilities to which the element or unit of the Project is an adjunct, or obsolescence (including economic obsolescence), or change in government standards and regulations, or the termination by the Company of the operation of the generating facilities to which the element or unit of the Project is an adjunct, and (b) with respect to which the Company has furnished to the Issuer and the Trustee a certificate executed by the Company Representative certifying that the maintenance, preservation, keeping, repair, replacement, or renewal of such element or unit of the Project is being discontinued for one of the foregoing reasons, which shall be stated therein, and that the discontinuance of such element or unit will not adversely affect the exclusion of interest on any of the 2018 Series A Bonds from gross income for federal income tax purposes under Code Section 103(a).

The Company shall have the privilege at its own expense of remodeling the Project or making substitutions, modifications, and improvements to the Project from time to time as it, in its discretion, may deem to be desirable for its uses and purposes, which remodeling, substitutions, modifications, and improvements shall be included under the terms of this Agreement as part of the Project;

provided, however, that the Company shall take no actions which will change or alter the basic nature of the Project as Environmental Facilities.

If, before full payment of all 2018 Series A Bonds outstanding (or provision for payment thereof having been made in accordance with the provisions of the Indenture), the Project or any portion thereof is destroyed or damaged in whole or in part by fire or other casualty, or title to, or the temporary use of, the Project or any portion thereof shall have been taken by the exercise of the power of eminent domain, and the Issuer, the Company, or the First Mortgage Trustee receives Net Proceeds from insurance or any condemnation award in connection therewith, the Company (unless it shall have exercised its option to prepay the Loan pursuant to provisions of Section 10.1(b) or (c) hereof) shall, subject to compliance with the terms of the First Mortgage Indenture, either (i) cause such Net Proceeds to be used to repair, reconstruct, restore, or improve the Project; (ii) take any action, including causing the redemption of the 2018 Series A Bonds, in whole or in part, on any date which is a Business Day, which, in the opinion of Bond Counsel, will not adversely affect the exclusion of interest on any of the 2018 Series A Bonds from gross income for federal income tax purposes under Code Section 103(a) provided that if a Credit Facility is then in effect with respect to the 2018 Series A Bonds, the Company shall reimburse the applicable Credit Facility Issuer for drawings under such Credit Facility for such redemption; provided further that if the 2018 Series A Bonds bear interest at the Flexible Rate or the Semi-Annual Rate, such redemption must occur on a date on which the 2018 Series A Bonds are otherwise subject to optional redemption.

**Section 6.2. Insurance.** The Company agrees to insure the Project at all times in accordance with the First Mortgage Indenture.

## ARTICLE VII SPECIAL COVENANTS

**Section 7.1. No Warranty Of Condition Or Suitability By The Issuer.** The Issuer makes no warranty, either express or implied, as to the Project or that it will be suitable for the Company's purposes or needs.

**Section 7.2. The Company To Maintain Its Corporate Existence; Conditions Under Which Exceptions Are Permitted.** The Company agrees that during the term of this Agreement it will maintain its existence and good standing, will continue to be a corporate entity organized under the laws of the Commonwealths of Kentucky and Virginia or qualified and admitted to do business in the Commonwealths of Kentucky and Virginia, and will neither dispose of all or substantially all of its assets nor consolidate with nor merge into another entity unless the acquirer of its assets or the entity with which it shall consolidate or into which it shall merge, (a) shall be a corporation or other business organization organized and existing under the laws of the United States or one of the states of the United States of America or the District of Columbia; (b) shall be qualified and admitted to do business in the Commonwealth of Kentucky; (c) shall assume in writing all of the obligations and covenants of the Company herein; and (d) shall deliver a copy of such assumption to the Issuer and the Trustee.

**Section 7.3. Financial Statements.** The Company agrees to furnish the Trustee (within 120 days after the close of each fiscal year) with an audited balance sheet and statements of income,



retained earnings, and changes in cash flows showing the financial condition of the Company and its consolidated subsidiary or subsidiaries, if any, at the close of such fiscal year and the results of operations of the Company and its consolidated subsidiary or subsidiaries, if any, for such fiscal year, accompanied by an opinion of its regular independent certified public accountants that such statements fairly represent the financial condition of the Company in accordance with generally accepted accounting principles. The requirements of this Section 7.3 shall be satisfied by the submission to the Trustee of the Company's annual report on Form 10-K. The information so provided to the Trustee shall be kept in its files and is not required to be distributed to any Holder or other Person. Delivery of such reports, information, and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on certifications of the Company).

**Section 7.4. Further Assurances And Corrective Instruments.** The Issuer and the Company agree that they will, from time to time, execute, acknowledge, and deliver, or cause to be executed, acknowledged, and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the intention of or facilitating the performance of this Agreement.

**Section 7.5. The Issuer Representative.** Whenever under the provisions of this Agreement the approval of the Issuer is required or the Issuer is required to take some action at the request of the Company, such approval shall be made or such action shall be taken by the Issuer Representative and the Company or the Trustee shall be authorized to act on any such approval or action, and the Issuer shall have no redress against the Company or the Trustee as a result of any such action taken.

**Section 7.6. The Company Representative.** Whenever under the provisions of this Agreement the approval of the Company is required or the Company is required to take some action at the request of the Issuer, such approval shall be made or such action shall be taken by the Company Representative and the Issuer or the Trustee shall be authorized to act on any such approval or action and the Company shall have no redress against the Issuer or the Trustee as a result of any such action taken.

**Section 7.7. Financing Statements.** The Company shall, to the extent required by law, file and record, refile and rerecord, or cause to be filed and recorded, refiled and rerecorded, all documents or notices, including financing statements and continuation statements, required by law in order to perfect, or maintain the perfection of, the lien of the Indenture. The Issuer shall cooperate fully with the Company in taking any such action. Concurrently with the execution and delivery of the 2018 Series A Bonds, the Company shall cause to be delivered to the Trustee an opinion of counsel (a) stating that in the opinion of such counsel, either: (i) such action has been taken, as set forth therein, with respect to the recording and filing of such documents, notices, and financing statements as is necessary to perfect the lien of the Indenture under the Uniform Commercial Code of the Commonwealth of Kentucky; or (ii) no such action is necessary to so perfect such liens; and (b) stating the requirements for the filing of continuation statements or other documentation or

notices in order to maintain the perfection of the lien of the Indenture, which filings the Company agrees to undertake.

**Section 7.8. The Company's Performance Under Indenture.** The Company agrees, for the benefit of Holders to do and perform all acts and things contemplated in the Indenture to be done and performed by it.

## **ARTICLE VIII ASSIGNMENT; INDEMNIFICATION; REDEMPTION**

**Section 8.1. Assignment.** This Agreement may be assigned by the Company without the necessity of obtaining the consent of either the Issuer or the Trustee, subject, however, to each of the following conditions:

(a) No assignment (other than pursuant to Section 7.2 hereof) shall relieve the Company from primary liability for any of its obligations hereunder, and upon any such assignment the Company shall remain primarily liable for payments of the amounts specified in Section 5.1 hereof and for performance and observance of the other covenants or agreements on its part herein provided to be performed and observed to the same extent as though no assignment had been made;

(b) The assignee shall assume the obligations of the Company hereunder to the extent of the interest assigned;

(c) The Company shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Issuer and to the Trustee a true and complete copy of each such assignment and assumption of obligation; and

(d) Before such assignment, the Company shall have obtained a Favorable Opinion of Bond Counsel regarding the assignment.

**Section 8.2. Release And Indemnification Covenants.** The Company releases the Issuer from and covenants and agrees that the Issuer shall not be liable for, and agrees to indemnify and hold the Issuer harmless against, any expense or liability incurred by the Issuer, including attorneys' fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection with the financing thereof. If any such claim is asserted, the Issuer agrees to give prompt notice to the Company and the Company will assume the defense thereof, with full power to litigate, compromise, or settle the same in its sole discretion, it being understood that the Issuer will not settle or consent to the settlement of the same without the consent of the Company.

**Section 8.3. Assignment Of Interest In Agreement By The Issuer.** Any assignment by the Issuer to the Trustee pursuant to the Indenture or this Agreement of any moneys receivable under this Agreement shall be subject and subordinate to this Agreement.

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**Section 8.4. Redemption Of 2018 Series A Bonds.** Upon the agreement of the Company to deposit moneys in the Bond Fund in an amount sufficient to redeem 2018 Series A Bonds subject to redemption, the Issuer, at the request of the Company, shall forthwith take all steps (other than the payment of the money required for such redemption) necessary under the applicable redemption provisions of the Indenture to effect redemption of all or part of the 2018 Series A Bonds outstanding, as may be specified by the Company, on the redemption date specified by the Company.

**Section 8.5. Reference To 2018 Series A Bonds Ineffective After 2018 Series A Bonds Paid .** Upon payment in full of the 2018 Series A Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture) and payment of all amounts required to be paid to the United States of America via the Trustee pursuant to Section 5.5 hereof and payment of all fees and charges of the Trustee (including reasonable attorneys' fees and expenses), the Bond Registrar, the Authenticating Agent, and any Paying Agent, all references in this Agreement to the 2018 Series A Bonds, the First Mortgage Bonds, and the Trustee shall be ineffective and neither the Trustee nor the Holders thereafter have any rights hereunder except as set forth in Section 11.1 hereof.

## **ARTICLE IX EVENTS OF DEFAULT AND REMEDIES**

**Section 9.1. Events Of Default Defined.** The following shall be "Events of Default" under this Agreement and the term "Events of Default" shall mean, whenever it is used in this Agreement, one or more of the following events:

(a) Failure by the Company to pay any amount required to be paid under subsections (a) and (e) of Section 5.1 hereof which results in failure to pay principal of, premium, or interest on or the purchase price of the 2018 Series A Bonds, and such failure shall cause an Event of Default under the Indenture.

(b) Failure by the Company to observe and perform any covenant, condition, or agreement on its part to be observed or performed, other than as referred to in subsection (a) of this Section 9.1, for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee shall agree in writing to an extension of such time before its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if such failure is capable of being cured and corrective action is instituted by the Company within the applicable period and is being diligently pursued.

(c) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking: (1) relief in respect of the Company, or of a substantial part of the property or assets of the Company, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other federal or state bankruptcy, insolvency, receivership, or similar law; (2) the appointment of a receiver, trustee, custodian, sequestrator, conservator, or similar official for the Company or for a substantial part of the property or assets of the Company; or (3) the winding-up or liquidation of the Company; and such proceeding or

petition shall continue undismissed or unstayed for 90 days or an order or decree approving or ordering any of the foregoing shall be entered.

**(d)** The Company shall: (1) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other federal or state bankruptcy, insolvency, receivership, or similar law; (2) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in Section 9.1(c) above; (3) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator, or similar official for the Company or for a substantial part of the property or assets of the Company; (4) file an answer admitting the material allegations of a petition filed against it in any such proceeding; (5) make a general assignment for the benefit of creditors; (6) become unable, admit in writing its inability, or fail generally to pay its debts as they become due; or (7) take any action for the purpose of effecting any of the foregoing.

**(e)** All bonds outstanding under the First Mortgage Indenture shall, if not already due, have become immediately due and payable, whether by declaration of the First Mortgage Trustee or otherwise, and such acceleration shall not have been rescinded or annulled by the First Mortgage Trustee.

**(f)** The occurrence of an Event of Default under the Indenture.

The provisions of Section 9.1(b) hereof are subject to the following limitations: If by reason of force majeure the Company is unable in whole or in part to carry out its agreements on its part herein contained, other than the obligations on the part of the Company contained in Section 2.2(j), Section 2.2(k), Section 4.2, Section 4.4, Section 4.6, or Section 7.2 or ARTICLE V hereof and the general covenant and obligation of the Company to take all necessary actions for the continued exclusion of interest on the 2018 Series A Bonds from gross income for federal and Kentucky income taxes, the Company shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean any cause or event not reasonably within the control of the Company, including acts of God; strikes; wars or national police actions, lockouts or other industrial disturbances; acts of public enemies, including terrorists; orders of any kind of the government of the United States or of the Commonwealth of Kentucky or any of their departments, agencies, or officials, or any civil or military authority; evacuations and quarantines; insurrections; riots; epidemics; plague; famine; landslides; lightning; earthquakes; fire; hurricanes; tornadoes; storms; typhoons; cyclones; volcanic eruptions; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery and transmission lines or pipes; or partial or entire failure of utility services. The Company agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out its agreements; provided, that the settlement of strikes, lockouts, and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts, and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company.



**Section 9.2. Remedies On Default.** Whenever any Event of Default referred to in Section 9.1 hereof shall have happened and be continuing, the Trustee may take any one or more of the following remedial steps:

(a) By written notice to the Company, the Trustee, on behalf of the Issuer, may declare an amount equal to the principal and accrued interest on the 2018 Series A Bonds then Outstanding to be immediately due and payable under this Agreement, whereupon the same shall become immediately due and payable.

(b) The Trustee, on behalf of the Issuer, may have access to and inspect, examine, and make copies of the books and records and any and all accounts, data, and income tax and other tax returns of the Company.

(c) The Trustee, on behalf of the Issuer, may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement, or covenant of the Company under this Agreement, including any remedies available in respect of the First Mortgage Bonds.

In case there shall be pending a proceeding of the nature described in Section 9.1(c) or (d) hereof, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Company, its creditors, or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses; and any custodian (including a receiver, trustee, or liquidator) of the Company appointed in connection with such proceedings is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including reasonable counsel fees and expenses incurred by it up to the date of such distribution.

Any amounts collected pursuant to action taken under this Section 9.2 (other than the compensation and expenses referred to in the immediately prior sentence) shall be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the 2018 Series A Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and all reasonable and necessary fees and expenses of the Trustee and any paying agents accrued and to accrue through final payment of the 2018 Series A Bonds, and all other liabilities of the Company accrued and to accrue hereunder or under the Indenture through final payment of the 2018 Series A Bonds have been paid, such amounts so collected shall be paid to the Company.

**Section 9.3. No Remedy Exclusive.** No remedy herein conferred upon or reserved to the Issuer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to

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exercise any right or power accruing upon default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer to exercise any remedy reserved to it in this ARTICLE IX, it shall not be necessary to give any notice other than such notice as may be herein expressly required. Such rights and remedies as are given the Issuer hereunder shall also extend to the Trustee, and the Trustee and the Holders, subject to the provisions of the Indenture, shall be entitled to the benefit of all covenants and agreements herein contained.

**Section 9.4. Agreement To Pay Reasonable Attorneys' Fees And Expenses .** If the Company should default under any of the provisions of this Agreement and the Issuer or the Trustee should employ attorneys or incur other expenses for the collection of amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company herein contained, the Company agrees that it will on demand therefor pay to the Issuer or the Trustee the reasonable fees and expenses of such attorneys and such other reasonable expenses so incurred by the Issuer or the Trustee.

**Section 9.5. Waiver Of Events Of Default.** If, after the acceleration of the maturity of the outstanding 2018 Series A Bonds by the Trustee pursuant to the Indenture, and before any judgment or decree for the appointment of a receiver or for the payment of the moneys due shall have been obtained or entered, the Company shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all 2018 Series A Bonds and the principal of, and premium, if any, on any and all 2018 Series A Bonds which shall have become due otherwise than by reason of such declaration (with interest upon such principal and premium, if any, and overdue installments of interest, at the rate per annum which is one percent above the highest rate borne by any 2018 Series A Bond, until paid), and such amounts as shall be sufficient to cover all expenses of the Trustee in connection with such default, and all defaults under the Indenture and this Agreement, other than nonpayment of principal of 2018 Series A Bonds which shall have become due by said declaration, shall have been remedied, and such Event of Default under the Indenture shall be deemed waived by the Trustee in accordance with Section 9.11 of the Indenture with the consequence that under the Indenture such acceleration is rescinded, then the Company's default hereunder shall be deemed to have been waived by the Issuer and no further action or consent by the Trustee or the Issuer shall be required. If any agreement or covenant contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

## ARTICLE X PREPAYMENT OF LOAN

**Section 10.1. Options To Prepay Loan.** The Company shall have, and is hereby granted, options to prepay the Loan in whole and to cancel or terminate this Agreement on any Business Day at any time the Company so elects, if certain events shall have occurred within the 180 days preceding the giving of written notice by the Company to the Trustee of such election, as follows:

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(a) If in the judgment of the Company, unreasonable burdens or excessive liabilities shall have been imposed after the issuance of the 2018 Series A Bonds upon the Company with respect to the Project or the operation thereof, including without limitation federal, state, or other ad valorem, property, income, or other taxes not imposed on the date of this Agreement other than ad valorem taxes presently levied upon privately owned property used for the same general purpose as the Project;

(b) If the Project or a portion thereof or other property of the Company in connection with which the Project is used shall have been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use and such condition shall continue for a period of six months;

(c) There shall have occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use;

(d) If changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment, or other properties or things necessary for the efficient operation of the Ghent Generating Station of the Company shall have occurred which, in the judgment of the Company, render the continued operation of the Ghent Generating Station or any generating unit at such station uneconomical; or changes in circumstances, after the issuance of the 2018 Series A Bonds including but not limited to changes in solid waste disposal requirements, shall have occurred such that the Company shall determine that use of the Project is no longer required or desirable;

(e) If this Agreement shall become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action, whether state or federal, or any final decree, judgment, or order of any court or administrative body, whether state or federal; or

(f) A final order or decree of any court or administrative body after the issuance of the 2018 Series A Bonds shall require the Company to cease a substantial part of its operations at the Ghent Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such location for a period of six months.

In the case of prepayment pursuant to this Section 10.1 (or if any 2018 Series A Bonds be redeemed in whole or in part pursuant to Section 6.1 hereof), the Loan prepayment price shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem all 2018 Series A Bonds then outstanding (or, in the case any 2018 Series A Bonds are redeemed in part pursuant to Section 6.1 hereof, such portion of the 2018 Series A Bonds then outstanding) under the Indenture at a price equal to 100% of the principal amount thereof plus interest accrued and to accrue to the date of redemption of the 2018 Series A Bonds and to pay all

reasonable and necessary fees and expenses of the Trustee and any Paying Agents and all other liabilities of the Company accrued and to accrue hereunder to the date of redemption of the 2018 Series A Bonds. In order to exercise any option to prepay the Loan and to cancel or terminate this Agreement by reason of the occurrence of any of the events mentioned in (a) through (f) above, the Company is required to give written notice to the Trustee of its election to prepay the Loan within 180 days of the occurrence of any of the events mentioned in (a) through (f) above.

**Section 10.2. Additional Option To Prepay Loan.** The Company shall have, and is hereby granted, further options, to the extent that the 2018 Series A Bonds are, from time to time, subject to optional redemption, during any period of optional redemption, to prepay all, or any portion, of the relevant and applicable Loan payments due or to become due hereunder by depositing with the Trustee moneys sufficient to pay, together with other funds deposited with the Trustee and available for such purpose, the principal of and applicable premium, if any, and accrued interest, through the date of redemption (which must be a Business Day), on all or any portion of the 2018 Series A Bonds then outstanding under the Indenture and, upon depositing with the Trustee moneys sufficient to pay the principal, applicable premium, if any, and accrued interest, through the date of redemption, on all 2018 Series A Bonds then outstanding under the Indenture, as well as all reasonable and necessary expenses of the Trustee and any Paying Agents and all other liabilities of the Company accrued and to accrue hereunder, to cancel or terminate the term of this Agreement.

**Section 10.3. Obligations To Prepay Loan.**

**(a) Mandatory Redemption Upon Determination Of Taxability.** The Company shall be obligated to prepay the entire Loan or any part thereof, as provided below, before the required full payment of the 2018 Series A Bonds (or before making provision for payment thereof in accordance with the Indenture) on the 180<sup>th</sup> day (or such earlier date as may be designated by the Company), which, in every case, must be a Business Day, upon the occurrence of a Determination of Taxability. The Issuer and the Company shall take all actions required to mandatorily redeem the 2018 Series A Bonds at the cost of the Company upon the terms specified in this Agreement and in ARTICLE IV of the Indenture following the occurrence of a Determination of Taxability, including prepaying appropriate amounts due on the 2018 Series A Bonds in order to effect such redemption. The 2018 Series A Bonds shall be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a Determination of Taxability. For purposes of this Section 10.3, a “**Determination of Taxability**” shall mean the receipt by the Trustee of written notice from a current or former registered owner of a 2018 Series A Bond or from the Company or the Issuer of: (1) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists; or (2) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained



in this Agreement or any other agreement or certificate delivered in connection with the 2018 Series A Bonds, the interest on the 2018 Series A Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a “substantial user” or a “related person” of a substantial user within the meaning of Code Section 147; provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a 2018 Series A Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the 2018 Series A Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof; and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense; or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal, or rehearing of such decree, judgment, or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any 2018 Series A Bond in the computation of minimum or indirect taxes. All of the 2018 Series A Bonds shall be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of the 2018 Series A Bonds of one or more series or one or more maturities would have the result that interest payable on the remaining 2018 Series A Bonds outstanding after the redemption would not be so included in any such gross income.

If the Issuer, the Company, or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit, or other proceedings relating to the 2018 Series A Bonds being conducted by the Internal Revenue Service, the party so put on notice shall give immediate written notice to the other parties of such matters.

Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described in this Section 10.3(a), the Company shall give notice thereof to the Trustee and the Issuer.

(b) In the case of the mandatory obligation of the Company to prepay the Loan or any part thereof after the occurrence of a Determination of Taxability, pursuant to Section 10.3(a) hereof, the Company shall be obligated to prepay such Loan or such part thereof not later than 180 days after any such final determination as specified in Section 10.3(a) hereof and to provide to the Trustee for deposit in the Bond Fund an amount sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem such 2018 Series A Bonds at the price of 100% of the principal amount thereof in accordance with Section 5.1 hereof plus interest accrued and to accrue to the date of redemption of the 2018 Series A Bonds and to pay all reasonable and necessary fees and expenses of the Trustee and any paying agents and all other liabilities of the Company accrued and to accrue hereunder to the date of redemption of the 2018 Series A Bonds.

(c) If a Determination of Taxability occurs when all or any portion of the 2018 Series A Bonds are owned by any Purchaser, the Company hereby agrees to pay to such Purchaser, in addition to the redemption price of the 2018 Series A Bonds owned by such Purchaser, the following additional amounts:

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(1) an additional amount equal to the difference between (A) the amount of interest paid on the 2018 Series A Bonds during the Taxable Period and (B) the amount of interest that would have been paid on the 2018 Series A Bonds during the Taxable Period had the 2018 Series A Bonds borne interest at the Taxable Rate; and

(2) an amount equal to any interest, penalties on overdue interest, and additions to tax (as referred to in Subchapter A of Chapter 68 of the Code) owed by such Purchaser as a result of an occurrence of a Determination of Taxability.

**Section 10.4. Notice Of Prepayment; Redemption Procedures.** It is understood and agreed by the parties hereto that in order to exercise an option granted in, or to consummate a mandatory prepayment required by, this ARTICLE X, the Company shall give written notice to the Issuer and the Trustee which notice shall (a) contain the agreement of the Company to deposit moneys in the Bond Fund on or before the redemption date in an amount sufficient to redeem a principal amount of the 2018 Series A Bonds equal to the amount of the prepayment, including, in the case of a prepayment under Section 10.2 hereof, any applicable redemption premium in respect of such 2018 Series A Bonds, and any other amounts required under this Agreement; (b) specify the prepayment date (which must be a Business Day and which shall also be the redemption date); and (c) comply with Section 4.07 of the Indenture regarding the number of days' notice the Company is required to give the Issuer and the Trustee for the redemption of 2018 Series A Bonds bearing interest in the then applicable Interest Rate Mode.

**Section 10.5. Relative Position Of This Article And Indenture.** The rights and options granted to the Company in this ARTICLE X, except the option granted to the Company pursuant to Section 10.2 to prepay less than all of the Loan payments, shall be and remain prior and superior to the Indenture and may be exercised whether or not the Company is otherwise in default hereunder; provided that such default will not result in nonfulfillment of any condition to the exercise of any such right or option.

**Section 10.6. Concurrent Discharge Of First Mortgage Bonds.** If any 2018 Series A Bond shall be paid and discharged pursuant to any provision of this Agreement, so that the 2018 Series A Bond is not thereafter Outstanding, a like principal amount of First Mortgage Bonds shall be deemed fully paid and the obligations of the Company thereunder terminated. Thereupon, the Trustee shall deliver to the First Mortgage Trustee such like principal amount of First Mortgage Bonds for cancellation pursuant to Section 2.22 of the Indenture.

## ARTICLE XI MISCELLANEOUS

**Section 11.1. Term Of Agreement.** This Agreement shall remain in full force and effect from the date hereof to and including the later of the Maturity Date, or until such earlier or later time as all of the 2018 Series A Bonds shall have been fully paid (or provision made for such payment pursuant to the Indenture); provided, however, that this Agreement may be cancelled and terminated before said date if the Company shall prepay all of the Loan pursuant to ARTICLE X hereof; and provided further, however, that all obligations of the Company under ARTICLE V and Section 8.2 hereof: (a) to pay the agreed fees and expenses of the Trustee, the Tender Agent, the Bond Registrar,

and any Paying Agent; and (b) to pay any amount required by Section 5.5 hereof shall continue in effect even though 2018 Series A Bonds may no longer be outstanding and this Agreement may otherwise be terminated. All representations and certifications by the Company as to all matters affecting the tax-exempt status of interest on the 2018 Series A Bonds shall be for the equal and ratable benefit, protection, and security of the Holders of the 2018 Series A Bonds and shall survive the termination of this Agreement and all obligations of the Company contained herein relating to indemnification of the Issuer, the Trustee, the Bond Registrar, the Authenticating Agent, the Tender Agent, and any Paying Agent shall survive the termination of this Agreement.

**Section 11.2. Notices.** All notices, certificates, or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by registered or certified mail, postage prepaid, addressed as follows:

To the Issuer: County of Carroll, Kentucky  
440 Main Street  
Carrollton, Kentucky 41008  
Attention: County Judge/Executive  
Telephone: (502) 732-7000  
Facsimile: (502) 732-7023  
Email: blwestrick@carrollcountygov.us

To the Trustee: U.S. Bank National Association  
One Financial Square.  
Louisville, Kentucky 40202  
Attention: Corporate Trust Department  
Telephone: (502) 562-6259  
Facsimile: (502) 562-6371  
Email: amy.anders@usbank.com

To the Company: Kentucky Utilities Company  
220 West Main Street  
Louisville, Kentucky 40202  
Attention: Treasurer  
Telephone: (502) 627-4956  
Facsimile: (502) 627-4742  
Email: Dan.Arrough@lge-ku.com

With a Copy to: LG&E and KU Energy LLC  
220 West Main Street  
Louisville, Kentucky 40202  
Attention: Treasurer  
Telephone: (502) 627-4956  
Facsimile: (502) 627-4742  
Email: Dan.Arrough@lge-ku.com

If to First Mortgage Trustee: The Bank of New York Mellon  
500 Ross Street, 12<sup>th</sup> Floor  
Pittsburgh, Pennsylvania 15262  
Attn: Corporate Trust Administration  
Telephone: (412) 236-1215  
Facsimile: (412) 234-8377  
Email: leslie.lockhart@bnymellon.com

If to the Tender Agent: U.S. Bank National Association  
One Financial Square  
Louisville, Kentucky 40202  
Attention: Corporate Trust Department  
Telephone: (502) 562-6259  
Facsimile: (502) 562-6371  
Email: amy.anders@usbank.com

If to the Paying Agent: U.S. Bank National Association  
One Financial Square  
Louisville, Kentucky 40202  
Attention: Corporate Trust Department  
Telephone: (502) 562-6259  
Facsimile: (502) 562-6371  
Email: amy.anders@usbank.com

If to the Bond Registrar: U.S. Bank National Association  
One Financial Square  
Louisville, Kentucky 40202  
Attention: Corporate Trust Department  
Telephone: (502) 562-6259  
Facsimile: (502) 562-6371  
Email: amy.anders@usbank.com

A duplicate copy of each notice, certificate, or other communication given hereunder by either the Issuer or the Company to the other shall also be given to the Trustee. The Issuer, the Company, and the Trustee may by notice given hereunder designate any further or different addresses to which subsequent notices, certificates, or other communications shall be sent.

**Section 11.3. Binding Effect; Bond Counsel Opinions.** This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company, and their respective successors and assigns, subject, however, to the limitations contained in Section 7.2, Section 8.1, and Section 8.3 hereof.

**Section 11.4. Severability.** If any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

**Section 11.5. Amounts Remaining In Bond Fund And Rebate Fund.** It is agreed by the parties hereto that any amounts remaining in the Bond Fund upon expiration or sooner termination



of the term of this Agreement, as provided in this Agreement, after payment in full of the 2018 Series A Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture) and the reasonable and necessary fees and expenses of the Trustee (including reasonable attorneys' fees and expenses) and any Paying Agent in accordance with the Indenture and the payment in full of all other amounts required to be paid under this Agreement or the Indenture, shall belong to and be paid to the Company by the Trustee. Any amounts remaining in the Rebate Fund at such time shall be held, applied, and disbursed strictly and only in accordance with the provisions of Section 6.06 of the Indenture. Following the payment and discharge of the Refunded 2007 Series A Bonds on their redemption date and the making of provision for payment of the Refunded 2007 Series A Bonds not presented for payment, any remaining moneys in the Prior 2007 Series A Bond Fund shall belong to and be paid to Company by the Prior 2007 Series A Trustee.

**Section 11.6. Amendments, Changes, And Modifications.** After the issuance of the 2018 Series A Bonds and before payment in full of all 2018 Series A Bonds (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), except as otherwise provided in this Agreement or in the Indenture, this Agreement may not be effectively amended, changed, modified, altered, or terminated, and no provision hereof waived, without the written consent of the Trustee, given in accordance with the Indenture.

**Section 11.7. Execution In Counterparts.** This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**Section 11.8. Applicable Law.** This Agreement shall be construed, and the obligations, rights, and remedies of the parties under this Agreement are to be determined, in accordance with the laws of the Commonwealth of Kentucky without regard to conflicts of laws principles, except to the extent that the laws of the United States of America may prevail.

**Section 11.9. Interpretation.** The captions or headings in this Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or sections of this Agreement. The words "hereof", "herein", "hereto", "hereby" and "hereunder" refer to this entire Agreement. Unless otherwise noted, all Section and Article references are to sections and articles in this Agreement. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or."

**Section 11.10. No Pecuniary Liability Of The Issuer.** No provision, covenant, or agreement contained in this Agreement or breach thereof shall constitute or give rise to a pecuniary liability of the Issuer or a charge upon its general credit or taxing powers. In making such covenants, agreements, or provisions, the Issuer has not obligated itself, except with respect to the Project and the application of the revenues of this Agreement, as hereinabove provided.

**Section 11.11. Payments Due On Other Than Business Days.** Except as provided in Section 15.05 of the Indenture, if the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Agreement, shall not be on a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the date provided in this Agreement, and if done on such succeeding Business Day no interest with respect to such payment shall accrue for the period after such nominal date.

(Signature page to follow)

[SIGNATURE PAGE TO LOAN AGREEMENT]

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first written above.

COUNTY OF CARROLL, KENTUCKY

(SEAL)

By /s/ Bobby Lee Westrick  
Bobby Lee Westrick  
County Judge/Executive

Attest:

/s/ Traci Courtney  
Fiscal Court Clerk

KENTUCKY UTILITIES COMPANY

(SEAL)

By /s/ Daniel K. Arbough  
Daniel K. Arbough  
Treasurer

Attest:

/s/ John R. Crockett III  
John R. Crockett III  
Secretary

COMMONWEALTH OF KENTUCKY )  
 ) SS  
COUNTY OF CARROLL )

I, the undersigned Notary Public in and for the State and County aforesaid, do hereby certify that on the 25th day of July, 2018, the foregoing instrument was produced to me in said County by Bobby Lee Westrick and Traci Courtney, personally known to me and personally known by me to be the County Judge/Executive and the Fiscal Court Clerk, respectively, of the **COUNTY OF CARROLL, KENTUCKY**, and acknowledged before me by them and each of them to be their free act and deed as County Judge/Executive and Fiscal Court Clerk of such County, and the act and deed of said County as authorized by an Ordinance of the Fiscal Court of such County.

Witness my hand and seal this 25th day of July, 2018. My commission expires February 18, 2022.

(Seal)

/s/ Mark S. Franklin  
Notary Public  
State at Large, Kentucky

COMMONWEALTH OF KENTUCKY )  
 ) SS  
COUNTY OF JEFFERSON )

I, the undersigned Notary Public in and for the State and County aforesaid, do hereby certify that on the 24th day of August, 2018, the foregoing instrument was produced to me in said County by Daniel K. Arbough and John R. Crocket III, personally known to me and personally known by me to be the Treasurer and the Secretary, respectively, of **KENTUCKY UTILITIES COMPANY**, a corporation incorporated under the laws of the Commonwealth of Kentucky, who being by me duly sworn, did say that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said respective persons acknowledged before me said instrument to be the free act and deed of said corporation and to be their free act and deed as such officers of such corporation.

Witness my hand and seal this 24th day of August, 2018. My commission expires 6/21/2022.

(Seal)

/s/ Betty L. Brinly  
Notary Public  
State at Large, Kentucky

This Instrument Prepared by:

STOLL KEENON OGDEN PLLC  
2000 PNC Plaza  
500 West Jefferson Street  
Louisville, Kentucky 40202

/s/ Mark S. Franklin  
Mark S. Franklin

**EXHIBIT A**  
**DESCRIPTION OF PROJECT**

[See attachment]

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**FINAL REPORT**

## **Tax-Exempt Analysis Report**

**Kentucky Utilities Company  
Ghent Generating Station Unit No. 1  
Collection, Storage, Treatment, and Disposal  
of Solid Wastes**

**Revision 0  
MAY 18, 2007**



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# TAX-EXEMPT ANALYSIS REPORT

## Table of Contents

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### SECTION 1 INTRODUCTION

1.1 Purpose	1-1
1.2 Project Overview	1-2

### SECTION 2 TAX-EXEMPT ANALYSIS

2.1 Analysis	2-1
2.2 FGD Scrubber Vessel and Associated Equipment	2-5
2.3 FGD System Support Equipment	2-6
2.4 Construction Costs	2-6
2.5 Additional Project Costs	2-7

### SECTION 3 CONSIDERATIONS AND ASSUMPTIONS

### SECTION 4 OPINIONS

### EXHIBIT 1 COST INFORMATION PROVIDED BY KU

This report has been prepared for the use of the client for the specific purposes identified in the report. The conclusions, observations and recommendations contained herein attributed to R. W. Beck, Inc. (R. W. Beck) constitute the opinions of R. W. Beck. To the extent that statements, information and opinions provided by the client or others have been used in the preparation of this report, R. W. Beck has relied upon the same to be accurate, and for which no assurances are intended and no representations or warranties are made. R. W. Beck makes no certification and gives no assurances except as explicitly set forth in this report.

Copyright 2007, R. W. Beck, Inc.  
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## 1.1 Purpose

R. W. Beck, Inc. (R. W. Beck) was retained by Lehman Brothers, Inc. (the Client) and Kentucky Utilities Company (the Sponsor); pursuant to a Professional Services Agreement (the PSA) dated April 27, 2007. Under the PSA, R. W. Beck undertook an independent engineering review of the Sponsor's proposed solid waste collection, storage, treatment, and disposal facilities, for the collection, control and disposal of solid wastes created at the Ghent Generating Station Unit 1 (the Project), which is now under construction, by operation of flue gas desulphurization (FGD) facilities serving the Unit 1 generating unit in order to provide an analysis regarding the type or classification of equipment and systems within the Project which qualify for the solid waste disposal facilities designation for tax exempt status.

Included in the services provided by R. W. Beck were the following:

- Review of various cost estimates and other documents, made available by the Sponsor, associated with the Project to the extent necessary to form professional opinions about the Project.
- Formulation of an opinion as to qualification of Project facilities for tax-exempt financing status pursuant to Section 103 and Section 142(a)(6) of the Internal Revenue Code of 1986, as solid waste disposal facilities.

Presented herein is the Tax Exempt Analysis Report (the Report) summarizing R. W. Beck's review and analyses concerning the Project. The Report is considered confidential and is prepared solely for the use of the Client and Sponsor, or duly assigned agents or representatives, including any bond counsel rendering an opinion on the tax-exempt status of any bonds issued in connection with or for the purpose of financing the Project. The Report may not be used for any other purpose without our prior written consent, and as expressly provided for in the executed PSA. The Report is to be used only for the purpose for which it was prepared, and should not be relied upon by others for any other use. The Report has been prepared at the request of and for the use of the Client and the Sponsor, and the conclusions, observations, and recommendations contained herein constitute only the opinions of R. W. Beck. To the extent that statements and books of record and accounts of the Client and/or the Sponsor, statements of independent public accountants and auditors employed by the Client, and information prepared by others have been used in the preparation of the Report, no

assurances are intended and no representations or warranties are made. R. W. Beck makes no certification and gives no assurances except as explicitly set forth in the Report.

### 1.2 Project Overview

The Project will be constructed at the existing Ghent Generating Station located in Carroll County, Kentucky. The Sponsor reported to R. W. Beck that it intends to construct the Project through Fluor Corporation (or a subsidiary or an affiliate thereto) (Fluor) and that major equipment such as the absorber, reaction tank and related facilities will be provided by Babcock Power Environmental, Inc. (BPEI). The Sponsor has provided R. W. Beck with capital cost estimates for certain pieces of the major equipment, as more fully discussed herein. Furthermore, the Sponsor reported that the Project design is the same as previous projects related to the Ghent Plant Unit 3 FGD system (Unit 3 Scrubber) and Unit 4 FGD system (Unit 4 Scrubber) and advised that certain information previously provided to R.W. Beck related to the Unit 3 Scrubber be used as a basis from which to perform its analysis with respect to capital costs required to compute the costs of the Project.

### General Description

The Ghent Generating Station is a coal fired steam electric generating station located in Carroll County, Kentucky. Air emission control regulations require removal of particulates and sulfur dioxide (SO<sub>2</sub>) from the flue gas exhaust emissions and solid waste disposal regulations require the disposal of combustion by-products including FGD-generated waste slurry (calcium sulfite, also referred to as lime mud sludge).

To comply with air pollution control regulations, the use of FGD facilities is required for removal of SO<sub>2</sub> from the flue gas exhaust of the generating units at the Ghent Generating Station. Operation of FGD facilities using calcium carbonate (limestone reagent) for desulfurization produces a solid waste in the form of calcium sulfite, which is oxidized to produce impure calcium sulfate.

The large quantity of FGD-produced solid sludge wastes requires large scale solid waste sludge handling and disposal facilities. The disposal costs for collection, storage, treatment, handling, and final disposal of such solid wastes are significant and the Sponsor has an indefinite responsibility to maintain the solid waste storage facilities.

### Classification as Solid Wastes

FGD-produced sludge wastes are solid wastes which will be generated by Ghent Generating Station Unit 1. These wastes have no use and no value in their original form and are required to

be disposed of in a solid waste disposal facility or processed further to produce a material that may be saleable.



## FGD and the Solid Waste Facilities

### The General FGD Project

The project will consist of the construction and installation of a complete new FGD system and associated equipment. The Project includes all necessary equipment for FGD system solid waste sludge collection, storage, treatment, and handling. Solid waste sludge from the Project will be conveyed to the existing sludge waste (impure gypsum) settling pond.

### Solid Waste Treatment

In the FGD system, SO<sub>2</sub> is removed from the flue gas by reacting it with calcium carbonate (limestone). The calcium carbonate is mixed with water (a carrier) to create a slurry that can be sprayed into the flue gas within the FGD absorber vessel. The initial step of the process chemically substitutes SO<sub>2</sub> for the carbonate in limestone to create a solid sludge waste, primarily calcium sulfite, a sludge which must be removed from the reagent solution circulating through the FGD system. Calcium sulfite is useless, unused, unwanted or discarded solid waste material and has no market or other value at the place where it is located.



Further treatment of the solid waste with the introduction of oxygen (forced oxidation) promotes the dewatering and handling characteristics of the solid waste by reacting oxygen with the solid waste calcium sulfite and creating imperfect calcium sulfate.



This further treatment of the solid waste enables the waste by-product to be dewatered more readily and to be disposed of more efficiently.

The calcium sulfate solids (impure gypsum) that are produced after forced oxidation are suspended in water and will settle out if left undisturbed. However, for efficient operation, water is required as a means of transport to solid waste disposal facilities constituting landfills and solid waste dumps. This is the current practice for the Ghent Generating Station where water, as a carrier, transports the impure waste gypsum to an on-site settling pond. This same method of operation is planned and is being implemented for the Project. Transfer pumps and piping transport the solid waste (impure gypsum) to on-site settling sludge disposal ponds.

### FGD System Equipment

## INTRODUCTION

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The FGD system includes equipment to clean flue gas of SO<sub>2</sub> generated by the combustion of coal. The cleaning process in turn produces the calcium sulfite, which itself is contaminated by inert particulates and unreacted limestone. Additional solid waste treatment of the calcium sulfite produces an impure gypsum material, which, although more easily transported to waste disposal dumps, is useless, unwanted and discarded solid waste having no market or other value at the place where it is located. Further cleaning, dewatering, processing and purification would be required to convert the impure gypsum into a form which has any commercial value or uses.

Additionally, unreacted limestone is recirculated through the absorber vessel to convert the limestone into calcium sulfite, a solid waste.

## 2.1 Analysis

According to Treasury Regulation Section 1.103-8(f), a solid waste disposal facility means “... any property or portion thereof used for the collection, storage, treatment, utilization, processing, or final disposal of solid waste...A facility which disposes of solid waste by reconstituting, converting, or otherwise recycling it into material which is not waste shall also qualify as a solid waste disposal facility if solid waste ... constitutes at least 65 percent, by weight or volume, of the total materials introduced into the recycling process ... Solid waste is ... property which is useless, unused, unwanted, or discarded solid material which has no market or other value at the place where it is located.” The Project includes solid waste disposal facilities and does not function as a recycling facility.

The solid wastes produced and handled by the Project will primarily consist of calcium sulfite and impure solid waste calcium sulfate by-product generated by the FGD system. The Project collects, stores, handles and treats the solid wastes generated by the FGD system for disposal in a solid waste landfill. Such solid wastes have no market or other value at the place where they are located because: (i) no person is willing to purchase the non-commercial grade impure gypsum on-site at any price; and (ii) the transportation cost to market exceeds the value, if any, of the non-commercial grade impure gypsum at the market.

Impure contaminated gypsum from the Project will be transported to a holding tank and then pumped to a waste landfill and dump. At present, Synthetic Materials Company is allowed to mine, without purchase, the unwanted material from the pond and waste landfill and dump and process it in an attempt to produce a commercial grade product. Solid waste that cannot be processed into a commercial grade product is returned to the waste landfill and dump.

This Project has both solid waste disposal-related functions and non-solid waste-related functions. Therefore, a methodology was established to separate and allocate the Project’s total costs between the costs related to solid waste disposal functions, which are tax-exempt (Qualifying Costs), and any costs related to any other function, which are not tax-exempt (Non-Qualifying Costs). The Project components were separated into three categories as follows:

- Project components that do not serve any solid waste disposal-related function.



- Project components that serve only a solid waste disposal-related function.
- Project components that serve a dual function.

As part of R. W. Beck's methodology, we reviewed the design concept of the Project FGD system, identified those parts of the system that collect, store, handle, and treat the calcium sulfite and impure calcium sulfate wastes, reviewed costs for the various parts of the system provided by the Sponsor and categorized those costs as qualified/non qualified for tax exempt financing purposes using our professional judgment to identify those portions of the costs that are associated with solid waste collection, storage, treatment, and disposal. Our professional judgment in allocating those costs associated with waste collection, storage, treatment, and disposal as qualified costs is based on the incremental costs associated with the design, procurement and installation of the proposed system to collect, store, treat, and dispose of the wastes as compared to generation and FGD facilities not so equipped. Important design variables such as liquid to gas ratios and solid waste concentrations of the various streams were used to allocate costs as Qualifying Costs for tax-exempt financing purposes.

The following paragraphs describe the methodology used to allocate costs. Table 2-1 presents a summary of the tax-exempt Qualifying Cost analysis for the BPEI costs provided to us by the Sponsor. Table 2-2 of this Report provides a summary of the tax-exempt Qualifying Costs analysis for certain non-BPEI costs (including FGD system supporting equipment and infrastructure) provided to us by the Sponsor.



Table 2-1  
Summary of BPEI Tax-Exempt Qualifying Cost Analysis <sup>(1)</sup>

Project Component <sup>(7)</sup>	Estimated Costs (\$)	Percentage Qualifying Costs (%)	Qualifying Costs (\$)	
<b>MATERIAL COSTS</b>				
<b>Absorber Vessel</b>				
Struct & Ext Embeds <sup>(2) (5)</sup>	Absorber Vessel	148,406	67.5	100,174
Outlet Duct/Wall Rings <sup>(2) (5)</sup>	Absorber Vessel	1,065,433	67.5	719,167
Absorber Vessel <sup>(2) (5)</sup>	Absorber Vessel	4,725,888	67.5	3,189,974
<b>Reaction Tank</b>				
Struct & Ext Embeds <sup>(2) (6)</sup>	Absorber Vessel	236,065	100	236,065
Outlet Duct/Wall Rings <sup>(2) (6)</sup>	Absorber Vessel	1,694,757	100	1,694,757
Absorber Vessel <sup>(2) (6)</sup>	Absorber Vessel	7,517,345	100	7,517,345
Agitators <sup>(3) (6)</sup>	Reaction tank	1,681,477	100	1,681,477
<b>Recirculation Loop</b>				
Spray & Quench System <sup>(5)</sup>	Recirculation Loop	6,735,635	67.5	4,546,553
Piping Systems <sup>(5)</sup>	Recirculation Loop	4,198,561	67.5	2,834,028
<b>EQUIPMENT COSTS</b>				
<b>Absorber Vessel</b>				
Instruments & Controls <sup>(5)</sup>	Absorber Vessel	209,692	67.5	141,542
Mist Eliminator Systems	Absorber Vessel	572,509	0	0
<b>Reaction Tank</b>				
Instruments & Controls <sup>(6)</sup>	Absorber Vessel	333,553	100	333,553
Mist Eliminator Systems	Absorber Vessel	910,676	0	0
<b>Recirculation Loop</b>				
Recirculation Pumps <sup>(5)</sup>	Recirculation Loop	2,156,359	67.5	1,455,542
<b>Oxidation Blowers</b>				
Blowers <sup>(6)</sup>	Oxidation Blowers	1,300,487	100	1,300,487
<b>OTHER COSTS</b>				
BPEI Engineering <sup>(4)</sup>		2,034,414	72.5	1,474,821
<b>Total</b>		<b>35,521,262</b>	<b>76.6</b>	<b>27,225,491</b>

- (1) All costs are shown are included within the BPEI contract and exclude costs for associated construction and labor by Fluor and the Sponsor , which could also be included as qualified costs.
- (2) The absorber vessel and reaction tank are a single integrated structure. Sponsor reports that BPEI provided a breakdown of Absorber costs indicating that 38.6 percent of the absorber cost attributed to the absorber vessel and 61.4 percent of the absorber cost is associated with the reaction tank.
- (3) The Agitators are strictly associated with the reaction tank as indicated in information provided by the Sponsor.
- (4) The percent of Qualifying Costs of the BPEI engineering costs is the overall proportion of the BPEI Qualifying Costs to the total BPEI Costs (minus engineering costs).
- (5) Due to the increased amount of solids in the recirculation loop and the increased liquid to gas ratio due to the oxidation system, the total additional liquid pumping demand is increased. Solids waste handling is proportionally increased. The qualified costs associated with this increase are 67.5 percent of total cost.
- (6) Equipment serves a solid waste disposal function only. See discussion below.
- (7) Component breakdown corresponding to Original Cost information from BPEI. See Exhibit 1.

**Table 2-2**  
**Summary of Additional Tax-Exempt Qualifying Cost Analysis and Total Tax-Exempt Qualifying Costs**

	Estimated Costs (\$)	Percentage Qualifying Costs (%)	Qualifying Costs (\$)
<b>FGD Equipment and Materials</b>			
Qualified costs for FGD Equipment (See Table 1)	35,521,262	76.6	27,225,491
Oxidation air compressor installation <sup>(1,2,6)</sup>	846,000	100.0	846,000
Recycle system pumps/piping <sup>(1,2,7)</sup>	2,163,000	67.5	1,460,025
<b>Subtotal qualified FGD costs</b>			29,531,516
<b>FGD Support Equipment, etc.</b>			
FGD structure/foundation <sup>(1,3,4)</sup>	29,360,000	29.5	8,670,453
FGD auxiliary power <sup>(1,3,5)</sup>	10,068,000	29.5	2,973,233
Craft Startup Support <sup>(3)</sup>	1,367,000	29.5	403,696
Gypsum piping/pumps	946,000	100.0	946,000
<b>Subtotal qualified FGD Costs for Support Equipment, etc.</b>			12,993,382
<b>Total Qualified Costs</b>			42,524,898

- (1) Total burdened costs derived by the Sponsor from the Fluor target estimate, including all indirect costs. The Sponsor reports that this cost is associated with installation and labor and does not include or overlap with any costs provided in Table 1 above.
- (2) Includes installation of material/equipment supplied by FGD system contractor. Also includes foundations, piping, and electrical material and installation associated directly with the system. The Sponsor reports that this cost does not include or overlap with any costs provided in Table 1 above.
- (3) Qualifying percentage based on subtotal qualified FGD system costs / entire FGD system project excluding FGD system structure, auxiliary power, and craft startup support. Qualifying Costs for FGD are \$27,225,491, \$846,000, and \$1,460,025 for total of \$29,531,516, while the FGD project cost target reported to R.W. Beck as provided to the Sponsor by Fluor is \$100,000,000. A ratio of costs of 29.5% is believed to be a conservative approach appropriate for the purposes of this Report. A more detailed and rigorous approach such as determining the proportion of weight loading of qualifying equipment or power loading of qualifying equipment would likely yield a higher ratio.
- (4) FGD system structure/foundation includes foundations, structural steel, architectural, and miscellaneous associated with the FGD system.
- (5) FGD system auxiliary power includes all electrical equipment associated with the FGD system, including electrical foundations and structure, transformers, switchgear, etc.
- (6) Equipment serves a solid waste disposal function only. See discussion below.
- (7) Due to the increased amount of solids in the recirculation loop and the increased liquid to gas ratio due to the oxidation system, the total additional liquid pumping demand is increased. Solids waste handling is proportionally increased. The qualified costs associated with this increase are 67.5 percent of total cost.

Exhibit 1 shows the BPEI cost information provided to us by the Sponsor. The table shows each FGD scrubber component classified within one of the following areas:

- Material
- Equipment
- Labor (BPEI labor costs are included within BPEI contract costs for Material and Equipment)

Within each of these major classifications, component costs were further classified, if applicable, into one of the following sub-classifications:

- Absorber Vessel
- Absorber Reaction Tank
- Absorber Recirculation Loop
- Oxidation Air Blowers

Exhibit 1 also includes additional estimated costs provided to us by the Sponsor associated with the installation of the FGD scrubber but not directly included as part of the BPEI costs discussed above. In general, much of the cost information provided is the total for labor only or a total including material, equipment and labor associated with the Fluor scope.

Following is a description of the Project components and the allocation of the component costs between Qualifying and Non-Qualifying Costs.

## 2.2 FGD Scrubber Vessel and Associated Equipment

### Description

The Project FGD Scrubber will consist of a Stebbins scrubber tower, a reactant slurry recirculation system and oxidation air blowers. The scrubber tower will be composed of a liquid holding area (the reaction tank) underneath a space allowing for vertical air and spray slurry countercurrent flow (the absorber vessel). Flue gas enters the bottom of the absorber vessel, passes through a mist eliminator at the top of the absorber vessel and is ducted to a stack for discharge to the atmosphere. Recirculation pumps will recirculate the slurry primarily consisting of limestone, calcium sulfite, calcium sulfate and inert materials from the reaction tank to a spray distribution system at the top of the absorber vessel. The recirculating waste slurry will fall into the reaction tank located at the bottom of the absorber tower. In this stage, the calcium carbonate in the limestone slurry will



react with water and SO<sub>2</sub> in the flue gas to produce calcium sulfite, while oxygen exchanged between the flue gas and the liquid droplets will promote some oxidation of calcium sulfite to calcium sulfate.

The reaction tank is designed to hold an adequate liquid volume to ensure efficient usage of limestone and to provide adequate residence time for complete oxidation of calcium sulfite to impure calcium sulfate (impure gypsum). Included as part of the reaction tank will be a fixed air sparger system supplied by the oxidation air blowers, which will be supplied to introduce large quantities of air to maximize the efficiency of the oxidation of calcium sulfite to impure calcium sulfate (impure gypsum). The reaction tank will be the primary vessel in the process to convert calcium sulfite waste by-product into impure calcium sulfate for efficiency in movement and disposal of such solid wastes.

### Cost Allocation

The principal purpose of the scrubber tower is to remove SO<sub>2</sub> from the flue gas. However, the costs associated with a portion of the absorber vessel and recirculation loop and all of the absorber reaction tank and oxidation air blowers are included as being Qualifying Costs because they are directly associated with collecting and handling the solid waste (impure gypsum) sludge.

Water acts as the medium and transport mechanism for the recirculation of calcium carbonate and the calcium sulfite waste by-product. Due to the additional pumping demands associated with the oxidation of calcium sulfite, 67.5 percent of the recirculation loop is included as a Qualifying Cost.

The absorber vessel serves a dual function as an air pollution control function associated with the removal of SO<sub>2</sub> from the flue gas, which creates calcium sulfite solid wastes, and a simultaneous solid waste collection, handling and disposal function associated with recirculating all of the solid wastes to better utilize the calcium carbonate and to enhance the oxidation of calcium sulfite into calcium sulfate (impure gypsum). The increased recirculation of 67.5 percent is also applied to the absorber vessel and is included as a Qualifying Cost. The Sponsor reports that all of the proceeds of the 2007 Series A Bonds will be applied to the financing of solid waste collection, handling and disposal facilities. As such, no 2007 Series A Bond proceeds will be used to finance any air pollution facilities.

The remaining conversion of calcium sulfite to calcium sulfate takes place in the absorber reaction tank, which is the primary step in the conversion process that converts calcium sulfite waste to calcium sulfate.



## 2.3 FGD System Support Equipment

In addition to those costs associated with FGD scrubber equipment and materials, certain additional costs are incurred by the Sponsor in relation to the FGD scrubber auxiliary power and structural foundation. The auxiliary power and structural foundation provide support to the air pollution control and solid waste disposal functions of the FGD scrubber. As such, each cost must be proportioned to determine the associated Qualifying Costs. Noting that certain Project costs have not been presented in this report, we have conservatively estimated (as discussed in Table 2-2) that 29.5 percent of the total cost of the Project are Qualifying Costs. This percentage has been applied to the auxiliary power and structural foundation costs to determine the associated Qualifying Costs.

## 2.4 Construction Costs

Fluor and Sponsor labor and construction costs were not provided, but certain installation and craft labor costs were provided. Specifically, costs estimates were provided for craft startup support and for the installation of the oxidation air compressors, FGD system recirculation loop pumps and piping. Labor costs were also included as part of the total costs provided for the FGD system structure and foundation, FGD system auxiliary power systems, and the sludge transfer piping and pumps.

## 2.5 Additional Project Costs

Due to the scope of this Report and the limited need to identify additional Qualifying Costs, certain potential and additional Qualifying Costs have not been identified, reviewed or analyzed as part of this analysis.

# CONSIDERATIONS AND ASSUMPTIONS

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In the preparation of this Report and the opinions that follow, R. W. Beck has made certain assumptions with respect to conditions, which may occur in the future. In addition, we have used and relied upon certain information and assumptions provided to us by sources, which we believe to be reliable. We believe the use of such information and assumptions is reasonable for the purposes of this Report. However, some assumptions will invariably not materialize as stated herein or may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those forecasted to the extent that actual future conditions differ from those assumed by us or provided to us by others. The principal considerations and assumptions made by us and the principal information and assumptions provided to us by others include the following:

- R. W. Beck assumes that all costs provided as part of this report are capitalized for tax purposes.
- We have made no determination as to the validity, enforceability or interpretation of any law, contract, rule or regulation applicable to the Project and its operations, except for our interpretation of Section 142(a) and (b) of the Internal Revenue Code of 1986, required to undertake the analysis and reach the opinion and conclusions stated herein. However, for the purposes of this Report, we have assumed that all such laws, contracts, rules and regulations will be fully enforceable in accordance with their terms as we understand them.
- During the preparation of this Report, we have reviewed capital cost estimates provided to us by the Sponsor for completion of the Project. We have relied on the capital cost estimate, as being true, accurate and complete for the purposes of conducting our analysis and completing the Report.
- Our opinions set forth herein are based on information provided by the Sponsor and others, other information generally available to us, and on studies and analyses undertaken by us, all of which are basic to and in support of our opinions and analyses of the Project. The studies and analyses undertaken in the preparation of the opinions contained herein have been performed in accordance with standard engineering practices. These studies and analyses have included investigations, inspection and review of certain documents relating to the Project. These studies and analyses have also included investigations, inspection and review of certain other documents and drawings made available to us by the Sponsor.

## Section 4

# OPINIONS

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Set forth below are the principal opinions R. W. Beck has reached after review of the Project. For a complete understanding of the estimates, assumptions and calculations upon which these opinions are based, the Report should be read in its entirety. On the basis of our reviews, analyses and investigations of the Project, and the assumptions set forth in this Report, we are of the opinion that:

1. The Project includes property that will be used for the collection, storage, treatment, utilization, or final disposal of solid wastes or property that is functionally related and subordinate thereto.
2. The solid wastes collected, stored, handled and disposed of will consist of calcium sulfite and impure calcium sulfate waste by-products generated by the FGD system. Such solid waste is useless, unused, unwanted or discarded solid material, which has no market or other value at the place where it is located.
3. The calcium sulfite and impure sulfate waste by-product constitutes at least 65 percent, by weight or volume, of the total materials introduced into each element of the solid waste disposal process.
4. The Project includes property which has both a solid waste disposal function and a function other than the disposal of solid waste, and thus, requires an allocation of the cost of the Project's property between the property's solid waste disposal functions and other functions. Such allocations contained in this Report are based on the methodology presented in this Report.
5. Based on our analysis as of the date of this report, \$42,524,898 of the Project costs are Qualifying Costs for solid waste disposal facilities of the Project.



## COST INFORMATION PROVIDED BY KU

## Cost Information Provided by KU

<b>Ghent Unit 1 BPEI FGD Costs</b>	<b>Cost</b>	<b>FGD Subsystem</b>	
Struct & Ext Embeds	\$384,472	Absorber Vessel	material
Outlet Duct / Wall	\$2,760,191	Absorber Vessel	material
Absorber Vessel	\$12,243,234	Absorber Vessel	material
Agitators	\$1,681,477	Reaction tank	material
Spray & Quench System	\$6,735,635	Recirculation Loop	material
Piping Sys, Valves & Specialties	\$4,198,561	Recirculation Loop	material
Forced Oxidation System	\$1,300,487	Oxidation Blowers	equipment
Instruments & Controls	\$543,246	Absorber Vessel	equipment
Mist Eliminator System	\$1,483,186	Absorber Vessel	equipment
Recycle Pumps	\$2,156,359	Recirculation Loop	equipment
Eng, Commission, Flow Model	\$2,034,414		labor
<b>Total</b>	<b>\$35,521,262</b>		
<b>Fluor Installation potential costs</b>			
Oxidation air compressor installation	\$846,000		
Recycle system pumps/piping	\$2,163,000		
FGD structure/foundation	\$29,360,000		
FGD auxiliary power	\$10,068,000		
Craft startup support	\$1,367,000		
Sludge transfer piping/pumps	\$946,000		
Sludge transfer pipe rack	\$ -		



**CLIFFORD  
CHANCE**

**CLIFFORD CHANCE LLP**

**EXECUTION VERSION**

**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**

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**AMENDED AND RESTATED TRUST DEED**

**RELATING TO THE £3,000,000,000 EURO MEDIUM  
TERM NOTE PROGRAMME OF THE ISSUERS**

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## CONTENTS

Clause	Page
1	3
2	10
3	13
4	15
5	15
6	16
7	17
8	18
9	18
10	22
11	23
12	31
13	31
14	31
15	32
16	34
17	35
18	35
19	36
20	37
21	37
22	37
Schedule 1 Form of Global Notes	39
Part 1 Form of CGN Temporary Global Note	39
Part 2 Form of CGN Permanent Global Note	45
Part 3 Form of NGN Temporary Global Note	54
Part 4 Form of NGN Permanent Global Note	60
Part 5 Form of Global Certificate	67
Schedule 2 Form of Definitive Bearer Note	73
Schedule 3 Form of Certificate	76
Schedule 4 Terms and Conditions of the Notes	80
Schedule 5 Form of Coupon	122
Schedule 6 Form of Talon	124
Schedule 7 Provisions for Meetings of Noteholders	126

**THIS AMENDED AND RESTATED TRUST DEED** is made on 14 August 2018

**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 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 ("**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 14 August 2018 which has been approved by the FCA as a prospectus issued in compliance with Directive 2003/71/EC and relevant implementing measures in the United Kingdom (the "**Prospectus**"). 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 9 September 2016 (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.

"**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 14 August 2018 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 dated 14 August 2018 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(m) (*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(m) (*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 which was launched on 19 November 2007 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**

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.

### 1.5 **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.

### 1.6 **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.

### 1.7 **Schedules**

The Schedules are part of this Trust Deed and have effect accordingly.

### 1.8 **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.

### 1.9 **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.

### 1.10 **Final Terms**

In the event of any inconsistency between the Trust Deed and the Final Terms, the Final Terms shall prevail.

### 1.11 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 the Prospectus Directive.

### 1.12 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(k) (*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

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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
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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

If the amount of the moneys at any time available for payment in respect of the Notes under Subclause 5.1 (*Declaration of Trust*) is less than 10 per cent. of the nominal amount of the Notes then outstanding, the Note Trustee may, at its discretion, invest such moneys upon some or one of the investments hereinafter authorised with power from time to time, with like discretion, to vary such investments. 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*).

## 5.3 Investment

Moneys held by the Note Trustee may be invested 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. The Note Trustee may at any time vary or transpose any such investments or assets or convert any moneys so deposited into any other currency, and shall not be responsible for any resulting Liability, whether by depreciation in value, change in exchange rates or otherwise.

## 6. ENFORCEMENT AND PUT EVENT

### 6.1 Proceedings brought by the Note Trustee

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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 laws 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) **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;

- (e) **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;
- (f) **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;
- (g) **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;
- (h) **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;
- (i) **Notices to Noteholders:** send to the Note Trustee not less than three 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);



- (j) **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;
  - (k) **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;
  - (l) **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 Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments), in each case approved in writing by the Note Trustee;
  - (m) **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;
  - (n) **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 Allen & Overy 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
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- (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;
  - (o) **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;
  - (p) **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;
  - (q) **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;
  - (r) **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;
  - (s) **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*));
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- (t) **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;
- (u) **Notice of Put Event:** notify the Note Trustee in writing immediately on becoming aware of the occurrence of any Put Event; and
- (v) **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

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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

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## 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

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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(h) (*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**

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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 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, 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

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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.
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- (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.

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**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 14 August 2018 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.

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## 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		

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## 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]

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**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 14 August 2018 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.

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## **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.

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## 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.]

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## 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 14 August 2018 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.

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**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.

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## Schedule

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Schedule]

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**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 14 August 2018 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 accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg and shall be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by 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.

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## **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.

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## Schedule

[Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Schedule.]

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**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 14 August 2018 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

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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.

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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.]

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**SCHEDULE 2  
FORM OF DEFINITIVE BEARER NOTE**

On the front:

[Denomination]                      [ISIN]                                      [Series]                                      [Certif. No.]

[Currency and denomination]

[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 Note forms one 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 Note.

The Issuer for value received promises to pay to the bearer of this Note, on presentation and (when no further payment is due in respect of this Note) surrender of this 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 and (unless this Note does not bear interest) to pay interest 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.

This Note shall not become valid or obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent.

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.

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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 14 August 2018 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 14 August 2018 (as amended or supplemented from time to time, the **Trust Deed**) between Western Power Distribution (East Midlands) plc (**WPDE**), Western Power Distribution (West Midlands) plc (**WPDW**), Western Power Distribution (South West) plc (**WPD South West**) and Western Power Distribution (South Wales) plc (**WPD South Wales**) and, together with WPDE, WPDW and WPD South West, the **Issuers** and each an **Issuer**) and HSBC Corporate Trustee Company (UK) Limited (the **Note Trustee**, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). Notes issued by each Issuer are obligations solely of that Issuer (the **Relevant Issuer**) and without recourse whatsoever to any other Issuer. These terms and conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Registered Notes, Bearer Notes, Certificates, Coupons and Talons referred to below. An amended and restated agency agreement dated on 10 September 2013 (as amended or supplemented from time to time, the **Agency Agreement**) has been entered into in relation to the Notes between the Issuers, the Note Trustee, HSBC Bank plc as issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **Issuing and Paying Agent**, the **Paying Agents** (which expression shall include the Issuing and Paying Agent, the **Registrar**, the **Transfer Agents** (which expression shall include the Registrar) and the **Calculation Agent(s)**). Copies of the Trust Deed, the Agency Agreement and the Prospectus are available for inspection during usual business hours at the principal office of the Note Trustee (presently at 8 Canada Square, London E14 5HQ) and at the specified offices of the Paying Agents and the Transfer Agents.

**Notes** means the euro medium term notes issued by the Issuers constituted by the Trust Deed and for the time being outstanding. References herein to the Notes shall be references to the relevant Series of Notes only.

The Noteholders, the holders of the interest coupons (the **Coupons**) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **Talons**) (the **Couponholders**) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, **Tranche** means Notes which are identical in all respects and **Series** means a series of Notes comprising of one or more Tranches of Notes which are identical save for the issue date, issue price and/or the first payment of interest.

Any reference in these Conditions to Final Terms shall be deemed to include a reference to Pricing Supplement, where relevant.

## 1. Form, Denomination and Title

The Notes are issued in bearer form (**Bearer Notes**) or in registered form (**Registered Notes**) in each case in the Specified Denomination(s) shown in the Final Terms provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination.

Unless the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Final Terms.

If the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Pricing Supplement.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (**Certificates**) and, save as provided in Condition 2(c) (Exercise of Options or Partial Redemption in Respect of Registered Notes), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuers shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **Register**). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, **Noteholder** means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), **holder** (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name



a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them in the Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Note Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Note Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions Noteholder and holder of Notes and related expressions shall be construed accordingly.

## 2. No Exchange of Notes and Transfers of Registered Notes

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Relevant Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuers, with the prior written approval of the Registrar and the Note Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of a Relevant Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new

Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) (*Transfer of Registered Notes*) or (c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(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;

- (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); 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*); and
- 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.

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*)).
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(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:
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**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:

**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;

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and  $D_1$  is greater than 29, in which case  $D_2$  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:

$Y_1$  is the year, expressed as a number, in which the first day of the Calculation Period falls;

$Y_2$  is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

$M_1$  is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case  $D_2$  will be 30

- (vii) if **30E/360 (ISDA)** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1 + (D_2 - D_1))]}{360}$$

where:

$Y_1$  is the year, expressed as a number, in which the first day of the Calculation Period falls;



$Y_2$  is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

$M_1$  is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case  $D_2$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case  $D_2$  will be 30

(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 which was launched on 19 November 2007 or any successor thereto.

- (k) **Calculation Agent:** The Relevant Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Final Terms and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Relevant Issuer shall (with the prior approval of the Note Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.
- (l) **Adjustment to Rate of Interest:** If, in respect of a Tranche of Notes, **Ratings Downgrade Rate Adjustment** is specified in the relevant Final Terms as being applicable, the Rate of Interest specified in the Final Terms (the **Initial Rate of Interest**) and payable on the Notes will be subject to adjustment from time to time in the event of a Rating Change or Rating Changes, within the period from and including the Issue Date of such Tranche of Notes to and including the date falling 18 months from such Issue Date (the **Rating Change Period**, with the final date of such Rating Change Period being the **Rating Change Period End Date**), which adjustment shall be determined as follows.

If, following a Rating Change within the Rating Change Period:

- (i) the lowest Rating then assigned to the Notes is A- or A3 or higher, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest;
- (ii) the lowest Rating then assigned to the Notes is BBB+ or Baa1, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.25 per cent. per annum;
- (iii) the lowest Rating then assigned to the Notes is BBB or Baa2, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the

first Interest Payment Date following the Rating Change, the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.50 per cent. per annum; or

- (iv) the lowest Rating then assigned to the Notes is BBB- or Baa3 or lower, or if such Ratings are withdrawn by both of Moody's Investor Services Limited and Standard & Poor's Credit Market Services Europe Limited, then (unless there is a subsequent Rating Change within the Rating Change Period) from and including the first Interest Payment Date following the Rating Change the rate of interest payable on the Notes shall be the Initial Rate of Interest plus 0.75 per cent. per annum

in each case, the **Revised Rate of Interest**.

Following each Rating Change the Relevant Issuer will notify the Noteholders of the Revised Rate of Interest following such Rating Change in accordance with the provisions of Condition 18 (*Notices*) as soon as reasonably practicable after the occurrence of the Rating Change. If, in respect of an Interest Period (the **Relevant Interest Period**), there is more than one Rating Change, the Revised Rate of Interest which will apply for the succeeding Interest Period will be the Revised Rate of Interest resulting from the last Rating Change in the Relevant Interest Period.

There shall be no limit to the number of times that adjustments to the rate of interest payable on the Notes may be made pursuant to this Condition 5(l) during the Rating Change Period, provided always that at no time during the term of the Notes will the rate of interest payable on the Notes be less than the Initial Interest Rate or more than the Initial Interest Rate plus 0.75 per cent. per annum. For the avoidance of doubt, the rate of interest payable on the Notes from and including the first Interest Payment Date following the Rating Change Period End Date to maturity of the Notes shall be determined in accordance with the Ratings assigned to the Notes as of the Rating Change Period End Date.

**Rating Agency** means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors or Moody's Investors Service Limited or any of its subsidiaries and their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Relevant Issuer from time to time with the prior written approval of the Note Trustee; and

**Rating Change** means the public announcement by any Rating Agency assigning a credit rating to the Notes of a change in, or confirmation of, the rating of the Notes or, as the case may be, of a credit rating being applied.

## 6. **Redemption, Purchase and Options**

### (a) **Final Redemption:**

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount (which, unless otherwise provided in the Final Terms, is its nominal amount).

(b) **Early Redemption:**

(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.
- (c) **Redemption at the Option of the Relevant Issuer:** If Call Option is specified in the Final Terms, the Relevant Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Note Trustee and the Noteholders redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued up to (and including) the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Note Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

In the case of a partial redemption of a Tranche of Notes represented by a New Global Note (as defined in the Trust Deed) pursuant to this Condition, the Notes to be redeemed (the **Redeemed Notes**) will be selected in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), not more than 30 days prior to the date fixed for redemption.

- (f) **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.

**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+/Bal, 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+/Ba1), 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.
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- (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*).

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*), the UK Retail Price Index (**RPI**) (for all items) published by the Office for National Statistics (January 1987 = 100) (currently contained in the Monthly Digest of Statistics) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt.

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (*Changes in Circumstances Affecting the Index*) and Condition 7(d) (*Cessation of or Fundamental Changes to the Index*) below, and if “3 months lag” is specified in the relevant Final Terms, be calculated in accordance with the following formula:

$$IFA = RPI_{m-3} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (RPI_{m-2} - RPI_{m-3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

**IFA** means the Index Figure applicable;

**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;

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (*Changes in Circumstances Affecting the Index*) and Condition 7(d) (*Cessation of or Fundamental Changes to the Index*) below, and if “8 months lag” is specified in the relevant Final Terms, be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication;

**Index Linked Interest Notes** means Notes with an Interest Basis specified as being Index Linked Interest in the relevant Final Terms.

**Index Linked Redemption Notes** means Notes with a Redemption Basis specified as being Index Linked Redemption in the relevant Final Terms.

**Index Ratio** applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

**Indexed Notes** means Index Linked Interest Notes and Index Linked Redemption Notes.

**Limited Index Ratio** means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

**Limited Indexation Factor** means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

**Limited Indexation Month** means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

**Limited Indexed Notes** means Indexed Notes to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

**Maximum Indexation Factor** means the indexation factor specified as such in the relevant Final Terms;

**Minimum Indexation Factor** means the indexation factor specified as such in the relevant Final Terms; and

**Reference Gilt** means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Relevant Issuer and approved by the Note Trustee (an **Indexation Adviser**).

**Subsidiary** means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

**Subsidiary Undertaking** shall have the meaning given to it by section 1162 of the Companies Act 2006 (but, in relation to the Relevant Issuer, shall exclude any undertaking (as defined in section 1161 of the Companies Act 2006) whose accounts are not included in the then latest published audited consolidated accounts of the Relevant Issuer, or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

## 9. Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f)(v) (*Unmatured Coupons and unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f)(ii) (*Unmatured Coupons and unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. **Bank** means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes:**
- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the day before the due date for payment thereof (the **Record Date**). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Relevant Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Relevant Issuer, any adverse tax consequence to the Relevant Issuer.
- (d) **Payments subject to Fiscal Laws:** All payments are subject in all cases (i) to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 10 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to Condition 10 (Taxation)) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuers are listed in the
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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 unexpired 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 unexpired Talon relating to it, redemption shall be made only against the provision of such indemnity as the Relevant Issuer may require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity

Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11 (*Prescription*)).
- (h) **Non-Business Days:** Subject as provided in the relevant Final Terms, if any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, **business day** means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in the relevant place of presentation in such jurisdiction as shall be specified as “**Additional Financial Centre(s)**” in the relevant Final Terms and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

## 10. Taxation

All payments of principal and interest by or on behalf of the Relevant Issuer in respect of the Notes, and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Relevant Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon; or
- (b) **Lawful avoidance of withholding:** to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment; or
- (c) **Presentation more than 30 days after the Relevant Date:** presented or surrendered (or in respect of which the Certificate representing it is presented or surrendered) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.



As used in these Conditions, **Relevant Date** in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) **principal** shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 (*Redemption, Purchase and Options*) or any amendment or supplement to it, (ii) **interest** shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and other Calculations*) or any amendment or supplement to it and (iii) **principal** and/or **interest** shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

## 11. Prescription

Claims against the Relevant Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## 12. Events of Default

If any of the following events (**Events of Default**) occurs and is continuing, the Note Trustee at its discretion may, and if so requested by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, give notice to the Relevant Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

- (i) **Non-Payment:** if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 14 days in the case of principal and 21 days in the case of interest or, where relevant, the Relevant Issuer, having become obliged to redeem, purchase or procure the purchase of (as the case may be) any Notes pursuant to Condition 6 (*Redemption, Purchase and Options*) fails to do so within a period of 14 days of having become so obliged; or
- (ii) **Breach of Other Obligations:** the Relevant Issuer does not perform, observe or comply with any one or more of its other obligations, covenants, conditions or provisions under the Notes or the Trust Deed and (except where the Note Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Note Trustee may in its absolute discretion permit) next following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (iii) **Cross-Acceleration:** if (A) any other indebtedness for borrowed money (as defined in Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) but, for the purposes of this paragraph (iii), excluding Non-recourse Indebtedness) of the Relevant

Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of a default or (B) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (C) the Relevant Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (D) any security given by the Relevant Issuer or any Principal Subsidiary for any indebtedness for borrowed money of any person or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this paragraph (iii) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (on the basis of the middle spot rate for the relevant currency against pounds sterling as quoted by any leading bank on the day on which this paragraph (iii) applies) and two per cent. of the Capital and Reserves; or

- (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any substantial part of the property, assets or revenues of the Relevant Issuer and is not discharged or stayed within 90 days; or
  - (v) **Insolvency:** the Relevant Issuer is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of its debts generally or a material part of a particular type of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting its debts generally or any part of a particular type of the debts of the Relevant Issuer; or
  - (vi) **Winding-up:** (A) an administrator or liquidator is appointed in relation to the Relevant Issuer (and, in each case, not discharged within 90 days) or (B) an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Relevant Issuer, or (C) the Relevant Issuer shall apply or petition for a winding-up or administration order in respect of itself or (D) the Relevant Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case ((A) to (D) inclusive) except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Note Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or
  - (vii) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Relevant Issuer; or
  - (viii) **Illegality:** it is or will become unlawful for the Relevant Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed,
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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.

**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.
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**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.]

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**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.]**

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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.]

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**SCHEDULE 7**  
**PROVISIONS FOR MEETINGS OF NOTEHOLDERS**

**Interpretation**

1. 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;
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- (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.

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**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

**CLIFFORD  
CHANCE**

**CLIFFORD CHANCE LLP**

**CONFORMED COPY**

**WESTERN POWER DISTRIBUTION PLC**

**HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED**

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**TRUST DEED**

**RELATING TO  
£350,000,000**

**3.500 PER CENT. NOTES DUE OCTOBER 2026  
(WITH AUTHORITY TO ISSUE FURTHER NOTES)**

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## CONTENTS

Clause		Page
1	Definitions and Interpretation	1
2	Covenant to Repay	7
3	The Original Notes	9
4	Covenant to Comply with Trust Deed and Schedules	10
5	Covenants by the Issuer	10
6	Amendments and Substitution	13
7	Enforcement	16
8	Application of Moneys	17
9	Terms of Appointment	19
10	Costs and Expenses	25
11	Information Sharing	27
12	Appointment and Retirement	28
13	Notices	29
14	Law and Jurisdiction	30
15	Severability	30
16	Contracts (Rights of Third Parties) Act 1999	31
17	Counterparts	31
	Schedule 1	32
	Part A Form of Temporary Global Note	32
	Part B Form of Permanent Global Note	41
	Schedule 2	46
	Part A Form of Definitive Note	46
	Part B Terms and Conditions of the Notes	48
	Part C Form of Original Coupon	65
	Schedule 3 Provisions for Meetings of Noteholders	67

**THIS TRUST DEED** is made on 16 October 2018

**BETWEEN:**

- (1) **WESTERN POWER DISTRIBUTION PLC** (the "**Issuer**"); and
- (2) **HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED** (in its capacity as the "**Trustee**", which expression includes, where the context admits, all persons for the time being the trustee or trustees of this Trust Deed which includes any replacement Trustee or co-Trustee).

**WHEREAS**

- (A) The Issuer has authorised the creation and issue of £350,000,000 in aggregate principal amount of 3.500 per cent. Notes due October 2026 to be constituted in relation to this Trust Deed.
- (B) The Trustee has agreed to act as trustee of this Trust Deed on the following terms and conditions.

**NOW THIS DEED WITNESSES AND IT IS HEREBY DECLARED as follows:**

**1. DEFINITIONS AND INTERPRETATION**

**1.1 Definitions**

In this Trust Deed the following expressions have the following meanings:

"**£**" or "**Sterling**" or "**GBP**" denotes the lawful currency for the time being of the United Kingdom;

"**Agency Agreement**" means, in relation to the Notes of any relevant series, the agreement appointing the initial Paying Agents in relation to such Notes and any other agreement for the time being in force appointing Successor paying agents in relation to such Notes, together with any agreement for the time being in force amending or modifying with the prior written approval of the Trustee any of the aforesaid agreements, in relation to such Notes;

"**Applicable Laws**" means all applicable laws, rules, regulations, ordinances, regulations, directives, statutes, authorisations, permits, licences, notices, instructions, decrees, publications of any government authority or any other relevant regulator (including the FCA's guidance, policies and publications relating to the Treating Customers Fairly initiative), any judgment or judicial practice of any court and any other legally binding requirements of any government authority having jurisdiction, including, but not limited to: (i) any rule or practice of any Authority by which any Party is bound or with which it is accustomed to comply; (ii) any agreement between any Authorities; and (iii) any agreement between any Authority and any Party that is customarily entered into by institutions of a similar nature;

"**Appointee**" means any delegate, agent, nominee, receiver or custodian appointed or employed pursuant to the provisions of this Trust Deed;

"**Auditors**" means the auditors for the time being of the Issuer and, if there are joint auditors, means all or any one of such joint auditors or, in the event of any of them being unable or unwilling to carry out any action requested of them pursuant to this Trust Deed, means such other firm of chartered accountants in England as may be nominated in writing by the Trustee for the purpose;



**"Authority"** means any competent regulatory, prosecuting, Tax or governmental authority in any jurisdiction;

**"Clearstream, Luxembourg"** means Clearstream Banking S.A.;

**"Code"** means the U.S. Internal Revenue Code of 1986, as amended from time to time;

**"Conditions"** means, in relation to the Original Notes, the terms and conditions to be endorsed on the Original Notes, in the form or substantially in the form set out in Part B of Schedule 2, and, in relation to any Further Notes, the terms and conditions endorsed on the Notes in accordance with the supplemental deed relating thereto or substantially in the form set out or referred to in the supplemental deed relating thereto, as any of the same may from time to time be modified in accordance with this Trust Deed and any reference in this Trust Deed to a particular numbered Condition shall be construed in relation to the Original Notes accordingly and any reference in this Trust Deed to a particular numbered Condition in relation to any Further Notes shall be construed as a reference to the provision (if any) in the Conditions of such Further Notes which corresponds to the particular numbered Condition of the Original Notes;

**"Couponholder"** means the holder of a Coupon;

**"Coupons"** means the bearer interest coupons in or substantially in the form set out in Part C of Schedule 2 appertaining to the Notes and for the time being outstanding or, as the context may require, a specific number thereof and includes any replacement Coupons issued pursuant to Condition 13 (*Replacement of Notes and Coupons*);

**"Euroclear"** means Euroclear Bank SA/NV;

**"Event of Default"** means any one of the circumstances described in Condition 9 (*Events of Default*), but in the case of the event described in paragraph (ii) (*Breach of other obligations*) thereof in relation to the Issuer only if such event is certified by the Trustee to be materially prejudicial to the interests of the Noteholders;

**"Extraordinary Resolution"** has the meaning set out in Schedule 3 (*Provisions for Meetings of Noteholders*);

**"FATCA"** means Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, any law implementing an intergovernmental approach thereto, in each case, as amended from time to time, and an agreement described in Section 1471(b) of the Code;

**"FCA"** means the United Kingdom Financial Conduct Authority;

**"FSMA"** means the Financial Services and Markets Act 2000;

**"Further Notes"** means any bonds or notes of the Issuer constituted in relation to a deed supplemental to this Principal Trust Deed pursuant to Clause 2.3 (*Further Issues*) and for the time being outstanding or, as the context may require, a specific number thereof and includes any global bond, note or evidence of indebtedness which has not for the time being been exchanged for such bonds or notes and any replacement bonds or notes issued pursuant to Condition 13 (*Replacement of Notes and Coupons*);

**"Global Note"** means the Original Temporary Global Note and Original Permanent Global Note and any other global notes representing the Further Notes or any of them;

"**ICSDs**" means Clearstream, Luxembourg and Euroclear;

"**Liabilities**" means in respect of any person, in respect of any person, any losses, damages, costs, charges, awards, claims, fees, 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;

"**Noteholder**" means an Original Noteholder or holder of Further Notes;

"**Notes**" means the Original Notes and any Further Notes save that in Schedules 1 and 2 "**Notes**" means the Original Notes and any Further Notes forming a single issue therewith and the words "**Coupons**", Noteholders and "**Couponholders**" where used therein shall be construed accordingly;

"**Original Coupons**" means the bearer interest coupons in or substantially in the form set out in Part C of Schedule 2 appertaining to the Original Notes and for the time being outstanding or as the context may require a specific number thereof and includes any replacement Original Coupons issued pursuant to Condition 13 (*Replacement of Notes and Coupons*);

"**Original Couponholder**" and (in relation to a Coupon) "**holder**" means the bearer of an Original Coupon;

"**Original Global Note**" means the Original Temporary Global Note or the Original Permanent Global Note or either of them to be issued pursuant to Clause 3.1 (*Global Note* in the form or substantially in the form set out in Schedule 1);

"**Original Noteholder**" and (in relation to a Note) "**holder**" means the bearer of an Original Note;

"**Original Notes**" means the bearer notes in the denomination of £100,000 and integral multiples of £1,000 in excess thereof (up to and including £199,000, each comprising the £350,000,000 3.500 per cent. Notes due October 2026 constituted in relation to this Trust Deed, in or substantially in the form set out in Schedules 1 and 2, and for the time being outstanding or, as the case may be, a specific number thereof and includes any replacement Original Notes issued pursuant to Condition 13 (*Replacement of Notes and Coupons*) and (except for the purposes of Clauses 3.1 (*Global Note*) and 3.3 (*Signature*)) the Original Global Note for so long as it has not been exchanged in accordance with the terms thereof;

"**Original Permanent Global Note**" means the Original Permanent Global Note to be issued pursuant to Clause 3.1 (*Global Note*) in the form or substantially in the form set out in Part B of Schedule 1;

"**Original Temporary Global Note**" means the Original Temporary Global Note to be issued pursuant to Clause 3.1 (*Global Note*) in the form or substantially in the form set out in Part A of Schedule 1;

"**outstanding**" means, in relation to the Notes, all the Notes other than:

- (a) those which have been redeemed in accordance with this Trust Deed;

- (b) those in respect of which the date for redemption in accordance with the provisions of the Conditions has occurred and for which the redemption moneys (including all interest accrued thereon to the date for such redemption) have been duly paid to the Trustee or the Principal Paying Agent in the manner provided for in the Agency Agreement (and, where appropriate, notice to that effect has been given to the relative Noteholders in accordance with Condition 15 (*Notices*)) and remain available for payment in accordance with the Conditions;
- (c) those which have been purchased and surrendered for cancellation as provided in Condition 5(g) (*Cancellation*) and notice of the cancellation of which has been given to the Trustee;
- (d) those which have become void under Condition 8 (*Prescription*);
- (e) those mutilated or defaced Notes which have been surrendered or cancelled and in respect of which replacement Notes have been issued pursuant to Condition 13 (*Replacement of Notes and Coupons*);
- (f) (for the purpose only of ascertaining the amount of the Notes outstanding and without prejudice to the status for any other purpose of the relevant Notes) those Notes which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 13 (*Replacement of Notes and Coupons*);

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of Noteholders;
- (ii) the determination of how many and which Notes are for the time being outstanding for the purposes of Clauses 7.1 (*Legal Proceedings*) and 6.1 (*Waiver*), Conditions 9 (*Events of Default*) and 10 (*Meetings of Noteholders, Modification, Waiver and Substitution*) and Schedule 3 (*Provisions for Meetings of Noteholders*); and
- (iii) any discretion, power or authority, whether contained in this Trust Deed or provided by law, which the Trustee is required to exercise in or by reference to the interests of the Noteholders or any of them;

those Notes (if any) which are for the time being held by any person (including but not limited to the Issuer or any Subsidiary) for the benefit of the Issuer or any Subsidiary shall (unless and until ceasing to be so held) be deemed not to remain outstanding;

"Party" means each of the Issuer and the Trustee;

"Paying Agents" means, in relation to the Notes of any relevant series the several institutions (including, where the context permits, the Principal Paying Agent) at their respective Specified Offices initially appointed pursuant to the relative Agency Agreement and/or, if applicable, any Successor paying agents, in relation to such Notes at their respective Specified Offices;

"Permanent Global Note" means the Original Permanent Global Note and any other permanent global note representing the Further Notes or any of them;

"PRA" means the United Kingdom Prudential Regulation Authority;

**"Principal Paying Agent"** means, in relation to the Notes of any series, the institution at its Specified Office initially appointed as principal paying agent in relation to such Notes pursuant to the relative Agency Agreement or, if applicable, any Successor principal paying agent in relation to such Notes at its Specified Office;

**"Principal Trust Deed"** means this Trust Deed constituting the Original Notes;

**"Repay"** shall include "redeem" and vice versa and "repaid", "repayable", "repayment", "redeemed", "redeemable" and "redemption" shall be construed accordingly;

**"Specified Office"** means, in relation to any Paying Agent, either the office identified with its name in the Conditions of the Notes of the relevant series or any other office notified to any relevant parties pursuant to the Agency Agreement;

**Subsidiary** means a subsidiary within the meaning of section 1159 of the Companies Act 2006;

**"Successor"** means, in relation to the Paying Agents, such other or further person, as may from time to time be appointed pursuant to the Agency Agreement as a Paying Agent;

**"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 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 the Original Temporary Global Note and any other temporary global notes representing the Further Notes or any of them;

**"this Trust Deed"** means this Trust Deed and the Schedules (as from time to time modified in accordance with the provisions contained herein) and (unless the context requires otherwise) includes any deed or other document executed in accordance with the provisions hereof (as from time to time modified as aforesaid) and expressed to be supplemental hereto;

**"Trustee Acts"** means both the Trustee Act 1925 and the Trustee Act 2000 of England and Wales; and

**"Written Resolution"** means a resolution in writing signed by or on behalf of 75 per cent. of holders of Notes for the time being outstanding, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of the Notes.

## 1.2 Principles of interpretation

1.2.1 In this Trust Deed references to:

- (a) *Statutory modification*: a provision of any statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment;

- (b) *Additional amounts*: principal and/or interest in respect of the Notes shall be deemed also to include references to any additional amounts which may be payable under Condition 7 (*Taxation*);
- (c) *Tax*: costs, charges or expenses shall include any value added tax or similar tax charged or chargeable in respect thereof;
- (d) *Enforcement of rights*: an action, remedy or method of judicial proceedings for the enforcement of rights of creditors shall include, in respect of any jurisdiction other than England, references to such action, remedy or method of judicial proceedings for the enforcement of rights of creditors available or appropriate in such jurisdictions as shall most nearly approximate thereto;
- (e) *Clauses and Schedules*: a Schedule, a Clause or sub-clause, paragraph or sub-paragraph is, unless otherwise stated, to a schedule hereto or a clause or sub-clause, paragraph or sub-paragraph hereof respectively;
- (f) *Principal*: principal shall, when applicable, include premium;
- (g) *Clearing systems*: Euroclear and/or Clearstream, Luxembourg shall, wherever the context so admits, be deemed to include references to any additional or alternative clearing system approved by the Issuer and the Trustee;
- (h) *Trust Corporation*: a trust corporation denotes a corporation entitled by rules made under the Public Trustee Act 1906 to act as a custodian trustee or entitled pursuant to any other legislation applicable to a trustee in any jurisdiction other than England to act as trustee and carry on trust business under the laws of the country of its incorporation; and
- (i) *Gender*: words denoting the masculine gender shall include the feminine gender also, words denoting individuals shall include companies, corporations and partnerships and words importing the singular number only shall include the plural and in each case *vice versa*.

1.2.2 All references in this Trust Deed, the Conditions or the Agency Agreement involving compliance by the Trustee with a test of reasonableness shall be deemed to include a reference to a requirement that such reasonableness shall be determined by reference solely to the interests of the Noteholders and in the event of any conflict between such interests and the interests of any other person, the former shall prevail as being paramount.

1.2.3 All references in this Trust Deed and in the Conditions to wilful default or fraud or gross negligence means a finding to such effect by a court of competent jurisdiction in relation to the conduct of the relevant party.

### 1.3 The Conditions

In this Trust Deed, unless the context requires or the same are otherwise defined, words and expressions defined in the Conditions and not otherwise defined herein shall have the same meaning in this Trust Deed.

### 1.4 Headings



The headings and sub-headings are for ease of reference only and shall not affect the construction of this Trust Deed.

## 1.5 The Schedules

The schedules are part of this Trust Deed and shall have effect accordingly.

## 2. COVENANT TO REPAY

### 2.1 Covenant to Repay

The Issuer covenants with the Trustee that it will, as and when the Original Notes or any of them become due to be redeemed or any principal on the Original Notes or any of them becomes due to be repaid in accordance with the Conditions, unconditionally pay or procure to be paid to or to the order of the Trustee in Sterling in immediately available freely transferable funds the principal amount of the Original Notes or any of them becoming due for redemption or repayment on that date and shall (subject to the provisions of the Conditions) until all such payments (both before and after judgment or other order) are duly made unconditionally pay or procure to be paid to or to the order of the Trustee as aforesaid on the dates provided for in the Conditions interest on the principal amount of the Original Notes or any of them outstanding from time to time as set out in the Conditions *provided that*:

- 2.1.1 every payment of principal or interest in respect of the Original Notes or any of them made to the Principal Paying Agent in the manner provided in the Agency Agreement shall satisfy, to the extent of such payment, the relevant covenant by the Issuer contained in this Clause except to the extent that there is default in the subsequent payment thereof to the Original Noteholders or Original Couponholders (as the case may be) in accordance with the Conditions;
- 2.1.2 if any payment of principal or interest in respect of the Original Notes or any of them is made after the due date or as a result of the Original Notes becoming repayable following an Event of Default, payment shall be deemed not to have been made until either the full amount is paid to the Original Noteholders or, if earlier, the seventh day after notice has been given to the Original Noteholders or Original Couponholders (as the case may be) in accordance with the Conditions that the full amount has been received by the Principal Paying Agent or the Trustee except, in the case of payment to the Principal Paying Agent, to the extent that there is failure in the subsequent payment to the Original Noteholders or Original Couponholders (as the case may be) under the Conditions; and
- 2.1.3 in any case where payment of the whole or any part of the principal amount due in respect of any Original Note is improperly withheld or refused upon due presentation (if so provided for in the Conditions) of the Original Note, 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 Original Noteholders or, if earlier, the seventh day after which notice is given to the Original Noteholders in accordance with the Conditions that the full amount payable in respect of the said principal amount is available for collection by the Original Noteholders *provided that* on further due presentation thereof (if so provided for in the Conditions) such payment is in fact made.

The Trustee will hold the benefit of this covenant and the covenant in Clause 4 (*Covenant to comply with Trust Deed and Schedules*) on trust for the Original Noteholders and Original Couponholders.

## 2.2 Following an Event of Default

At any time after any Event of Default shall have occurred, the Trustee may:

- 2.2.1 by notice in writing to the Issuer, the Principal Paying Agent and the other Paying Agents require the Principal Paying Agent and the other Paying Agents or any of them:
  - (a) to act thereafter, until otherwise instructed by the Trustee, as Paying Agents of the Trustee under the provisions of this Trust Deed on the terms provided in the Agency Agreement (with consequential amendments as necessary and save that the Trustee's liability under any provisions thereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Paying Agents shall be limited to amounts for the time being held by the Trustee on the trusts of this Trust Deed in relation to the Notes on the terms of this Trust Deed and available to the Trustee for such purpose) and thereafter to hold all Notes and Coupons and all sums, documents and records held by them in respect of Notes and Coupons on behalf of the Trustee; and/or
  - (b) to deliver up all Notes and Coupons and all sums, documents and records held by them in respect of Notes and Coupons to the Trustee or as the Trustee shall direct in such notice *provided that* such notice shall be deemed not to apply to any document or record which the relevant Paying Agent is obliged not to release by any law or regulation; and
- 2.2.2 by notice in writing to the Issuer require the Issuer to make all subsequent payments in respect of Notes and Coupons to or to the order of the Trustee and with effect from the issue of any such notice until such notice is withdrawn, sub-clause 2.1.1 of Clause 2.1 (*Covenant to Repay*) and (so far as it concerns payments by the Issuer) Clause 8.4 (*Payment to Noteholders and Couponholders*) shall cease to have effect.

## 2.3 Further Issues

- 2.3.1 The 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 the Couponholders to create and issue further notes or debt securities howsoever designated either ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so as to form a single series with the original Notes and/or Further Notes of any series or upon such terms as to interest, conversion, redemption and otherwise as the Issuer may at the time of the issue thereof determine.
- 2.3.2 Any further notes or debt securities howsoever designated created and issued pursuant to the provisions of sub-clause 2.3.1 shall, if they are to form a single series with the Original Notes, and/or Further Notes of any series, be constituted in relation to a deed supplemental to this Principal Trust Deed and in any other case, if the Trustee so agrees, may be so constituted. In any such case the Issuer shall prior to the issue of any such further notes or bonds, execute and deliver to the Trustee a deed supplemental to this Principal Trust Deed (if applicable, duly stamped or denoted) and containing a covenant by the Issuer in the form *mutatis mutandis* of Clause 2.1 (*Covenant to repay*) of this Principal Trust Deed in relation to the principal and interest in respect of such further

notes or debt securities howsoever designated and such other provisions (corresponding to any of the provisions contained in this Trust Deed) as the Trustee shall require.

- 2.3.3 A memorandum of every such supplemental deed shall be endorsed by the Trustee on this Principal Trust Deed and by the Issuer on the duplicate of this Principal Trust Deed.
- 2.3.4 Any Further Notes not forming a single series with the Original Notes or any other series of Further Notes shall form a separate series and accordingly, unless for any purpose the Trustee at its absolute discretion shall otherwise determine, all the provisions of this Trust Deed (other than Clauses 2.1 (*Covenant to Repay*) and 3.1 to 3.3 inclusive (*The Original Notes*) and Schedules 1 and 2) shall apply separately to each series of the Notes, and in this Trust Deed (other than such Clauses and Schedules) the expression "Notes" and "Noteholders", "Coupons" and "Couponholders" shall be construed accordingly.

### 3. THE ORIGINAL NOTES

#### 3.1 Global Note

- 3.1.1 The Notes will initially be represented by the Original Temporary Global Note in the principal amount of £350,000,000 which the Issuer shall issue to a common safekeeper for Euroclear and Clearstream, Luxembourg.
- 3.1.2 The Original Temporary Global Notes shall be printed or typed in the form or substantially in the form set out in Schedule 1, Part A (*Form of Temporary Global Note*) and may be facsimiles.
- 3.1.3 The Issuer shall issue an Original Permanent Global Note in exchange for each Original Temporary Global Note in accordance with the provisions thereof. The Original Permanent Global Notes shall be printed or typed in the form or substantially in the form set out in Schedule 1, Part B (*Form of Original Permanent Global Note*) and may be facsimiles.
- 3.1.4 If the Issuer becomes obliged to do so under the Conditions, it shall issue Original Notes in definitive form (together with unmatured coupons attached) in exchange of the Original Permanent Global Notes.

#### 3.2 The definitive Notes

The definitive Original Notes and the Original Coupons will be security printed in accordance with applicable legal and stock exchange requirements substantially in the forms set out in Schedule 2. The Original Notes will be endorsed with the Conditions.

#### 3.3 Signature

The Original Global Notes, the Original Notes and the Original Coupons will be signed manually or in facsimile by a duly authorised person designated by the Issuer and, in the case of the Original Global Notes and the Original Notes will be authenticated manually by or on behalf of the Principal Paying Agent. The Issuer may use the facsimile signature of a person who at the date of this Trust Deed is such a duly authorised person even if at the time of issue of any Original Notes and/or Coupons he no longer holds that office. Original Notes and Original Coupons so executed and authenticated will be binding and valid obligations of the Issuer and title thereto shall pass by delivery.

### 3.4 Entitlement to treat holder as owner

The Issuer, the Trustee and any Paying Agent may deem and treat the holder of any Note and any Coupon appertaining to the relevant Note as the absolute owner of such Note or such Coupon as the case may be, free of any equity, set-off or counterclaim on the part of the Issuer against the original or any intermediate holder of such Note (whether or not such Note or such Coupon shall be overdue and notwithstanding any notation of ownership or other writing thereon or any notice of previous loss or theft of such Note or Coupon for all purposes and, except as ordered by a court of competent jurisdiction or as required by applicable law, the Issuer, the Trustee and the Paying Agents 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 and Coupons.

## 4. COVENANT TO COMPLY WITH TRUST DEED AND SCHEDULES

4.1 The Issuer covenants with the Trustee to comply with those provisions of this Trust Deed and the Conditions 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 Issuer, the Noteholders and the Couponholders and all persons claiming through or under them respectively.

4.2 The Trustee shall itself be entitled to enforce the obligations of the 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.

## 5. COVENANTS BY THE ISSUER

The Issuer hereby covenants with the Trustee that, so long as any of the Notes remain outstanding, it will:

### 5.1 Books of account

At all times keep and procure that all its Subsidiaries keep such books of account as may be necessary to comply with all applicable laws and so as to enable the financial statements of the Issuer to be prepared and allow the Trustee and any person appointed by it free access to the same at all reasonable times during normal business hours and to discuss the same with responsible officers of the Issuer;

### 5.2 Event of Default

Give notice in writing to the Trustee forthwith upon becoming aware of any Event of Default and without waiting for the Trustee to take any further action;

### 5.3 Certificate of Compliance

Provide to the Trustee within 10 days of any request by the Trustee and at the time of the dispatch to the Trustee of its annual consolidated audited financial statements, and in any event not later than 180 days after the end of its financial year, a certificate signed by two directors of the Issuer certifying that up to a specified date not earlier than seven days prior to the date of such certificate (the "**Certified Date**") the Issuer has complied with its obligations under this Trust Deed (or, if such is not the case, giving details of the circumstances 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 Certified 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 other matter which would affect the Issuer's ability to perform its obligations under this Trust Deed or (if such is not the case) specifying the same;

#### **5.4 Financial statements**

Send to the Trustee and to the Principal Paying Agent (if the same are produced) as soon as practicable after their date of publication and in the case of annual financial statements in any event not more than 180 days after the end of each financial year, two copies of the Issuer's annual balance sheet and profit and loss account and of every balance sheet, profit and loss account, report or other notice, statement or circular issued (or which under any legal or contractual obligation should be issued) to the members or holders of debentures or creditors (or any class of them) of the Issuer in their capacity as such at the time of the actual (or legally or contractually required) issue or publication thereof 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;

#### **5.5 Information**

So long as any of the Notes remain outstanding and so far as permitted by applicable law, at all times give to the Trustee such information, opinions, certificates and other evidence as it shall reasonably require and in such form as it shall reasonably require (including, without limitation, the certificates called for by the Trustee pursuant to Clause 5.3 (*Certificate of Compliance*)) for the purpose of the discharge or exercise of the duties, trusts, powers, authorities and discretions vested in it under the Trust Deed or any other related document or by operation of law;

#### **5.6 Notes held by Issuer**

Send to the Trustee forthwith upon being so requested in writing by the Trustee a certificate of the Issuer (signed on its behalf by any two of its directors) setting out the total number of Notes of each series which at the date of such certificate are held by or for the benefit of the Issuer or any Subsidiary;

#### **5.7 Execution of further Documents**

So far as permitted by applicable law, at all times execute all such further documents and do all such further acts and things as may be necessary at any time or times in the opinion of the Trustee to give effect to the provisions of this Trust Deed;

#### **5.8 Notices to Noteholders**

Send or procure to be sent to the Trustee not less than ten days prior to the date of publication, for the Trustee's approval, one copy of each notice to be given to the Noteholders in accordance with the Conditions and not publish such notice without such approval and, upon publication, send to the Trustee two copies of such notice (such approval, unless so expressed, not to constitute approval of such notice for the purpose of Section 21 of the Financial Services and Markets Act 2000);

#### **5.9 Notification of non-payment**

Procure that the Principal Paying Agent notifies the Trustee forthwith in the event that it does not, on or before the due date for payment in respect of the Notes or any of them or any of the



Coupons, receive unconditionally the full amount in the relevant currency of the moneys payable on such due date on all such Notes or Coupons;

#### **5.10 Notification of late payment**

In the event of the unconditional payment to the Principal Paying Agent or the Trustee of any sum due in respect of the Notes or any of them or any of the Coupons being made after the due date for payment thereof, forthwith give notice to the Noteholders that such payment has been made;

#### **5.11 Notification of redemption or repayment**

Not less than the number of days specified in the relevant Condition prior to the redemption or repayment date in respect of any Note, give to the Trustee notice in writing of the amount of such redemption or repayment pursuant to the Conditions and duly proceed to redeem or repay such Notes accordingly;

#### **5.12 Tax or optional redemption**

If the Issuer gives notice to the Trustee that it intends to redeem the Notes pursuant to Conditions 5(b) (*Redemption for Taxation Reasons*) and 5(c) (*Redemption at the Option of the Issuer*) the Issuer shall, prior to giving such notice to the Noteholders, provide such information to the Trustee as the Trustee requires in order to satisfy itself of the matters referred to in such Condition;

#### **5.13 Obligations of Paying Agents**

Enforce its rights as against the Paying Agents under the Agency Agreement; and notify the Trustee immediately it becomes aware of any material breach of such obligations, or failure by a Paying Agent to comply with such obligations, in relation to the Notes or Coupons;

#### **5.14 Change of taxing jurisdiction**

If the 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 the United Kingdom, immediately upon becoming aware thereof it shall notify the Trustee of such event and (unless the Trustee otherwise agrees) enter forthwith into a trust deed supplemental hereto, giving to the Trustee an undertaking or covenant in form and manner satisfactory to the Trustee in terms corresponding to the terms of Condition 7 (*Taxation*) with the substitution for (or, as the case may be, the addition to) the references therein to the United Kingdom 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 Issuer shall have become subject as aforesaid, such trust deed also to modify Condition 7 (*Taxation*) so that such Condition shall make reference to that other or additional territory;

#### **5.15 Listing and Trading**

At all times use all reasonable endeavours to maintain the admission to listing, trading and/or quotation of the Original Notes by the relevant competent authority, stock exchange and/or quotation system by which they are admitted to listing, trading and/or quotation on issue or, if it is unable to do so having used all reasonable endeavours or if the maintenance of such admission to listing, trading and/or quotation is agreed by the Trustee to be unduly onerous or impractical and the Trustee is satisfied that the interests of the Noteholders would not be thereby materially prejudiced, use reasonable endeavours to obtain and maintain an admission to listing, trading

and/or quotation of the Original Notes on such other competent authority, stock exchange or quotation system as the Issuer may (with the approval of the Trustee) decide and give notice of the identity of such other competent authority, stock exchange and/or quotation system to the Noteholders;

#### 5.16 **Authorised Signatories**

Upon the execution hereof and thereafter forthwith upon any change of the same, deliver to the Trustee (with a copy to the Principal Paying Agent) a list of the Authorised Signatories of the Issuer, together with certified specimen signatures of the same;

#### 5.17 **Payments**

Pay moneys payable by it to the 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 will pay such additional amount as will result in the payment to the Trustee of the amount which would otherwise have been payable by it to the 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 7 (*Taxation*);

#### 5.18 **Change in Paying Agents**

Give at least 14 days' prior notice to the Noteholders of any future appointment, resignation or removal of a Paying Agent or of any change by a Paying Agent of its specified office and not make any such appointment or removal without the Trustee's written approval;

#### 5.19 **Notice of Put Event, Restructuring Event or Step-Up Event**

5.19.1 Notify the Trustee in writing immediately on becoming aware of the occurrence of any Put Event in accordance with Clause 13 (*Notices*);

5.19.2 Notify the Trustee immediately in respect of a Restructuring Event in accordance with Condition 5(d)(v) (*Redemption, Purchase and Options – Redemption at the Option of Noteholders*); and

5.19.3 Notify the Trustee immediately in respect of a Step-up Event.

### 6. **AMENDMENTS AND SUBSTITUTION**

#### 6.1 **Waiver**

The Trustee may, without any 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, but only if and in so far as in its opinion the interests of the Noteholders shall not be materially prejudiced thereby, authorise or waive, on such terms and conditions (if any) as shall seem expedient to it, any breach or proposed breach of any of the covenants or provisions contained in this Trust Deed, the Conditions or the Agency Agreement or the Notes or Coupons or determine that any Event of Default shall not be treated as such for the purposes of this Trust Deed; any such authorisation, waiver or determination shall be binding on the Noteholders, the Couponholders and, if, but only if, the Trustee shall so require, the Issuer shall cause such authorisation, waiver or determination to be notified to the Noteholders as soon as practicable thereafter in accordance with the Condition relating thereto; *provided that the*

Trustee shall not exercise any powers conferred upon it by this Clause in contravention of any express direction by an Extraordinary Resolution or of a request in writing made by the holders of not less than 25 per cent. in aggregate principal amount of the Notes then outstanding (but so that no such direction or request shall affect any authorisation, waiver or determination previously given or made) or so as to authorise or waive any such breach or proposed breach relating to any of the matters the subject of the Reserved Matters as specified and defined in Schedule 3.

## 6.2 Modifications

The Trustee may from time to time and at any time without any consent or sanction of the Noteholders or Couponholders concur with the Issuer in making (a) any modification to this Trust Deed (other than in respect of Reserved Matters as specified and defined in Schedule 3 or any provision of this Trust Deed referred to in that specification) or the Notes which in the opinion of the Trustee it may be proper to make provided the Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the Noteholders or (b) any modification to this Trust Deed or the Notes if in the opinion of the Trustee such modification is of a formal, minor or technical nature or made to correct a manifest error. Any such modification shall be binding on the Noteholders and the Couponholders and the Issuer shall cause such modification to be notified to the Noteholders as soon as practicable thereafter in accordance with the Conditions.

## 6.3 Substitution

6.3.1 *Procedure:* The Trustee may, without the consent of the Noteholders or the Couponholders, agree to the substitution, in place of the Issuer (or of any previous substitute under this Clause) of any Subsidiary of the Issuer (hereinafter called the "**Substituted Obligor**") as the principal debtor hereunder if:

- (a) a trust deed is executed or some other written form of undertaking is given by the Substituted Obligor to the Trustee, in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of this Trust Deed, the Notes and the Coupons with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substituted Obligor had been named in this Trust Deed and on the Notes and the Coupons as the principal debtor in place of the Issuer (or of any previous substitute under this Clause);
- (b) the Issuer and the Substituted Obligor execute such other deeds, documents and instruments (if any) as the Trustee and the Principal Paying Agent may require in order that the substitution is fully effective and comply with such other requirements as the Trustee may direct in the interests of the Noteholders and the Couponholders;
- (c) an unconditional and irrevocable guarantee in form and substance satisfactory to the Trustee shall have been given by the Issuer of the obligations of the Substituted Obligor under this Trust Deed and the Notes and Coupons;
- (d) the Trustee may request and be provided with such legal opinions as it has requested in a form and manner acceptable to it in relation to the Substituted Obligor;
- (e) the 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 Issuer (or such previous substitute as aforesaid), (ii) the Issuer has obtained all governmental and regulatory approvals and consents necessary for the guarantee to be fully effective as referred to in sub-clause 6.3.1(c) and (iii) such approvals and consents are at the time of substitution in full force and effect;

- (f) without prejudice to the generality of the preceding sub-clauses 6.3.1 (a) to (c) where the Substituted Obligor is incorporated, domiciled or resident in or is otherwise subject generally to the taxing jurisdiction of any territory or any political sub-division thereof or any authority of or in such territory having power to tax (the "**Substituted Territory**") other than or in addition to the territory, the taxing jurisdiction of which (or to any such authority of or in which) the Issuer is subject generally (the "**Issuer's Territory**"), the Substituted Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking in form and manner satisfactory to the Trustee in terms corresponding to the terms of Condition 7 (*Taxation*) with the substitution for the reference in that Condition to the Issuer's Territory of references to the Substituted Territory and in such event the Trust Deed and Notes and Coupons will be interpreted accordingly;
  - (g) the Issuer and the Substituted Obligor comply with such other requirements as the Trustee may direct in the interests of the Noteholders and the Couponholders;
  - (h) without prejudice to the rights of reliance of the Trustee under sub-clause 6.3.4 (*Directors' certification*) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders; and
  - (i) Moody's Investors Services Ltd and S&P Global Ratings Europe Limited, have confirmed in writing to the Issuer and the Issuer has forwarded to the Trustee a copy of such confirmation 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.
- 6.3.2 *Change of law:* In connection with any proposed substitution of the Issuer or any previous substitute, the Trustee may, in its absolute discretion and without the consent of the Noteholders or the Couponholders agree to a change of the law from time to time governing the Notes and the Coupons and this Trust Deed provided that such change of law, in the opinion of the Trustee, would not be materially prejudicial to the interests of the Noteholders;
- 6.3.3 *Extra duties:* The Trustee shall be entitled to refuse to approve any Substituted Obligor if, pursuant to the law of the country of incorporation of the Substituted Obligor, the assumption by the Substituted Obligor of its obligations hereunder imposes responsibilities on the Trustee over and above those which have been assumed under this Trust Deed;
- 6.3.4 *Directors' certification:* If any two directors of the Substituted Obligor certify that immediately prior to the assumption of its obligations as Substituted Obligor under this Trust Deed the Substituted Obligor is solvent after taking account of all prospective and contingent liabilities resulting from its becoming the Substituted Obligor, the Trustee need not have regard to the financial condition, profits or prospects of the Substituted

Obligor or compare the same with those of the Issuer (or of any previous substitute under this Clause);

- 6.3.5 *Interests of Noteholders:* In connection with any proposed substitution, the Trustee shall not have regard to, or be in any way liable for, the consequences of such substitution for individual Noteholders or the Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder or Couponholder shall, in connection with any such substitution, be entitled to claim from the Issuer any indemnification or payment in respect of any tax consequence of any such substitution upon individual Noteholders or Couponholders;
- 6.3.6 *Release of Issuer:* Any such agreement by the Trustee pursuant to sub-clause 6.3.1 (*Procedure*) shall, if so expressed, operate to release the Issuer (or such previous substitute as aforesaid) from any or all of its obligations as principal debtor under the Notes and this Trust Deed but without prejudice to its liabilities under any guarantee given pursuant to sub-clause 6.3.1(c). Not later than 14 days after the execution of any such documents as aforesaid and after compliance with the said requirements of the Trustee, the Substituted Obligor shall cause notice thereof to be given to the Noteholders; and
- 6.3.7 *Completion of Substitution:* Upon the execution of such documents and compliance with the said requirements, the Substituted Obligor shall be deemed to be named in this Trust Deed and the Notes and Coupons as the principal debtor in place of the Issuer (or of any previous substitute under this Clause) and this Trust Deed, the Notes and the Agency Agreement shall thereupon be deemed to be amended in such manner as shall be necessary to give effect to the substitution and without prejudice to the generality of the foregoing any references in this Trust Deed, in the Notes and Coupons or in the Agency Agreement to the Issuer shall be deemed to be references to the Substituted Obligor.

## 7. ENFORCEMENT

### 7.1 Legal Proceedings

In relation to any discretion to be exercised or action to be taken by the Trustee under the Trust Deed or any related document, the Trustee may at any time, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to recover any amounts due in respect of the Notes which are unpaid or to enforce any of its rights under this Trust Deed or the Conditions but it shall not be bound to take any such proceedings unless (a) it has been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the outstanding Notes and (b) it has been indemnified and/or secured and/or pre-funded to its satisfaction against all actions, Liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith and provided that the Trustee shall not be held liable for the consequence of taking any such action and may take such action without having regard to the effect of such action on individual Noteholders or Couponholders. Only the Trustee may enforce the provisions of the Notes or this Trust Deed and no Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

### 7.2 Evidence of Default



If the Trustee (or any Noteholder or Couponholder where entitled under this Trust Deed so to do) makes any claim, institutes any legal proceeding or lodges any proof in a winding-up or insolvency of the Issuer under this Trust Deed or under the Notes, proof therein that:

7.2.1 as regards any specified Note the Issuer has made default in paying any principal due in respect of such Note shall (unless the contrary be proved) be sufficient evidence that the Issuer has made the like default as regards all other Notes in respect of which a corresponding payment is then due; and

7.2.2 as regards any specified Coupon the 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 Issuer has made the like default as regards all other Coupons in respect of which a corresponding payment is then due;

and for the purposes of sub-clauses 7.2.1 and 7.2.2 a payment shall be a "corresponding" payment notwithstanding that it is due in respect of a Note of a different denomination from that in respect of the above specified Note or specified Coupon.

### 7.3 Put Event

At any time upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice to the Noteholders in accordance with Condition 15 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Put Option.

## 8. APPLICATION OF MONEYS

### 8.1 Application of Moneys

All moneys received by the Trustee in respect of the Notes or amounts payable under this Trust Deed will, despite any appropriation of all or part of them by the Issuer, be apportioned *pari passu* and rateably between each series of the Notes and be held by the Trustee on trust to apply them (subject to Clause 8.2 (*Accumulation*)):

8.1.1 *first*, in payment or satisfaction of the costs, charges, expenses and liabilities incurred by the Trustee or its Appointees in the preparation and execution of the trusts of this Trust Deed (including remuneration of the Trustee and its Appointees);

8.1.2 *secondly*, in or towards payment *pari passu* and rateably of all arrears of interest remaining unpaid in respect of the Notes of that series and all principal moneys due on or in respect of the Notes of that series; and

8.1.3 *thirdly*, the balance (if any) in payment to the Issuer.

### 8.2 Accumulation

If the amount of the moneys at any time available for payment of principal or interest in respect of the Notes under Clause 8.1 (*Application of Moneys*) shall be less than the sum sufficient to pay at least one-tenth of the principal amount of the Notes then outstanding, the Trustee may, at its discretion retain such moneys on deposit in the name or under the control of the Trustee with such bank or financial institution as the Trustee may think fit. Such deposits may be accumulated until the accumulations together with any funds for the time being under the control of the Trustee and available for the purpose shall amount to a sum sufficient to pay at least one-tenth of the principal amount outstanding of the Notes then outstanding and such accumulation and funds

(after deduction of any taxes and any other deductibles applicable thereto) shall then be applied in the manner aforesaid.

### 8.3 **Deposit of Moneys**

The Trustee may in its absolute discretion place any moneys held by it on deposit in the name or under the control of the Trustee with any bank or financial institution as the Trustee may think fit in such currency as the Trustee may in its absolute discretion determine and the Trustee may at any time deposit or convert any moneys so deposited into any other currency and shall not be responsible for any Liability occasioned by reason of any such deposit whether by depreciation in value, fluctuation in exchange rates or otherwise for the purpose of meeting the cash needs of the transaction and not for the purpose of generating income. If such bank or financial institution is an affiliate of the Trustee, the Trustee need only account for an amount of interest equal to the standard amount of interest payable by it on a deposit to an independent customer.

### 8.4 **Payment to Noteholders and Couponholders**

The Trustee shall give notice to the Noteholders in accordance with the Conditions of the date fixed for any payment under Clause 8.1 (*Application of Moneys*). Any payment to be made in respect of the Notes or the Coupons by the Issuer or the Trustee may be made in the manner provided in the Conditions, the Agency Agreement and this Trust Deed and any payment so made shall be a good discharge to the extent of such payment, by the Issuer or the Trustee, as the case may be. Any payment in full of interest made in respect of a Coupon in the manner aforesaid shall extinguish any claim of a Noteholder which may arise directly or indirectly in respect of such interest.

### 8.5 **Production of Notes and Coupons**

Upon any payment under Clause 8.4 (*Payment to Noteholders and Couponholders*) of principal or interest, the Note or Coupon in respect of which such payment is made shall, if the Trustee so requires, be produced to the Trustee or the Paying Agent by or through whom such payment is made and the Trustee shall (a) in the case of part payment, enface or cause such Paying Agent to enface a memorandum of the amount and date of payment thereon (or cause the Paying Agent to procure that the ICSDs make appropriate entries in their records to reflect such payment) or (b) in the case of payment in full, shall cause such Note or Coupon to be surrendered or shall cancel or procure the same to be cancelled and shall certify or procure the certification of such cancellation.

### 8.6 **Noteholders to be treated as holding all Coupons**

Wherever in this Trust Deed the Trustee is required or entitled to exercise a power, trust, authority or discretion under this Trust Deed, the Trustee shall, notwithstanding that it may have express notice to the contrary, assume that each Noteholder is the holder of all Coupons appertaining to each Note of which he is the holder.

## 9. **TERMS OF APPOINTMENT**

By way of supplement to the Trustee Acts, it is expressly declared as follows:

### 9.1 **Reliance on Information**

9.1.1 *Advice*: the Trustee may in relation to this Trust Deed act on the opinion or advice or report of or a certificate or any information obtained from any lawyer, banker, valuer,

surveyor, broker, auctioneer, accountant (including the Auditors) or other expert (whether obtained by the Trustee, the Issuer, any Subsidiary or any Paying Agent, whether or not addressed to the Trustee and whether or not such advice contains a monetary or other limit on liability or limits the scope and/or basis of such advice) and shall not be responsible for any Liability occasioned by so acting; any such opinion, advice, certificate or information may be sent or obtained by letter, email, electronic communication, or facsimile transmission and the Trustee shall not be liable to anyone for acting on any opinion, advice, certificate or information purporting to be so conveyed although the same shall contain some error or shall not be authentic;

- 9.1.2 *Certificate of directors*: the Trustee may call for and shall be at liberty to accept a certificate signed by two directors of the Issuer or other person duly authorised on its behalf as to any fact or matter as sufficient evidence thereof and a like certificate to the effect that any particular dealing, transaction or step or thing is, in the opinion of the person so certifying, expedient as sufficient evidence that it is expedient and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any Liability that may be occasioned by its failing so to do;
- 9.1.3 *Resolution or direction of Noteholders*: the Trustee shall not be responsible for acting upon any resolution purporting to be a Written Resolution or to have been passed at any meeting of the Noteholders in respect whereof minutes have been made and signed or a direction of a specified percentage of Noteholders, even though it may subsequently be found that there was some defect in the constitution of the meeting or the passing of the resolution or the making of the directions or that for any reason the resolution purporting to be a Written Resolution or to have been passed at any Meeting or the making of the directions was not valid or binding upon the Noteholders and Couponholders;
- 9.1.4 *Reliance on certification of clearing system*: the Trustee may call for any certificate or other document issued by Euroclear or Clearstream, Luxembourg or any other relevant clearing system in relation to the principal amount outstanding of Notes standing to the account of any person. 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 Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by Euroclear or Clearstream, Luxembourg or any other relevant clearing system and subsequently found to be forged or not authentic;
- 9.1.5 *Noteholders as a class*: whenever in this Trust Deed the 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;
- 9.1.6 *Trustee not responsible for investigations*: the 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;

- 9.1.7 *No Liability as a result of the delivery of a certificate*: the Trustee shall have no Liability whatsoever for any loss, cost, damages or expenses directly or indirectly suffered or incurred by the Issuer, any Noteholder, Couponholder or any other person as a result of the delivery by the Trustee to the Issuer of a certificate as to material prejudice pursuant to Condition 9 (*Events of Default*) on the basis of an opinion formed by it in good faith;
- 9.1.8 *No obligation to monitor*: the Trustee shall be under no obligation to monitor or supervise the functions of any other person under the Notes or Coupons 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;
- 9.1.9 *Notes held by the Issuer*: in the absence of knowledge or express notice to the contrary, the Trustee may assume without enquiry (other than requesting a certificate of the Issuer under Clause 5.6 (*Notes held by Issuer*)), that no Notes are for the time being held by or for the benefit of the Issuer or its Subsidiaries;
- 9.1.10 *Forged Notes*: the Trustee shall not be liable to the Issuer or any Noteholder or Couponholder by reason of having accepted as valid or not having rejected any Note or Coupon as such and subsequently found to be forged or not authentic; and
- 9.1.11 *Events of Default or Restructuring Events*: the Trustee shall not be bound to give notice to any person of the execution of this Trust Deed or any related document or to take any steps to ascertain whether any Event of Default or Restructuring Event has happened and, until it shall have actual knowledge or express notice to the contrary, the Trustee shall be entitled to assume that no such Event of Default or Restructuring Event has happened and that the 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; and
- 9.1.12 *Right to Deduct or Withhold*: notwithstanding anything contained in this Trust Deed, to the extent required by any applicable law, if the Trustee is or will be required to make any deduction or withholding from any distribution or payment made by it hereunder or if the Trustee is or will be otherwise charged to, or is or may become liable to, tax (other than any tax on its net income, profit or gains) 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 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 Trustee in connection with the trusts of this Trust Deed (other than the remuneration herein specified) or otherwise, then the 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 (other than any tax on its net income, profit or gains) which relates to sums so received or distributed or to discharge any such other liability of the Trustee to tax (other

than any tax on its net income, profit or gains) from the funds held by the Trustee upon the trusts of this Trust Deed.

9.1.13 *Maintaining the rating of the Notes:* the Trustee shall not be responsible for maintaining the rating of the Notes.

9.1.14 *Reliance on Rating Agency Confirmation:* the Trustee shall be entitled to rely on any Rating Agency confirmation without further investigation.

## 9.2 Trustee's powers and duties

9.2.1 *Trustee's determination:* The Trustee may determine whether or not a default in the performance or observance by the Issuer of any obligation under the provisions of this Trust Deed or contained in the Notes or Coupons is capable of remedy and/or materially prejudicial to the interests of the Noteholders and if the Trustee shall certify that any such default is, in its opinion, not capable of remedy and/or materially prejudicial to the interests of the Noteholders, such certificate shall be conclusive and binding upon the Issuer and the Noteholders and Couponholders;

9.2.2 *Determination of questions:* the Trustee as between itself and the Noteholders and the Couponholders shall have full power to determine all questions and doubts arising in relation to any of the provisions of this Trust Deed and every such determination, whether made upon a question actually raised or implied in the acts or proceedings of the Trustee, shall be conclusive and shall bind the Trustee, the Noteholders and the Couponholders;

9.2.3 *Trustee's discretion:* the Trustee shall (save as expressly otherwise provided herein) as regards all the trusts, powers, authorities and discretions vested in it by this Trust Deed or by operation of law, have absolute and uncontrolled discretion as to the exercise or non-exercise thereof and the Trustee shall not be responsible for any Liability that may result from the exercise or non-exercise thereof but whenever the Trustee is under the provisions of this Trust Deed bound to act at the request or direction of the Noteholders, the Trustee shall nevertheless not be so bound unless first indemnified and/or prefunded and/or provided with security to its satisfaction against all actions, proceedings, claims and demands to which it may render itself liable and all costs, charges, damages, expenses and Liabilities which it may incur by so doing;

9.2.4 *Freedom to refrain:* notwithstanding anything else herein contained or contained in the Agency Agreement or the Conditions, the Trustee may refrain from (a) 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 (including, without limitation, section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act) 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; or (b) doing anything which might cause the Trustee to be considered a sponsor of a covered fund under Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and any regulations promulgated thereunder;

9.2.5 *Trustee's consent:* any consent given by the Trustee for the purposes of this Trust Deed may be given on such terms and subject to such conditions (if any) as the Trustee may require;

9.2.6 *Conversion of currency:* where it is necessary or desirable for any purpose in connection with this Trust Deed to convert any sum from one currency to another it shall (unless



otherwise provided by this Trust Deed or required by law) be converted at such rate or rates, in accordance with such method and as at such date for the determination of such rate of exchange, as may be specified by the Trustee in its absolute discretion as relevant and any rate, method and date so specified shall be binding on the Issuer and the Noteholders and the Couponholders;

- 9.2.7 *Application of proceeds*: the Trustee shall not be responsible for the receipt or application by the Issuer of the proceeds of the issue of the Notes, the exchange of any Temporary Global Note for any Permanent Global Note or any Permanent Global Note for definitive Notes or the delivery of any Note or Coupon to the persons entitled to them;
- 9.2.8 *Agents*: the Trustee may, in the conduct of the trusts of this Trust Deed instead of acting personally, employ and pay an agent on any terms, 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 Trustee (including the receipt and payment of money) and the 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 proceedings or acts of any such person;
- 9.2.9 *Delegation*: the Trustee may, in the execution and exercise of all or any of the trusts, powers, authorities and discretions vested in it by this Trust Deed, act by responsible officers or a responsible officer for the time being of the Trustee and the Trustee may also whenever it thinks fit, whether by power of attorney or otherwise, delegate to any person or persons or fluctuating body of persons (whether being a joint trustee of this Trust Deed or not) all or any of the trusts, powers, authorities and discretions vested in it by this Trust Deed and any such delegation may be made upon such terms and conditions and subject to such regulations (including power to sub-delegate with the consent of the Trustee) as the Trustee may think fit in the interests of the Noteholders and the Trustee shall not be bound to supervise the proceedings or acts of and shall not in any way or to any extent 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 such delegate or sub-delegate. The Trustee shall, within a reasonable time after any such delegation or any renewal, extension or termination thereof give notice thereof to the Issuer;
- 9.2.10 *Custodians and nominees*: the Trustee may appoint and pay any person to act as a custodian or nominee on any terms in relation to such assets of the trust as the Trustee may determine, including for the purpose of depositing with a custodian this Trust Deed or any document relating to the trust created hereunder and the 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 proceedings or acts of any such person; the Trustee is not obliged to appoint a custodian if the Trustee invests in securities payable to bearer;
- 9.2.11 *Confidential information*: the Trustee shall not (unless required by law or ordered so to do by a court of competent jurisdiction) be required to disclose to any Noteholder or Couponholder confidential financial information or other information made available to the Trustee by the Issuer in connection with this Trust Deed and no Noteholder or Couponholder shall be entitled to take any action to obtain from the Trustee any such information;
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- 9.2.12 *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 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;
- 9.2.13 *Legal Opinions*: the 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.
- 9.2.14 *Sanctions*: The Trustee may refrain from doing anything which would or might in its reasonable opinion be illegal or contrary to any Applicable Law or which would or might otherwise render it liable to any person and may do anything which is, in its reasonable opinion, necessary to comply with any such Applicable Law.

### 9.3 Financial matters

- 9.3.1 *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;
- 9.3.2 *Expenditure by the Trustee*: nothing contained in this Trust Deed shall require the 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, such risk or liability is not reasonably assured to it; and
- 9.3.3 *Trustee may enter into financial transactions with the Issuer*: no Trustee and no director or officer of any corporation being a Trustee hereof shall by reason of the fiduciary position of such Trustee be in any way precluded from making any contracts or entering into any transactions in the ordinary course of business with the Issuer or any Subsidiary, or any person or body corporate directly or indirectly associated with the Issuer or any Subsidiary, or from accepting the trusteeship of any other debenture stock, debentures or securities of the Issuer or any Subsidiary or any person or body corporate directly or indirectly associated with the Issuer or any Subsidiary, and neither the Trustee nor any such director or officer shall be accountable to the Noteholders or the Issuer or any Subsidiary, or any person or body corporate directly or indirectly associated with the Issuer or any Subsidiary, for any profit, fees, commissions, interest, discounts or share of brokerage earned, arising or resulting from any such contracts or transactions and the Trustee and any such director or officer shall also be at liberty to retain the same for its or his own benefit.
- 9.3.4 *Regulatory Position*: notwithstanding anything in the Trust Deed or any other Issue document connected thereto to the contrary, the 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 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 Trustee to assume an obligation of the Issuer arising under any provisions of the listing, prospectus, disclosure or transparency rules (or equivalent rules of any other competent authority besides the FCA or the PRA, as applicable).

#### 9.4 Disapplication

Section 1 of the Trustee Act 2000 shall not apply to the duties of the Trustee in relation to the trusts constituted by this Trust Deed. 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.

#### 9.5 Trustee Liability

9.5.1 Subject to Sections 750 and 751 of the Companies Act 2006 (if applicable) and notwithstanding anything to the contrary in this Trust Deed, the Notes or the Agency Agreement, the 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 this Trust Deed, the Notes or the Agency Agreement save in relation to its own gross negligence, wilful default or fraud having regard to the provisions of this Trust Deed, the Agency Agreement and the Conditions conferring on it any trusts, powers, authorities and discretions.

9.5.2 Any liability of the Trustee in connection with or in relation to this Trust Deed, the Notes or the Agency Agreement shall be limited to the amount of actual loss suffered (such loss shall be determined as at the date of default of the 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 Trustee at the time of entering into this Trust Deed or the Agency Agreement, or at the time of accepting any relevant instructions, which increase the amount of the loss. In no event shall the 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 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 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.

### 10. COSTS AND EXPENSES

#### 10.1 Remuneration

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- 10.1.1 *Normal Remuneration*: The Issuer shall pay to the Trustee remuneration for its services as trustee as from the date of this Trust Deed, such remuneration to be at such rate as may from time to time be agreed between the Issuer and the Trustee. Such remuneration shall be payable in advance on the anniversary of the date hereof in each year and the first payment shall be made on the date hereof. Upon the issue of any Further Notes the rate of remuneration in force immediately prior thereto shall be increased by such amount as shall be agreed between the Issuer and the Trustee, such increased remuneration to be calculated from such date as shall be agreed as aforesaid. Such remuneration shall accrue from day to day and be payable (in priority to payments to the Noteholders and Couponholders in accordance with Clause 8 (*Application of Moneys*) up to and including the date when, all the Notes having become due for redemption, the redemption moneys and interest thereon to the date of redemption have been paid to the Principal Paying Agent or the Trustee, *provided that* if upon due presentation (if required pursuant to the Conditions) of any Note or Coupon, payment of the moneys due in respect thereof is improperly withheld or refused, remuneration will commence again to accrue;
- 10.1.2 *Extra Remuneration*: If an Event of Default (or an event has occurred which has led the Trustee, acting reasonably, to take steps to determine whether an Event of Default has occurred) shall have occurred in relation to the Issuer, the Issuer hereby agrees that the 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 Trustee finds it expedient or necessary or is requested by the Issuer to undertake duties that they both agree to be of an exceptional nature or otherwise outside the scope of the Trustee's normal duties under this Trust Deed, the Issuer shall pay such additional remuneration as they may agree (and which may be calculated by reference to the 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 10.1.1 (Normal Remuneration)), as determined by a financial institution or person (acting as an expert) selected by the Trustee and approved by the 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 the Issuer. The determination of such financial institution or person shall be conclusive and binding on the Issuer, the Trustee, the Noteholders and the Couponholders.
- 10.1.3 *Value added tax*: The Issuer shall in addition pay to the Trustee an amount equal to the amount of any value added tax or similar tax chargeable in respect of its remuneration under this Trust Deed;
- 10.1.4 *Failure to agree*: In the event of the Trustee and the Issuer failing to agree:
- (a) (in a case to which sub-clause 10.1.1 applies) upon the amount of the remuneration; or
  - (b) (in a case to which sub-clause 10.1.2 applies) upon whether such duties shall be of an exceptional nature or otherwise outside the scope of the normal duties of the Trustee under this Trust Deed, or upon such additional remuneration;

such matters shall be determined by a merchant bank (acting as an expert and not as an arbitrator) selected by the Trustee and approved by the Issuer or, failing such approval, nominated (on the application of the Trustee) by the President for the time being of The Law Society of England and Wales (the expenses involved in such nomination and the

fees of such merchant bank being payable by the Issuer) and the determination of any such merchant bank shall be final and binding upon the Trustee and the Issuer;

- 10.1.5 *Expenses*: The Issuer shall also pay or discharge all costs, fees, charges and expenses incurred by the Trustee or any Appointee of the Trustee 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, including but not limited to legal and travelling expenses and any stamp, issue, registration, documentary and other similar taxes or duties paid or payable by the Trustee or any Appointee of the Trustee in connection with any action taken or contemplated by or on behalf of the Trustee or any Appointee of the Trustee for enforcing, or resolving any doubt concerning, or for any other purpose in relation to, this Trust Deed.
- 10.1.6 *Indemnity*: Without prejudice to the right of indemnity given by law to the Trustee, the Issuer shall indemnify the Trustee and keep him indemnified against (a) all Liabilities and expenses (including any VAT payable) incurred by it or by any Appointee or other person appointed by it to whom any trust, power, authority or discretion may be delegated by it in the execution or purported execution of the trusts, powers, authorities or discretions vested in it by this Trust Deed and any related documents and (b) its functions or all Liabilities, actions, proceedings, costs, claims and demands in respect of any matter or thing done or omitted in any way relating to this Trust Deed (including, without limitation, Liabilities incurred in disputing or defending any of the foregoing) *provided that* it is expressly stated that Clause 9.5 (*Trustee Liability*) shall apply in relation to these provisions;
- 10.1.7 *Payment of amounts due*: All amounts due and payable pursuant to sub clauses 10.1.5 (*Expenses*) and 10.1.6 (*Indemnity*) shall be payable by the Issuer on the date specified in a demand by the Trustee; the rate of interest applicable to such payments shall be three per cent. per annum above the base rate from time to time of HSBC Bank Plc and interest shall accrue:
- (a) in the case of payments made by the Trustee prior to the date of the demand, from the date on which the payment was made or such later date as specified in such demand; and
  - (b) in the case of payments made by the Trustee on or after the date of the demand, from the date specified in such demand, which date shall not be a date earlier than the date such payments are made.

All remuneration payable to the Trustee shall carry interest at the rate specified in this sub clause 10.1.7 (*Payment of amounts due*) from the due date thereof;

- 10.1.8 *Discharges*: Unless otherwise specifically stated in any discharge of this Trust Deed the provisions of this Clause 10.1 (*Remuneration*) shall continue in full force and effect notwithstanding such discharge and whether or not the Trustee is then the trustee of this Trust Deed.

## 10.2 Stamp duties

The Issuer will pay all stamp duties, registration taxes, capital duties and other similar duties or taxes (if any) payable on (a) the constitution and issue of the Notes and Coupons, (b) the initial delivery of the Notes (c) any action taken by the Trustee (or any Noteholder or Couponholder where permitted or required under this Trust Deed so to do) to enforce the provisions of the

Notes or this Trust Deed and (d) the execution of this Trust Deed. If the Trustee (or any Noteholder or Couponholder where permitted under this Trust Deed so to do) shall take any proceedings against the Issuer in any other jurisdiction and if for the purpose of any such proceedings this Trust Deed or any Notes are taken into any such jurisdiction and any stamp duties or other duties or taxes become payable thereon in any such jurisdiction, the Issuer will pay (or reimburse the person making payment of) such stamp duties or other duties or taxes (including penalties).

### **10.3 Indemnities separate**

The indemnities in this Trust Deed constitute separate and independent obligations from the other obligations in this Trust Deed, will give rise to separate and independent causes of action, will apply irrespective of any indulgence granted by the Trustee and/or any Noteholder or Couponholder and will 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 or the Notes and/or the Coupons or any other judgment or order.

## **11. INFORMATION SHARING**

### **11.1 Information Collection & Sharing**

Each Party shall, within ten business days of a written request by another Party, supply to that other Party such forms, documentation and other information relating to it, its operations, or any Notes as that other Party reasonably requests for the purposes of that other Party's compliance with Applicable Law and shall notify the relevant other Party reasonably promptly in the event that it becomes aware that any of the forms, documentation or other information provided by such Party is (or becomes) inaccurate in any material respect; provided, however, that no Party shall be required to provide any forms, documentation or other information pursuant to this Clause 11 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 such Party and cannot be obtained by such Party using reasonable efforts; or (ii) doing so would or might in the reasonable opinion of such Party constitute a breach of any: (a) Applicable Law; (b) fiduciary duty; or (c) duty of confidentiality.

### **11.2 FATCA Withholding**

The Trustee shall be entitled to deduct any withholding or deduction required pursuant to FATCA and shall have no obligation to gross-up any payment hereunder or to pay any additional amount as a result of such withholding or deduction required pursuant to FATCA.

Notwithstanding any other provision of this Trust Deed, the Trustee shall be entitled to make a deduction or withholding from any payment which it makes under the Notes for or on account of any Tax, if and only to the extent so required by Applicable Law, in which event the Trustee shall make such payment after such deduction or withholding has been made and shall account to the relevant authority within the time allowed for the amount so deducted or withheld or, at its option, shall reasonably promptly after making such payment return to the Issuer the amount so deducted or withheld, in which case, the Issuer shall so account to the relevant authority for such amount.

## **12. APPOINTMENT AND RETIREMENT**

### **12.1 Appointment of Trustees**



The power of appointing new trustees of this Trust Deed shall be vested in the Issuer but no person shall be appointed who shall not previously have been approved by an Extraordinary Resolution. A trust corporation may be appointed sole trustee hereof but subject thereto there shall be at least two trustees hereof one at least of which shall be a trust corporation. Any appointment of a new trustee hereof shall as soon as practicable thereafter be notified by the Issuer to the Paying Agents and to the Noteholders. The Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees for the time being hereof. The removal of any trustee shall not become effective unless there remains a trustee hereof (being a trust corporation) in office after such removal.

## 12.2 Co-trustees

Notwithstanding the provisions of Clause 12.1 (*Appointment of Trustees*), the Trustee may, upon giving prior notice to the Issuer but without the consent of the Issuer or the Noteholders, appoint any person established or resident in any jurisdiction (whether a trust corporation or not) to act either as a separate trustee or as a co-trustee jointly with the Trustee:

- 12.2.1 if the Trustee considers such appointment to be in the interests of the Noteholders; or
- 12.2.2 for the purposes of conforming to any legal requirements, restrictions or conditions in any jurisdiction in which any particular act or acts are to be performed; or
- 12.2.3 for the purposes of obtaining a judgment in any jurisdiction or the enforcement in any jurisdiction either of a judgment already obtained or of this Trust Deed.

## 12.3 Attorneys

The Issuer hereby irrevocably appoints the Trustee to be its attorney in its name and on its behalf to execute any such instrument of appointment. Such a person shall (subject always to the provisions of this Trust Deed) have such trusts, powers, authorities and discretions (not exceeding those conferred on the Trustee by this Trust Deed) and such duties and obligations as shall be conferred on such person or imposed by the instrument of appointment. The Trustee shall have power in like manner to remove any such person. Such proper remuneration as the Trustee may pay to any such person, together with any attributable costs, charges and expenses incurred by it in performing its function as such separate trustee or co-trustee, shall for the purposes of this Trust Deed be treated as costs, charges and expenses incurred by the Trustee.

## 12.4 Retirement of Trustees

Any Trustee for the time being of this Trust Deed may retire at any time upon giving not less than three calendar months' notice in writing to the Issuer without assigning any reason therefor and without being responsible for any costs occasioned by such retirement. The retirement of any Trustee shall not become effective unless there remains a trustee hereof (being a trust corporation) in office after such retirement. The Issuer hereby covenants that in the event of the only trustee hereof which is a trust corporation giving notice under this Clause it shall use its best endeavours to procure a new trustee, being a trust corporation, to be appointed and if the Issuer has not procured the appointment of a new trustee within 30 days of the expiry of the Trustee notice referred to in this Clause 12.4, the Trustee shall be entitled to procure forthwith a new trustee.

## 12.5 Competence of a majority of Trustees

Whenever there shall be more than two trustees hereof the majority of such trustees shall (provided such majority includes a trust corporation) be competent to execute and exercise all the trusts, powers, authorities and discretions vested by this Trust Deed in the Trustee generally.

## 12.6 Powers additional

The powers conferred by this Trust Deed upon the Trustee shall be in addition to any powers which may from time to time be vested in it by general law or as the holder of any of the Notes or Coupons.

## 12.7 Merger

Any corporation into which the 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 Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the 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 hereto.

## 13. NOTICES

### 13.1 Addresses for notices

All notices and other communications hereunder shall be made in writing and in English (by letter or fax) and shall be sent as follows:

#### 13.1.1 *Issuer*: If to the Issuer, to it at:

Western Power Distribution PLC  
Avonbank  
Feeder Road  
Bristol BS2 0TB  
United Kingdom

Tel: +44 (0)1179 332354  
Email: [jhunt@westernpower.co.uk](mailto:jhunt@westernpower.co.uk)  
Attention: Julie Hunt, Treasurer

#### 13.1.2 *Trustee*: if to the Trustee, to it at:

HSBC Corporate Trustee Company (UK) Limited  
Level 27, 8 Canada Square  
London E14 5HQ

Fax: +44 (0)207 991 4350  
Attention: CTLA Trustee Services Administration

### 13.2 Effectiveness

Every notice or other communication sent in accordance with Clause 13.1, if sent by letter, shall be deemed to have been delivered when received and if sent by fax, shall be deemed to have been delivered on completion of its transmission, *provided that* any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day shall

not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the addressee.

### 13.3 No Notice to Couponholders

Neither the Trustee nor the 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 15 (*Notices*).

## 14. LAW AND JURISDICTION

### 14.1 Governing law

This Trust Deed and the Notes and all non-contractual obligations arising from or in connection with them are governed by English law.

### 14.2 English courts

Subject to Clause 14.4 (*Rights of the Trustee to take proceedings outside England*), the courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**"), arising from or connected with this Trust Deed or the Notes (including a dispute relating to non-contractual obligations arising from or in connection with this Trust Deed or the Notes, or a dispute regarding the existence, validity or termination of this Trust Deed or the Notes) or the consequences of their nullity.

### 14.3 Appropriate forum

The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

### 14.4 Rights of the Trustee to take proceedings outside England

Notwithstanding Clause 14.2 (*English courts*), the Trustee may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Trustee may take concurrent Proceedings in any number of jurisdictions.

## 15. SEVERABILITY

In case any provision in or obligation under this Trust Deed shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

## 16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any provision of this Trust Deed under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that this Trust Deed expressly provides for such Act to apply to any of its terms.

## 17. COUNTERPARTS

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This Trust Deed may be executed in any number of counterparts, each of which shall be deemed an original.

**IN WITNESS WHEREOF** this Trust Deed has been executed as a deed by the parties hereto and is intended to be and is hereby delivered on the date first before written.

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## SCHEDULE 1

### PART A FORM OF TEMPORARY GLOBAL NOTE

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S OF THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

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.

**WESTERN POWER DISTRIBUTION PLC**  
*(incorporated with limited liability under  
the laws of England and Wales with registered number 09223384)*

**£350,000,000**

**3.500 per cent. Notes due October 2026**

**ISIN: XS1893807120**

#### TEMPORARY GLOBAL NOTE

##### 1. INTRODUCTION

This Temporary Global Note is issued in respect of the £350,000,000 3.500 per cent. Notes due October 2026 (the "Notes") of Western Power Distribution plc (the "Issuer"). The Notes are subject to, and have the benefit of, a trust deed dated 16 October 2018 (as amended or supplemented from time to time, the "Trust Deed") between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee (the "Trustee", which expression includes all persons for the time being appointed trustee or trustees under the Trust Deed) and are the subject of an agency agreement dated 16 October 2018 (as amended or supplemented from time to time, the "Agency Agreement") and made between the Issuer, HSBC Bank Plc as principal paying agent (the "Principal Paying Agent", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee.

##### 2. REFERENCES TO CONDITIONS

Any reference herein to the "Conditions" is to the terms and conditions of the Notes scheduled to the Trust Deed and any reference to a numbered "Condition" is to the correspondingly numbered provision thereof. Words and expressions defined in the Conditions shall have the same meanings when used in this Temporary Global Note.

### 3. PROMISE TO PAY

#### 3.1 Pay to Bearer

The Issuer, for value received, promises to pay to the bearer of this Temporary Global Note the principal sum of

£350,000,000

three hundred and fifty million pounds Sterling

on 16 October 2026 or on such earlier date or dates as the same may become payable in accordance with the Conditions, and to pay interest on such principal sum in arrear on the dates and at the rate specified in the Conditions, together with any additional amounts payable in accordance with the Conditions, all subject to and in accordance with the Conditions; *provided, however*, that such interest shall be payable only:

3.1.1 in the case of interest falling due before the Exchange Date (as defined below), to the extent that a certificate or certificates issued by Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), together with Euroclear, the international central securities depositories or "**ICSDs**") dated not earlier than the date on which such interest falls due and in substantially the form set out in Schedule 1 (*Form of Euroclear/Clearstream, Luxembourg Certification*) hereto is/are delivered to the Specified Office (as defined in the Conditions) of the Principal Paying Agent; or

3.1.2 in the case of interest falling due at any time, to the extent that the Issuer has failed to procure the exchange for a permanent global note of that portion of this Temporary Global Note in respect of which such interest has accrued.

#### 3.2 Principal Amount

The principal amount of Notes represented by this Temporary Global Note shall be the aggregate amount from time to time entered in the records of both ICSDs. The records of the ICSDs (which expression in this Temporary Global Note means the records that each ICSD holds for its customers which reflect the amount of such customers' interests in the Notes (but excluding any interest in any Notes of one ICSD shown in the records of another ICSD)) shall be conclusive evidence of the principal amount of Notes represented by this Temporary Global Note and, for these purposes, a statement issued by an ICSD (which statement shall be made available to the bearer upon request) stating the principal amount of Notes represented by this Temporary Global Note at any time shall be conclusive evidence of the records of the ICSD at that time.

### 4. NEGOTIABILITY

This Temporary Global Note is negotiable and, accordingly, title to this Temporary Global Note shall pass by delivery.

### 5. EXCHANGE

On or after the day following the expiry of 40 days after the date of issue of this Global Note (the "**Exchange Date**"), the Issuer shall procure (in the case of first exchange) the delivery of a permanent global note (the "**Permanent Global Note**") in substantially the form set out in Schedule 1 Part B (*Form of Original Permanent Global Note*) to the Trust Deed to the bearer



of this Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- 5.1 presentation and (in the case of final exchange) surrender of this Global Note to or to the order of the Principal Paying Agent; and
- 5.2 receipt by the Principal Paying Agent of a certificate or certificates issued by Euroclear and/or Clearstream, Luxembourg dated not earlier than the Exchange Date and in substantially the form set out in Schedule 2 (*Form of Euroclear / Clearstream, Luxembourg Certification*) hereto.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates issued by Euroclear and/or Clearstream, Luxembourg and received by the Principal Paying Agent; *provided, however*, that in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by this Temporary Global Note.

## 6. WRITING DOWN

On each occasion on which:

- 6.1 the Permanent Global Note is delivered or the principal amount of Notes represented thereby is increased in accordance with its terms in exchange for a further portion of this Global Note; or
- 6.2 Notes represented by this Temporary Global Note are to be cancelled in accordance with Condition 5(g) (*Redemption, Purchase and Options - Cancellation*), the Issuer shall procure that details of the exchange or cancellation shall be entered pro rata in the records of the ICSDs.

## 7. PAYMENTS

### 7.1 Recording of Payments

Upon any payment being made in respect of the Notes 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 ICSDs and, in the case of any payment of principal, the principal amount of the Notes entered in the records of ICSDs and represented by this Temporary Global Note shall be reduced by the principal amount so paid.

### 7.2 Discharge of Issuer's obligations

Payments due in respect of Notes for the time being represented by this Temporary Global Note shall be made to the bearer of this Temporary Global Note and each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries referred to above shall not affect such discharge.

## 8. CONDITIONS APPLY

Until this Temporary Global Note has been exchanged as provided herein or cancelled in accordance with the Agency Agreement, the bearer of this Temporary Global Note shall be subject to the Conditions and, subject as otherwise provided herein, shall be entitled to the same rights and benefits under the Conditions as if the bearer were the holder of Notes in definitive form in substantially the form set out in Schedule 2 Part A (*Form of Definitive Note*) to the Trust Deed and the related interest coupons in the denomination of £100,000 and in an aggregate principal amount equal to the principal amount of Notes represented by this Global Note.

**9. NOTICES**

Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by this Temporary Global Note (or by this Temporary Global Note and the Permanent Global Note) and this Temporary Global Note is (or this Temporary Global Note and the Permanent Global Note are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with the Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

**10. AUTHENTICATION**

This Temporary Global Note shall not be valid for any purpose until it has been authenticated for and on behalf of HSBC Bank Plc as principal paying agent.

**11. EFFECTUATION**

This Temporary Global Note shall not be valid for any purpose until it has been effectuated for and on behalf of the entity appointed as common safekeeper by the ICSDs.

**12. GOVERNING LAW**

This Temporary Global Note and any non-contractual obligations arising out of or in connection with it are governed by English law.

**AS WITNESS** the manual signature of a duly authorised person for and on behalf of the Issuer.

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**WESTERN POWER DISTRIBUTION PLC**

By: \_\_\_\_\_  
*manual signature*  
*(duly authorised)*

**ISSUED** on 16 October 2018  
**AUTHENTICATED** for and on behalf of  
**HSBC BANK PLC**  
as principal paying agent  
without recourse, warranty or liability

By: \_\_\_\_\_  
*manual signature*  
*(duly authorised)*

**EFFECTUATED for and on behalf of**  
Euroclear Bank SA/NV as common safekeeper without  
recourse, warranty or liability

By: \_\_\_\_\_  
*manual signature*  
*(duly authorised)*

\_\_\_\_\_

**Schedule 1**  
**Form of Accountholder's Certification**

**WESTERN POWER DISTRIBUTION PLC**  
*(incorporated with limited liability under  
the laws of England and Wales with registered number 09223384)*

**£350,000,000**  
**3.500 per cent. Notes due October 2026**

This is to certify that as of the date hereof, and except as set forth below, the above-captioned Securities held by you for our account (a) are owned by persons that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States Federal income taxation regardless of its source ("**United States persons**"), (b) are owned by United States person(s) that (i) are foreign branches of a United States financial institution (as defined in U.S. Treasury Regulations Section 1.165-12(c)(1)(iv)) ("**financial institutions**") purchasing for their own account or for resale, or (ii) acquired the Securities through foreign branches of United States financial institutions and who hold the Securities through such United States financial institutions on the date hereof (and in either case (i) or (ii), each such United States financial institution hereby agrees, on its own behalf or through its agent, that you may advise the issuer or the issuer's agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (c) are owned by United States or foreign financial institution(s) for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and in addition if the owner of the Securities is a United States or foreign financial institution described in clause (c) (whether or not also described in clause (a) or (b)) this is to further certify that such financial institution has not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "**United States**" means the United States of America (including the States and the District of Columbia); and its "**possessions**" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We undertake to advise you promptly by tested telex on or prior to the date on which you intend to submit your certification relating to the Securities held by you for our account in accordance with your operating procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certification applies as of such date.

This certification excepts and does not relate to £[*amount*] of such interest in the above Securities in respect of which we are not able to certify and as to which we understand exchange and delivery of definitive Securities (or, if relevant, exercise of any rights or collection of any interest) cannot be made until we do so certify.

We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorise you to produce this certification to any interested party in such proceedings.

Dated: [ ]

[**name of account holder**]  
as, or as agent for,



**Schedule 2**  
**Form of Euroclear/Clearstream, Luxembourg Certification**

**WESTERN POWER DISTRIBUTION PLC**  
*(incorporated with limited liability under  
the laws of England and Wales with registered number 09223384)*

**£350,000,000**

**3.500 per cent. Notes due October 2026**

This is to certify that, based solely on certifications we have received in writing, by tested telex or by electronic transmission from member organisations appearing in our records as persons being entitled to a portion of the principal amount set forth below (our "**Member Organisations**") substantially to the effect set forth in the temporary global note issued in respect of the securities, as of the date hereof, £[\*] principal amount of the above-captioned Securities (a) is owned by persons that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States Federal income taxation regardless of its source ("**United States persons**"), (b) is owned by United States persons that (i) are foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Section 1.165-12(c)(1)(iv)) ("**financial institutions**") purchasing for their own account or for resale, or (ii) acquired the Securities through foreign branches of United States financial institutions and who hold the Securities through such United States financial institutions on the date hereof (and in either case (i) or (ii), each such United States financial institution has agreed, on its own behalf or through its agent, that we may advise the Issuer or the Issuer's agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (c) is owned by United States or foreign financial institutions for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and to the further effect that United States or foreign financial institutions described in clause (c) (whether or not also described in clause (a) or (b)) have certified that they have not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

We further certify (1) that we are not making available herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) any portion of the temporary global security excepted in such certifications and (2) that as of the date hereof we have not received any notification from any of our Member Organisations to the effect that the statements made by such Member Organisations with respect to any portion of the part submitted herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) are no longer true and cannot be relied upon as of the date hereof.

We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorise you to produce this certification to any interested party in such proceedings.

Dated: [ ]

**Euroclear Bank SA/NV**  
**as operator of the Euroclear System**

*or*

**Clearstream Banking S.A.**

By: \_\_\_\_\_

*Authorised signatory*



**PART B**  
**FORM OF PERMANENT GLOBAL NOTE**

**THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS OF THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.**

**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.**

**WESTERN POWER DISTRIBUTION PLC**  
*(incorporated with limited liability under  
the laws of England and Wales with registered number 09223384)*

**£350,000,000**  
**3.500 per cent. Notes due October 2026**

ISIN: XS1893807120

**PERMANENT GLOBAL NOTE**

**1. INTRODUCTION**

This Global Note is issued in respect of the £350,000,000 3.500 per cent. Notes due October 2026 (the "**Notes**") of Western Power Distribution plc (the "**Issuer**"). The Notes are subject to, and have the benefit of, a trust deed dated 16 October 2018 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee (the "**Trustee**", which expression includes all persons for the time being appointed trustee or trustees under the Trust Deed) and are the subject of an agency agreement dated 16 October 2018 (as amended or supplemented from time to time, the "**Agency Agreement**") and made between the Issuer, HSBC Bank Plc as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee.

**2. REFERENCES TO CONDITIONS**

Any reference herein to the "**Conditions**" is to the terms and conditions of the Notes set out in Schedule 2 Part B (*Terms and Conditions of the Notes*) of the Trust Deed and any reference to a numbered "**Condition**" is to the correspondingly numbered provision thereof. Words and expressions defined in the Conditions shall have the same meanings when used in this Global Note.

**3. PROMISE TO PAY**

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### 3.1 Pay to bearer

The Issuer, for value received, promises to pay to the bearer of this Global Note, in respect of each Note represented by this Global Note, its principal amount on 16 October 2026 or on such earlier date or dates as the same may become payable in accordance with the Conditions, and to pay interest on each such Note on the dates and in the manner specified in the Conditions, together with any additional amounts payable in accordance with the Conditions, all subject to and in accordance with the Conditions.

### 3.2 Principal Amount

The principal amount of Notes represented by this Global Note shall be the aggregate amount from time to time entered in the records of both Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**" and, together with Euroclear, the international central securities depositories or "**ICSDs**"). The records of the ICSDs (which expression in this Global Note means the records that each ICSD holds for its customers which reflect the amount of such customers' interests in the Notes (but excluding any interest in any Notes of one ICSD shown in the records of another ICSD)) shall be conclusive evidence of the principal amount of Notes represented by this Global Note and, for these purposes, a statement issued by an ICSD (which statement shall be made available to the bearer upon request) stating the principal amount of Notes represented by this Global Note at any time shall be conclusive evidence of the records of the ICSD at that time.

## 4. NEGOTIABILITY

This Global Note is negotiable and, accordingly, title to this Global Note shall pass by delivery.

## 5. EXCHANGE

This Global Note will be exchanged, in whole but not in part only, for Notes in definitive form ("**Definitive Notes**") in substantially the form set out in Schedule 2 Part A (*Form of Definitive Note*) to the Trust Deed if either of the following events (each, an "**Exchange Event**") occurs:

- (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
- (b) any of the circumstances described in Condition 9 (*Events of Default*) occurs.

## 6. DELIVERY OF DEFINITIVE NOTES

Whenever this Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery of such Definitive Notes, duly authenticated and with interest coupons ("**Coupons**") attached, in an aggregate principal amount equal to the principal amount of Notes represented by this Global Note to the bearer of this Global Note against the surrender of this Global Note to or to the order of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

## 7. WRITING DOWN

On each occasion on which:

- (a) a payment of principal is made in respect of this Global Note;

- (b) Definitive Notes are delivered; or
- (c) Notes represented by this Global Note are to be cancelled in accordance with Condition 5(g) (*Redemption, Purchase and Options - Cancellation*),

the Issuer shall procure that details of the exchange or cancellation shall be entered pro rata in the records of the ICSDs.

## 8. WRITING UP

### 8.1 Initial Exchange

If this Global Note was originally issued in exchange for part only of a temporary global note representing the Notes, then all references in this Global Note to the principal amount of Notes represented by this Global Note shall be construed as references to the principal amount of Notes represented by the part of the temporary global note in exchange for which this Global Note was originally issued which the Issuer shall procure is entered by the ICSDs in their records.

### 8.2 Subsequent Exchange

If at any subsequent time any further portion of such temporary global note is exchanged for an interest in this Global Note, the principal amount of Notes represented by this Global Note shall be increased by the amount of such further portion, and the Issuer shall procure that the principal amount of Notes represented by this Global Note (which shall be the previous principal amount of Notes represented by this Global Note *plus* the amount of such further portion) is entered by the ICSDs in their records.

## 9. PAYMENTS

### 9.1 Recording of Payments

Upon any payment being made in respect of the Notes represented by this Global Note, the Issuer shall procure that details of such payment shall be entered pro rata in the records of the ICSDs and, in the case of any payment of principal, the principal amount of the Notes entered in the records of ICSDs and represented by this Global Note shall be reduced by the principal amount so paid.

### 9.2 Discharge of Issuer's obligations

Payments due in respect of Notes for the time being represented by this Global Note shall be made to the bearer of this Global Note and each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries referred to above shall not affect such discharge.

## 10. CONDITIONS APPLY

Until this Global Note has been exchanged as provided herein or cancelled in accordance with the Agency Agreement, the bearer of this Global Note shall be subject to the Conditions and, subject as otherwise provided herein, shall be entitled to the same rights and benefits under the Conditions as if it were the holder of Definitive Notes and the related Coupons in the denomination of £1,000 and in an aggregate principal amount equal to the principal amount of Notes represented by this Global Note.

## 11. EXERCISE OF PUT OPTION

In order to exercise the option contained in Condition 5(d) (*Redemption at the option of Noteholders*) (the "Put Option"), the bearer of this Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and Put Event Notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which the Put Option is being exercised. Any such notice shall be irrevocable and may not be withdrawn.

## 12. EXERCISE OF CALL OPTION

In connection with an exercise of the option contained in Condition 5(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, this Global Note 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 but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

## 13. NOTICES

Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by this Global Note (or by this Global Note and a temporary global note) and this Global Note is (or this Global Note and a temporary global note are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with the Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

## 14. AUTHENTICATION

This Global Note shall not be valid for any purpose until it has been authenticated for and on behalf of HSBC Bank Plc as principal paying agent.

## 15. EFFECTUATION

This Global Note shall not be valid for any purpose until it has been effectuated for and on behalf of the entity appointed as common safekeeper by the ICSDs.

## 16. GOVERNING LAW

This Global Note and any non-contractual obligations arising out of or in connection with it are governed by English law.

AS WITNESS the manual signature of a duly authorised person for and on behalf of the Issuer.

**WESTERN POWER DISTRIBUTION PLC**

By:

\_\_\_\_\_  
*manual signature*  
*(duly authorised)*

ISSUED as of 16 October 2018

**AUTHENTICATED** for and on behalf of  
**HSBC BANK PLC**  
as principal paying agent  
without recourse, warranty or liability

By:

\_\_\_\_\_  
*manual signature*  
*(duly authorised)*

**EFFECTUATED for and on behalf of**

Euroclear Bank SA/NV as common safekeeper without  
recourse, warranty or liability

By:

\_\_\_\_\_  
*manual signature*  
*(duly authorised)*

## SCHEDULE 2

### PART A FORM OF DEFINITIVE NOTE

[On the face of the Note:]

£[•]

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS OF THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

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.

#### WESTERN POWER DISTRIBUTION PLC

*(incorporated with limited liability under  
the laws of England and Wales with registered number 09223384)*

**£350,000,000**

#### **3.500 per cent. Notes due October 2026**

This Note is one of a series of notes (the "Notes") in the denomination of £100,000 and integral multiples of £1,000 in excess thereof (up to and including £199,000) and in the aggregate principal amount of £350,000,000 issued by Western Power Distribution plc (the "Issuer"). The Notes are subject to, and have the benefit of, a trust deed dated 16 October 2018 between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee for the holders of the Notes from time to time.

The Issuer, for value received, promises to pay to the bearer the principal sum of

£[•]

**([AMOUNT AND CURRENCY IN WORDS]<sup>1</sup>)**

on 16 October 2026, or on such earlier date or dates as the same may become payable in accordance with the conditions endorsed hereon (the "Conditions"), and to pay interest on such principal sum in arrear on the dates and at the rate specified in the Conditions, together with any additional amounts payable in accordance with the Conditions, all subject to and in accordance with the Conditions.

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<sup>1</sup> Amount and currency in words.



Interest is payable on the above principal sum at the rate of 3.500 per cent. per annum, payable annually in arrear on 16 October, all subject to and in accordance with the Conditions.

This Note and the interest coupons relating hereto shall not be valid for any purpose until this Note has been authenticated for and on behalf of HSBC Bank Plc as principal paying agent.

**AS WITNESS** the facsimile signature of a duly authorised person on behalf of the Issuer.

**WESTERN POWER DISTRIBUTION PLC**

By:

\_\_\_\_\_  
*facsimile signature*  
*(duly authorised)*

**ISSUED** as of [•]

**AUTHENTICATED** for and on behalf of  
**HSBC Bank Plc**  
as principal paying agent  
without recourse, warranty or liability

By:

\_\_\_\_\_  
*manual signature*  
*(duly authorised)*

## PART B TERMS AND CONDITIONS OF THE NOTES

*The following are the terms and conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form:*

The GBP 350,000,000 3.500 per cent. Notes due October 2026 (the "Notes"), which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith are constituted by, are subject to, and have the benefit of, a trust deed dated on or around 16 October 2018 (as amended or supplemented from time to time, the "Trust Deed") between Western Power Distribution plc (the "Issuer") and HSBC Corporate Trustee Company (UK) Limited (the "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). An Agency Agreement dated on or around 16 October 2018 (as amended or supplemented from time to time) has been entered into in relation to the Notes between the Issuer, the Trustee, HSBC Bank Plc as principal paying agent and the other agents named in it. The principal paying agent and the other paying agents for the time being (if any) are referred to below respectively as the "Principal Paying Agent" and the "Paying Agents" (which expression shall include the Principal Paying Agent). 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 Notes and Coupons referred to below, and the Agency Agreement. Copies of the Trust Deed, the Agency Agreement and the Prospectus are available for inspection during usual business hours at the specified offices of the Paying Agents.

The Noteholders and the holders of the interest coupons (the "Coupons") (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.

### 1. Form, Denomination and Title

The Notes are issued in bearer form serially numbered, in the denominations of £100,000 and integral multiples of £1,000 in excess thereof, up to and including £199,000, each with Coupons attached on issue. Notes of one denomination may not be exchanged for Notes of any other denomination.

Title to the Notes and the Coupons shall pass by delivery. Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note or Coupon 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 its theft or loss and no person shall be liable for so treating the holder.

In these Conditions, "Noteholder" means the bearer of any Note, "holder" (in relation to a Note or Coupon) means the bearer of any Note or Coupon.

### 2. Status

The Notes and the Coupons relating to them constitute direct, general, unconditional and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all other unsecured and unsubordinated indebtedness of the Issuer present and future.

### 3. **Negative Pledge**

Save with the prior written consent of the Trustee, the Issuer shall not, so long as any Note remains outstanding, create or permit to subsist any encumbrance (unless arising by operation of law) or other security interest whatsoever over any of its assets or undertaking.

### 4. **Interest and other Calculations**

Each Note bears interest on its outstanding principal amount from 16 October 2018 (the "**Issue Date**") at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on 16 October in each year (each, an Interest Payment Date), subject as provided in Condition 6 (*Payments*).

#### (a) **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 4 (*Interest and other Calculations*) to the Relevant Date (as defined in Condition 7 (*Taxation*)).

#### (b) **Calculations:**

The amount of interest (the "**Interest Amount**") payable on each Interest Payment Date shall be £35.00 per Calculation Amount in respect of any Note or £ 47.50 per Calculation Amount in respect of any Note following a Step-up Event and for an Interest Period to which the higher rate of interest applies. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest penny (half a penny being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount.

#### (c) **Definitions:**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

**"Business Day"** means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in London.

**"Calculation Amount"** means GBP 1,000.

**"Day Count Fraction"** means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Interest Period in which the relevant period falls.

**"Interest Period"** means the period beginning on and including the Issue 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.

"**Rate of Interest**" means 3.500 per cent., *provided that* if a Step-up Event has occurred and is continuing, the Rate of Interest shall be calculated as the aggregate of 3.500 per cent. plus 1.250 per cent. from and including the Interest Payment Date immediately following the occurrence of that Step-up Event, *provided further that* the Rate of Interest shall revert to 3.500 per cent. from and including the Interest Payment Date immediately following the date on which the relevant Step-up Event ceases to be continuing, and the Rate of Interest shall not be affected by any subsequent Step-up Event thereafter.

"**Step-up Event**" means that the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Issuer or by its own volition) is withdrawn or reduced to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse), for any reason other than as a result of an event falling within paragraph (A) of the definition of Restructuring Event set out in Condition 5(d) (*Redemption at the Option of Noteholders*).

## 5. **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 at its principal amount.

### (b) **Redemption for Taxation Reasons:**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date on giving not less than 30 nor more than 60 days' notice to the Trustee and the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) at their principal amount (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 7 (*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 12 October 2018, and (ii) such obligation cannot be avoided by the 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 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 5(b) (*Redemption for Taxation Reasons*), the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate (without any further investigation) 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.

### (c) **Redemption at the Option of the Issuer:**

The Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Trustee and the Noteholders redeem all or some of the Notes on any Interest Payment

Date. Any such redemption of Notes shall be at their Early Redemption Amount together with interest accrued up to (and including) the date fixed for redemption.

For the purposes of these Conditions, "**Early Redemption Amount**" means an amount equal to the principal amount of that Note then outstanding multiplied by the higher of: (A) 1; and (B) the price expressed as a percentage and determined by an internationally recognised investment bank based in London acting as financial adviser (selected by the Issuer and notified in writing to the Trustee) at which the Gross Redemption Yield (as defined below) on such Notes on the Reference Date (as defined below) is equal to the Gross Redemption Yield at 3.00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue.

For the purposes of this Condition, "**Gross Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "Formulae for Calculating Gilt Prices from Yields" published on 8 June 1998 with effect from 1 November 1998 and updated on 16 March 2005, page 5 or any replacement therefor and, for the purposes of such calculation, the date of redemption of the Notes shall be the Maturity Date; "**Reference Date**" means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition; and "**Reference Gilt**" means the Treasury stock whose modified duration most closely matches that of the Notes on the Reference Date determined by agreement of three persons operating in the gilt-edged market (selected by the Issuer and notified in writing to the Trustee).

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 of the Notes pursuant to this Condition, such Notes to be redeemed shall be drawn by lot in London, or identified in such other manner or in such other place as the Issuer deems appropriate and fair, subject always to compliance with all applicable laws and the requirements of each listing authority, stock exchange and/or quotation system (if any) by which the Notes may have been admitted to listing, trading and/or quotation.

(d) **Redemption at the Option of Noteholders:**

(i) If, at any time while any of the Notes remain outstanding, the Issuer becomes aware of the occurrence of a Restructuring Event (as defined below), the Issuer shall promptly (and, in any event within fourteen Business Days) notify the Trustee in writing.

(ii)

(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 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 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 5(d) (*Redemption at the Option of Noteholders*) 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 5(d)(ii)(a)):
  - (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 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 Issuer shall have given notice under Condition 5(c) (*Redemption at the Option of the Issuer*), the holder of each Note will, upon the giving of a Put Event Notice (as defined below), have the option (the "**Put Option**") to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Note on the Put Date (as defined below), at its principal amount outstanding 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 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 Trustee, the Issuer and the Noteholders. The Issuer may, at any time, with the approval of the Trustee appoint an independent financial adviser for the purposes of this Condition 5(d) (*Redemption at the Option of Noteholders*). 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 Issuer shall not have appointed an independent financial adviser for the purposes of Condition 5(d)(ii)(b)(B) and (if so required by the Trustee) the Trustee is indemnified and/or prefunded and/or secured by the Issuer to its satisfaction against the costs of such adviser, the Trustee may appoint an independent financial adviser for such purpose following consultation with the Issuer.

- (iii) Promptly upon the 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 Issuer shall, give notice (a Put Event Notice) to the Noteholders in accordance with Condition 15 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Put Option.
- (iv) To exercise the Put Option, the holder of a Note must comply with the provisions of Condition 5(d) (*Redemption at the Option of Noteholders*). The applicable notice period for the purposes of Condition 5(d) (*Redemption at the Option of Noteholders*) 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 5(d) (*Redemption at the Option of Noteholders*), the Issuer shall redeem or, at the option of the 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.
- (v) For the purposes of these Conditions:
  - (a) "**Distribution Company**" means any of 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.
  - (b) "**Distribution Licence**" means an electricity distribution licence granted under section 6(1)(c) of the Electricity Act 1989 (as amended by section 30 of the Utilities Act 2000 and from time to time).
  - (c) "**Distribution Services Area**" means, in respect of any Distribution Company, the area specified as such in the relevant Distribution Licence granted to it on 1 October 2001, as of the date of such Distribution Licence.
  - (d) "**Maturity Date**" means 16 October 2026.

- (e) A "**Negative Rating Event**" shall be deemed to have occurred if (1) the 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 the 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).
- (f) 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.
- (g) "**Rating Agency**" means S&P Global Ratings Europe Limited or any of its subsidiaries and their successors ("**Standard & Poor's**") or Moody's Investors Service Ltd. 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 Issuer from time to time with the prior written approval of the Trustee.
- (h) 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 (or any other rating provided by a rating agency at the invitation of the 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.
- (i) "**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 the Issuer having an initial maturity of five years or more which is rated by a rating agency;
- (j) "**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 any of the Distribution Companies a written notice of any revocation of its Distribution Licence; or
    - (ii) any of the Distribution Companies 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 any of the Distribution Companies;

except, in each such case, in circumstances where a licence or licences on substantially no less favourable terms is or are granted to the Issuer or a wholly-owned subsidiary of the Issuer; or

(B) any modification (other than a modification which is of a formal, minor or technical nature or to correct a manifest error) being made to the terms and conditions upon which a Distribution Company is authorised and empowered under relevant legislation to distribute electricity in the Distribution Services Area unless two directors of such Distribution Company have certified to the Trustee that the modified terms and conditions are not materially less favourable to the business of that Distribution Company; or

(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 or to correct a manifest error) 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 each Distribution Company have certified in good faith to the Trustee that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of such Distribution Company; or

(D) the Issuer ceases to be a direct or indirect subsidiary of PPL Corporation.

(k) **"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 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 Trustee in respect of that Restructuring Event.

(l) 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 5(d) (*Redemption at the Option of Noteholders*), does not announce or publicly confirm or inform the 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 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 Issuer shall notify the Trustee immediately upon receipt of any such confirmation from the relevant Rating Agency.

(e) **Redemption on disposal of a Distribution Company:**

If a Disposal Event (as defined below) occurs, the Issuer shall, on giving not less than 15 nor more than 30 days' irrevocable notice to the Trustee and the Noteholders redeem all of the Notes. Any such redemption of the Notes shall be at the Early Redemption Amount together with interest accrued up to (and including) the date fixed for redemption.

For the purposes of these Conditions:

- (i) **"Disposal"** means the Issuer ceasing directly or indirectly to:
  - (A) own more than 51 per cent. of the economic rights of any Distribution Company;
  - (B) have the right to cast more than 51 per cent. of the votes capable of being cast in general meetings of any Distribution Company; or
  - (C) have the ability to determine the composition of the majority of the board of directors or equivalent body of any Distribution Company.
- (ii) **"Disposal Event"** means the occurrence of (i) a Disposal and (ii) during the Disposal Period, a Rating Downgrade.
- (iii) **"Disposal Period"** means the period of 90 days starting from and including the day on which that Disposal occurs.
- (iv) A **"Rating Downgrade"** shall be deemed to have occurred in respect of a Disposal if the then current rating assigned to the Notes by any Rating Agency (or any other rating provided by a rating agency at the invitation of the 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+/Ba1), or their respective equivalents for the time being, or worse) or, if the rating agency shall then have already rated the

Notes below investment grade (as described above), the rating is lowered one full rating category or more.

**(f) Purchases:**

The Issuer or its subsidiaries may at any time purchase Notes (provided that all unmatured Coupons are attached thereto or surrendered therewith) in the open market or otherwise at any price.

**(g) Cancellation:**

All Notes purchased by or on behalf of the Issuer or its subsidiaries may be surrendered for cancellation by surrendering each such Note together with all unmatured Coupons to the Principal Paying Agent and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

**6. Payments**

Payments of principal and interest in respect of the Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 6(c)(ii) (*Unmatured Coupons*)) or Coupons (in the case of interest, save as specified in Condition 6(c)(ii) (*Unmatured Coupons*)), as the case may be, at the specified office of any Paying Agent outside the United States by a transfer to an account denominated in such currency with, a bank in London.

**(a) Payments subject to Fiscal Laws:**

All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 7 (*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 7 (*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.

**(b) Appointment of Agents:**

The Principal Paying Agent and the Paying Agents initially appointed by the Issuer are listed in the Agency Agreement. The Principal Paying Agent and the Paying Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent or any other Paying Agent and to appoint additional or other Paying Agents provided that the Issuer shall at all times maintain (i) a Principal Paying Agent and (ii) 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 Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(c) **Unmatured Coupons:**

- (i) Upon the due date for redemption of the Notes, the Notes should be surrendered for payment together with all unmaturred Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmaturred Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturred Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the principal amount outstanding or Early 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 8 (*Prescription*)).
- (ii) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding Interest Payment Date or the Issue Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Note.

(d) **Non-Business Days:**

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 London.

7. **Taxation**

All payments of principal and interest by or on behalf of the 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 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 reasonable written request of the Issuer or the Principal Paying Agent or any other Paying Agent addressed to the Noteholders and made at least 30 days before any such deduction or withholding would be payable to comply with any statutory requirements or make or procure 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 Coupon is presented for payment; or

(c) **Presentation more than 30 days after the Relevant Date:**

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 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 Early Redemption Amounts, and all other amounts in the nature of principal payable pursuant to Condition 5 (*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 4 (*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.

8. **Prescription**

Claims against the Issuer for payment in respect of the Notes and Coupons 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.

9. **Events of Default**

If any of the following events ("**Events of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution and if indemnified and/or prefunded and/or secured to its satisfaction shall, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their outstanding principal 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 Issuer, having become obliged to redeem, purchase or procure the purchase of (as the case may be) any Notes pursuant to Condition 5 (*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 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 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 next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

**(iii) Cross-default and Cross-acceleration:**

if (A) any indebtedness of the Issuer or any Distribution Company becomes due and repayable prior to its stated maturity by reason of a default or (B) any such indebtedness of the Issuer is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (C) the Issuer 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 of any person, provided that the aggregate amount of the relevant indebtedness in respect of which any one or more of the events mentioned above in this paragraph (iii) has or have occurred equals or exceeds £20,000,000;

For the purposes of these Conditions:

"**indebtedness**" 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.

**(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 Issuer and is not discharged or stayed within 90 days; or

**(v) Insolvency:**

the 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 Issuer; or

**(vi) Winding-up:**

(A) an administrator or liquidator is appointed in relation to the 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 Issuer, or (C) the Issuer shall apply or petition for a winding-up or administration order in respect of itself or (D) the 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 Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or

(vii) **Nationalisation:**

any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer; or

(viii) **Illegality:**

it is or will become unlawful for the 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 Trustee shall have certified (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders.

10. **Meetings of Noteholders, Modification, Waiver and Substitution**

(a) **Meetings of Noteholders:**

The Trust Deed contains provisions for convening meetings of Noteholders 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 aggregate principal amount of the 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 not less than 50 per cent. in aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the aggregate principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals:

- (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 principal amount of, or any premium payable on redemption of, the Notes;
- (iii) to reduce the rate or rates or amount 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) to vary any method of, or basis for, calculating the Early Redemption Amount;
- (v) to vary the currency or currencies of payment or denomination of the Notes;
- (vi) 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 Issuer, whether or not those rights arise under the Trust Deed;
- (vii) to amend the definition of Reserved Matter; or

- (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution,

(each a "Reserved Matter")

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 aggregate principal amount of the 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 principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting 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 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, or (ii) if in the opinion of the Trustee the interests of the Noteholders will not be materially prejudiced thereby, to any other modification (except in relation to a Reserved Matter), 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 Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Substitution:**

The Trust Deed contains provisions for the substitution of the Issuer. The Trustee may agree, subject to the execution of a deed or undertaking supplemental to the Trust Deed in form and manner satisfactory to the Trustee and such other conditions as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business in place of the 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 Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Coupons, and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee:**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the 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 Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any

indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

**11. Enforcement**

At any time after the occurrence of an Event of Default which is continuing, and, in the case of paragraph (ii) of Condition 9 (*Events of Default*) where the Trustee has certified (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders, the Trustee may, at its discretion and without further notice, institute such proceedings against the 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 principal 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 Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

**12. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The 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 Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The 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 Issuer, the Trustee and the Noteholders.

**13. Replacement of Notes and Coupons**

If a Note or Coupon 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 Principal Paying Agent in London or such other Paying Agent as the case may be, as may from time to time be designated by the 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 or Coupon is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes or Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

**14. Further Issues**

The 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 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 Trustee so decides.

**15. Notices**

Notices to the holders of 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 sole opinion of the 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 Notes in accordance with this Condition.

**16. 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.

**17. Governing Law and Jurisdiction**

**(a) Governing Law:**

The Trust Deed, the Notes and the Coupons 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 or Coupons and accordingly any legal action or proceedings arising out of or in connection with any Notes or Coupons may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.



**PART C**  
**FORM OF ORIGINAL COUPON**

*[On the face of the Coupon:]*

**WESTERN POWER DISTRIBUTION PLC**  
**£350,000,000 3.500 per cent. Notes due October 2026**

Coupon for £*[amount of interest payment]* due on [*•*].

Such amount is payable, subject to the terms and conditions (the "**Conditions**") endorsed on the Note to which this Coupon relates (which are binding on the holder of this Coupon whether or not it is for the time being attached to such Note), against presentation and surrender of this Coupon at the specified office for the time being of any of the agents shown on the reverse of this Coupon (or any successor or additional agents appointed from time to time in accordance with the Conditions).

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.

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*[On the reverse of the Coupon:]*

**Principal Paying Agent:** HSBC Bank Plc, 8 Canada Square, London E14 5HQ.

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**SCHEDULE 3**  
**PROVISIONS FOR MEETINGS OF NOTEHOLDERS**

**1. Definitions**

In this Trust Deed and the Conditions, the following expressions have the following meanings:

**"Block Voting Instruction"** means, in relation to any Meeting, a document in the English language issued by a Paying Agent:

- (a) certifying that certain specified Notes (each a **"Deposited Note"**) have been deposited with such Paying Agent (or to its order at a bank or other depository) or blocked in an account with a clearing system and will not be released until the earlier of:
  - (i) the conclusion of the Meeting; and
  - (ii) the surrender to such Paying Agent, not less than 48 hours before the time fixed for the Meeting (or, if the Meeting has been adjourned, the time fixed for its resumption), of the receipt for the deposited or blocked Notes and notification thereof by such Paying Agent to the Issuer and the Trustee; and
- (b) certifying that the depositor of each Deposited Note or a duly authorised person on its behalf has instructed the relevant Paying Agent that the votes attributable to such Deposited Note are to be cast in a particular way on each resolution to be put to the Meeting and that, during the period of 48 hours before the time fixed for the Meeting, such instructions may not be amended or revoked;
- (c) listing the total number and (if in definitive form) the certificate numbers of the Deposited Notes, distinguishing for each resolution between those in respect of which instructions have been given to vote for, or against, the resolution; and
- (d) authorising a named individual or individuals to vote in respect of the Deposited Notes in accordance with such instructions;

**"Chairman"** means, in relation to any Meeting, the individual who takes the chair in accordance with paragraph 7 (*Chairman*);

**"Extraordinary Resolution"** means a resolution passed at a Meeting duly convened and held in accordance with this Schedule by a majority of not less than three quarters of the votes cast;

**"Meeting"** means a meeting of Noteholders (whether originally convened or resumed following an adjournment);

**"Proxy"** means, in relation to any Meeting, a person appointed to vote under a Block Voting Instruction other than:

- (a) any such person whose appointment has been revoked and in relation to whom the relevant Paying Agent has been notified in writing of such revocation by the time which is 48 hours before the time fixed for such Meeting; and
- (b) any such person appointed to vote at a Meeting which has been adjourned for want of a quorum and who has not been re-appointed to vote at the Meeting when it is resumed;

**"Relevant Fraction"** means:

- (a) for all business other than voting on an Extraordinary Resolution, one tenth;
- (b) for voting on any Extraordinary Resolution other than one relating to a Reserved Matter, half; and
- (c) for voting on any Extraordinary Resolution relating to a Reserved Matter, three quarters;

*provided, however, that*, in the case of a Meeting which has resumed after adjournment for want of a quorum, it means:

- (i) for all business other than voting on an Extraordinary Resolution relating to a Reserved Matter, any proportion of the Notes which such Voters represent; and
- (ii) for voting on any Extraordinary Resolution relating to a Reserved Matter, one quarter;

**"Reserved Matter"** means any proposal:

- (a) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes;
- (b) to reduce or cancel the principal amount of, or any premium payable on redemption of, the Notes;
- (c) to reduce the rate or rates or amount 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;
- (d) to vary any method of, or basis for, calculating the Early Redemption Amount;
- (e) to vary the currency or currencies of payment or denomination of the Notes;
- (f) 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 Issuer, whether or not those rights arise under this Trust Deed;
- (g) to amend this definition; or
- (h) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution;

**"Voter"** means, in relation to any Meeting, the bearer of a Voting Certificate, a Proxy or the bearer of a definitive Note who produces such definitive Note at the Meeting;

**"Voting Certificate"** means, in relation to any Meeting, a certificate in the English language issued by a Paying Agent and dated in which it is stated:

- (a) that certain specified Notes (the **"Deposited Notes"**) have been deposited with such Paying Agent (or to its order at a bank or other depositary) or blocked in an account with a clearing system and will not be released until the earlier of:

- (i) the conclusion of the Meeting; and
  - (ii) the surrender of such certificate to such Paying Agent; and
- (b) that the bearer of such certificate is entitled to attend and vote at the Meeting in respect of the Deposited Notes;

**"Written Resolution"** means a resolution in writing signed by or on behalf of 75 per cent. of holders of Notes who for the time being are entitled to receive notice of a Meeting in accordance with the provisions of this Schedule, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of the Notes;

**"24 hours"** means a period of 24 hours including all or part of a day (disregarding for this purpose the day upon which such Meeting is to be held) upon which banks are open for business in both the place where the relevant Meeting is to be held and in each of the places where the Paying Agents have their Specified Offices and such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of a day upon which banks are open for business as aforesaid; and

**"48 hours"** means 2 consecutive periods of 24 hours.

## 2. Issue of Voting Certificates and Block Voting Instructions

The holder of a Note may obtain a Voting Certificate from any Paying Agent or require any Paying Agent to issue a Block Voting Instruction by depositing such Note with such Paying Agent or arranging for such Note to be (to its satisfaction) held to its order or under its control or blocked in an account with a clearing system not later than 48 hours before the time fixed for the relevant Meeting. A Voting Certificate or Block Voting Instruction shall be valid until the release of the deposited Notes to which it relates. So long as a Voting Certificate or Block Voting Instruction is valid, the bearer thereof (in the case of a Voting Certificate) or any Proxy named therein (in the case of a Block Voting Instruction) shall be deemed to be the holder of the Notes to which it relates for all purposes in connection with the Meeting. A Voting Certificate and a Block Voting Instruction cannot be outstanding simultaneously in respect of the same Note.

## 3. References to deposit/release of Notes

Where Notes are within Euroclear or Clearstream, Luxembourg or any other clearing system, references to the deposit, or release, of Notes shall be construed in accordance with the usual practices (including blocking the relevant account) of Euroclear or Clearstream, Luxembourg or such other clearing system.

## 4. Validity of Block Voting Instructions

Block Voting Instruction shall be valid only if deposited at the Specified Office of the relevant Paying Agent or at some other place approved by the Trustee, at least 24 hours before the time fixed for the relevant Meeting or the Chairman decides otherwise before the Meeting proceeds to business. If the Trustee requires, a notarised copy of each Block Voting Instruction and satisfactory proof of the identity of each Proxy named therein shall be produced at the Meeting, but the Trustee shall not be obliged to investigate the validity of any Block Voting Instruction or the authority of any Proxy.

**5. Convening of Meeting**

The Issuer or the Trustee may convene a Meeting at any time, and the Trustee shall be obliged to do so subject to its being indemnified and/or secured and/or pre-funded to its satisfaction upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. Every Meeting shall be held on a date, and at a time and place, approved by the Trustee.

**6. Notice**

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the relevant Meeting is to be held) specifying the date, time and place of the Meeting shall be given to the Noteholders and the Paying Agents (with a copy to the Issuer) where the Meeting is convened by the Trustee or, where the Meeting is convened by the Issuer, the Trustee. The notice shall set out the full text of any resolutions to be proposed unless the Trustee agrees that the notice shall instead specify the nature of the resolutions without including the full text and shall state that the Notes may be deposited with, or to the order of, any Paying Agent for the purpose of obtaining Voting Certificates or appointing Proxies not later than 48 hours before the time fixed for the Meeting.

**7. Chairman**

An individual (who may, but need not, be a Noteholder) nominated in writing by the Trustee may take the chair at any Meeting but, if no such nomination is made or if the individual nominated is not present within 15 minutes after the time fixed for the Meeting, those present shall elect one of themselves to take the chair failing which, the Issuer may appoint a Chairman. The Chairman of an adjourned Meeting need not be the same person as was the Chairman of the original Meeting.

**8. Quorum**

The quorum at any Meeting shall be at least two Voters representing or holding not less than the Relevant Fraction of the aggregate principal amount of the outstanding Notes; *provided, however, that*, so long as at least the Relevant Fraction of the aggregate principal amount of the outstanding Notes is represented by the Temporary Global Note and the Permanent Global Note a single Voter appointed in relation thereto or being the holder of the Notes represented thereby shall be deemed to be two Voters for the purpose of forming a quorum.

**9. Adjournment for want of quorum**

If within 15 minutes after the time fixed for any Meeting a quorum is not present, then:

- (a) in the case of a Meeting requested by Noteholders, it shall be dissolved; and
- (b) in the case of any other Meeting (unless the Issuer and the Trustee otherwise agree), it shall be adjourned for such period (which shall be not less than 14 days and not more than 42 days) and to such place as the Chairman determines (with the approval of the Trustee); *provided, however, that*:
  - (i) the Meeting shall be dissolved if the Issuer and the Trustee together so decide; and
  - (ii) no Meeting may be adjourned more than once for want of a quorum.



## 10. **Adjourned Meeting**

The Chairman may, with the consent of, and shall if directed by, any Meeting adjourn such Meeting from time to time and from place to place, but no business shall be transacted at any adjourned Meeting except business which might lawfully have been transacted at the Meeting from which the adjournment took place.

## 11. **Notice following adjournment**

Paragraph 6 (*Notice*) shall apply to any Meeting which is to be resumed after adjournment for want of a quorum save that:

- (a) 10 days' notice (exclusive of the day on which the notice is given and of the day on which the Meeting is to be resumed) shall be sufficient; and
- (b) the notice shall specifically set out the quorum requirements which will apply when the Meeting resumes.

It shall not be necessary to give notice of the resumption of a Meeting which has been adjourned for any other reason.

## 12. **Participation**

The following may attend and speak at a Meeting:

- (a) Voters;
- (b) representatives of the Issuer and the Trustee;
- (c) the financial advisers of the Issuer and the Trustee;
- (d) the legal counsel to the Issuer and the Trustee and such advisers;
- (e) the representatives of the Principal Paying Agent and the legal counsel to the Principal Paying Agent; and
- (f) any other person approved by the Meeting or the Trustee.

## 13. **Show of hands**

Every question submitted to a Meeting shall be decided in the first instance by a show of hands. Unless a poll is validly demanded before or at the time that the result is declared, the Chairman's declaration that on a show of hands a resolution has been passed, passed by a particular majority, rejected or rejected by a particular majority shall be conclusive, without proof of the number of votes cast for, or against, the resolution. Where there is only one Voter, this paragraph shall not apply and the resolution will immediately be decided by means of a poll.

## 14. **Poll**

A demand for a poll shall be valid if it is made by the Chairman, the Issuer, the Trustee or one or more Voters representing or holding not less than one fiftieth of the aggregate principal amount of the outstanding Notes. The poll may be taken immediately or after such adjournment as the Chairman directs, but any poll demanded on the election of the Chairman or on any question of

adjournment shall be taken at the Meeting without adjournment. A valid demand for a poll shall not prevent the continuation of the relevant Meeting for any other business as the Chairman directs.

#### 15. **Votes**

Every Voter shall have:

- (a) on a show of hands, one vote; and
- (b) on a poll, one vote in respect of each £1,000 in aggregate face amount of the outstanding Note(s) represented or held by him.

Unless the terms of any Block Voting Instruction state otherwise, a Voter shall not be obliged to exercise all the votes to which he is entitled or to cast all the votes which he exercises in the same way. In the case of a voting tie the Chairman shall have a casting vote.

#### 16. **Validity of Votes by Proxies**

Any vote by a Proxy in accordance with the relevant Block Voting Instruction shall be valid even if such Block Voting Instruction or any instruction pursuant to which it was given has been amended or revoked, provided that neither the Issuer, the Trustee nor the Chairman has been notified in writing of such amendment or revocation by the time which is 24 hours before the time fixed for the relevant Meeting. Unless revoked, any appointment of a Proxy under a Block Voting Instruction in relation to a Meeting shall remain in force in relation to any resumption of such Meeting following an adjournment; *provided, however, that* no such appointment of a Proxy in relation to a Meeting originally convened which has been adjourned for want of a quorum shall remain in force in relation to such Meeting when it is resumed. Any person appointed to vote at such a Meeting must be re-appointed under a Block Voting Instruction to vote at the Meeting when it is resumed.

#### 17. **Powers**

A Meeting shall have power (exercisable only by Extraordinary Resolution), without prejudice to any other powers conferred on it or any other person:

- (a) to approve any Reserved Matter;
- (b) to approve any proposal by the Issuer for any modification, abrogation, variation or compromise of any provisions of this Trust Deed or the Conditions or any arrangement in respect of the obligations of the Issuer under or in respect of the Notes;
- (c) (other than as permitted under Clause 6.3 of this Trust Deed) to approve the substitution of any person for the Issuer (or any previous substitute) as principal obligor under the Notes;
- (d) to waive any breach or authorise any proposed breach by the Issuer of its obligations under or in respect of this Trust Deed or the Notes or any act or omission which might otherwise constitute an Event of Default under the Notes;
- (e) to remove any Trustee;
- (f) to approve the appointment of a new Trustee;

- (g) to authorise the Trustee (subject to its being indemnified and/or secured and/or pre-funded to its satisfaction) or any other person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;
- (h) to discharge or exonerate the Trustee from any liability in respect of any act or omission for which it may become responsible under this Trust Deed or the Notes;
- (i) to give any other authorisation or approval which under this Trust Deed or the Notes is required to be given by Extraordinary Resolution; and
- (j) to appoint any persons as a committee to represent the interests of the Noteholders and to confer upon such committee any powers which the Noteholders could themselves exercise by Extraordinary Resolution.

**18. Extraordinary Resolution binds all holders**

An Extraordinary Resolution shall be binding upon all Noteholders and Couponholders, whether or not present at such Meeting, and each of the Noteholders shall be bound to give effect to it accordingly. Notice of the result of every vote on an Extraordinary Resolution shall be given to the Noteholders and the Paying Agents (with a copy to the Issuer and the Trustee) within 14 days of the conclusion of the Meeting.

**19. Minutes**

Minutes of all resolutions and proceedings at each Meeting shall be made. The Chairman shall sign the minutes, which shall be *prima facie* evidence of the proceedings recorded therein. Unless and until the contrary is proved, every such Meeting in respect of the proceedings of which minutes have been summarised 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.

**20. Written Resolution**

A Written Resolution shall take effect as if it were an Extraordinary Resolution.

**21. Further regulations**

Subject to all other provisions contained in this Trust Deed, the Trustee may without the consent of the Issuer or the Noteholders prescribe such further regulations regarding the holding of Meetings of Noteholders and attendance and voting at them as the Trustee may in its sole discretion determine.

**22. Several series**

The following provisions shall apply where outstanding Notes belong to more than one series:

- (a) Business which in the opinion of the Trustee affects the Notes of only one series shall be transacted at a separate Meeting of the holders of the Notes of that series.
- (b) Business which in the opinion of the Trustee affects the Notes of more than one series but does not give rise to an actual or potential conflict of interest between the holder of Notes of one such series and the holders of Notes of any other such series shall be transacted either at separate Meetings of the holders of the Notes of each such series or

at a single Meeting of the holders of the Notes of all such Series, as the Trustee shall in its absolute discretion determine.

- (c) Business which in the opinion of the Trustee affects the Notes of more than one series and gives rise to an actual or potential conflict of interest between the holders of Notes of one such series and the holders of Notes of any other such series shall be transacted at separate Meetings of the holders of the Notes of each such series.
  - (d) The preceding paragraphs of this Schedule shall be applied as if references to the Notes and Noteholders were to the Notes of the relevant series and to the holders of such Notes.
  - (e) In this paragraph, "**business**" includes (without limitation) the passing or rejection of any resolution.
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**Signatories**

**WESTERN POWER DISTRIBUTION PLC**

EXECUTED as a deed by )  
WESTERN POWER )  
DISTRIBUTION PLC )  
Acting by ) /s/ Ian Williams  
and ) Director

/s/ Julie Hunt  
Witness attesting to Director's signature

**HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED**

Signed as a deed by /s/ Simon Lazarus Simon Lazarus as authorised signatory for HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED in the presence of:

\_\_\_\_\_

/s/ Vivian Cole \_\_\_\_\_ Signature of witness

Vivian Cole \_\_\_\_\_ Name of witness

HSBC Bank plc \_\_\_\_\_ Address of witness

8 Canada Square \_\_\_\_\_

London E14 5HQ \_\_\_\_\_

Transaction Manager \_\_\_\_\_ Occupation of witness

**PPL CORPORATION**

**INCENTIVE COMPENSATION PLAN  
FOR KEY EMPLOYEES**

**ADOPTED JANUARY 1, 1997  
Amended and Restated Effective October 25, 2018**

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**PPL CORPORATION  
INCENTIVE COMPENSATION PLAN  
FOR KEY EMPLOYEES**

**EFFECTIVE AUGUST 1, 2013**

**TABLE OF CONTENTS**

<b>SECTION</b>		<b>PAGE</b>
1	Purpose	I-1
2	Definitions	II-1
	(a) Absolute Share Limit	II-1
	(b) Affiliated Company or Affiliated Companies	II-1
	(c) Award	II-1
	(d) Beneficiary	II-1
	(e) Board	II-1
	(f) Cause	II-1
	(g) Change in Control	II-2
	(h) CLC	II-4
	(i) Code	II-4
	(j) Common Stock	II-4
	(k) Date of Grant	II-4
	(l) Disability or Disabled	II-4
	(m) Dividend Equivalents	II-5
	(n) Eligible Employee	II-5
	(o) Exchange Act	II-5
	(p) Fair Market Value	II-5
	(q) Good Reason	II-6
	(r) Key Employee	II-9
	(s) Minimum Vesting Requirement	II-9
	(t) Option or Stock Option	II-10
	(u) Other Stock-Based Awards	II-10
	(v) Participant	II-10
	(w) Person	II-10
	(x) Plan	II-10
	(y) Potential Change in Control	II-10
	(z) PPL	II-11
	(aa) PPL Corporation	II-11
	(bb) Restricted Stock	II-11
	(cc) Restricted Stock Unit	II-11

	(dd)	Restriction Period	II-11
	(ee)	Retirement	II-11
	(ff)	Termination	II-12
3		Effective Date and Duration	III-1
4		Administration of the Plan	IV-1
5		Grant of Awards and Limitation of Number of Shares Awarded	V-1
6		Eligibility	VI-1
7		Restricted Stock and Restricted Stock Units	VII-1
8		Stock Options	VIII-1
9		Amendment of the Plan	IX-1
10		Miscellaneous Provisions	X-1
11		Other Stock-Based Awards	XI-1

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**PPL CORPORATION**  
**INCENTIVE COMPENSATION PLAN**  
**FOR KEY EMPLOYEES**

**SECTION 1. PURPOSE.**

The purpose of the Incentive Compensation Plan for Key Employees (the "Plan") is to provide a method whereby key employees of PPL Corporation, PPL Electric Utilities Corporation and other Affiliated Companies may be awarded additional remuneration in a manner which increases their ownership interest, aligns their interest with that of shareowners and encourages them to remain in the employ of PPL Corporation or an Affiliated Company.

**SECTION 2. DEFINITIONS.**

The following definitions are applicable to the Plan:

(a) "**Absolute Share Limit**" means 5% of the outstanding Common Stock of PPL Corporation as of January 1, 2003.

(b) "**Affiliated Company**" or "**Affiliated Companies**" shall mean any parent or subsidiaries of PPL Corporation (or companies under common control with PPL Corporation) which are members of the same controlled group of corporations (within the meaning of section 1563(a) of the Code) as PPL Corporation or are companies under common control with PPL Corporation (within the meaning of Section 414(c) of the Code).

(c) "**Award**" means, individually or collectively, Options, Restricted Stock, Restricted Stock Units, or Other Stock-Based Awards granted hereunder.

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(d) "**Beneficiary**" means the beneficiary to be paid Common Stock or Dividend Equivalents, or to whom an Option is to be transferred, on the death of a Participant. The Participant may designate a Beneficiary in writing by filing a beneficiary form with the Administrator. An alternate Beneficiary may also be named. The last form on file with the Administrator shall control. If no Beneficiary or alternate Beneficiary is designated, or if they have predeceased the Participant, then the Beneficiary shall be the participant's estate.

(e) "**Board**" means the Board of Directors of PPL Corporation.

(f) "**Cause**" for termination by PPL Corporation or an Affiliated Company of a Participant's employment means (i) the willful and continued failure by Participant to substantially perform Participant's duties with PPL Corporation or an Affiliated Company (other than any such failure resulting from Participant's incapacity due to physical or mental illness or, if applicable, any such actual or anticipated failure after the issuance of any "Notice of Termination for Good Reason" by the Participant pursuant to any severance agreement between Participant and PPL Corporation or an Affiliated Company) after a written demand for substantial performance is delivered to Participant by the Board, which demand specifically identifies the manner in which the Board believes that Participant has not substantially performed Participant's duties, or (ii) the willful engaging by Participant in conduct which is demonstrably and materially injurious to PPL Corporation or an Affiliated Company, monetarily or otherwise. For purposes of clauses (i) and (ii) of this definition, (x) no act or failure to act, on Participant's part shall be deemed "willful" unless done, or omitted to be done, by Participant not in good faith and without reasonable belief that Participant's act, or failure to act, was in the best interest of PPL Corporation or an Affiliated

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Company and (y) in the event of a dispute concerning the application of this provision, no claim by PPL Corporation or an Affiliated Company that Cause exists shall be given effect unless PPL Corporation or the Affiliated Company establishes to the Board by clear and convincing evidence that Cause exists.

If at the time of determination, a Participant is employed by an Affiliated Company, for purposes of this definition, the board of directors of such Affiliated Company shall be substituted for the Board.

(g) "**Change in Control**" means the occurrence of any one of the following events: (i) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board of Directors of PPL Corporation and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of PPL Corporation) whose appointment or election by the Board of Directors of PPL Corporation or nomination for election by PPL Corporation's shareowners was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; (ii) any Person becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of PPL Corporation representing 20% or more of the combined voting power of PPL Corporation's then outstanding securities entitled to vote generally in the election of directors; (iii) there is consummated a merger or consolidation of PPL Corporation or any direct or indirect subsidiary of PPL Corporation with any other

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corporation or other entity, other than (A) a merger or consolidation which would result in the voting securities of PPL Corporation outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of PPL Corporation or any subsidiary of PPL Corporation, at least 60% of the combined voting power of the securities of PPL Corporation or at least 60% of the combined voting power of the securities of such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of PPL Corporation (or similar transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of securities of PPL Corporation (excluding in the securities beneficially owned by such Person any securities acquired directly from PPL Corporation or its Affiliates) representing 20% or more of the combined voting power of PPL Corporation's then outstanding securities; (iv) the shareowners of PPL Corporation approve a plan of complete liquidation or dissolution of PPL Corporation; or (v) the Board of Directors of PPL Corporation adopts a resolution to the effect that a "Change in Control" has occurred or is anticipated to occur.

(h) "**CLC**" means the Corporate Leadership Council of PPL Corporation or the successor senior management body responsible for setting policy for PPL Corporation.

(i) "**Code**" means the Internal Revenue Code of 1986, as may be amended from time to time. Reference in this Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations promulgated thereunder.

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(j) "**Common Stock**" means the common stock of PPL Corporation.

(k) "**Date of Grant**" means the date on which the granting of an Award is authorized by CLC or such later date as may be specified by CLC in such authorization.

(l) "**Disability**" or "**Disabled**" means the inability of the Participant to perform each and every duty pertaining to the Participant's regular occupation by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than six months.

(m) "**Dividend Equivalents**" means cash compensation paid to a Participant who has received an Award of Restricted Stock Units or Options, generally to be paid in the same amount and at the same time as dividends would be paid if the Participant actually owned the number of shares of Common Stock represented by such Restricted Stock Units or underlying such Options, as applicable. CLC shall have the discretion to adjust the value of Dividend Equivalents, to reflect changes in law or dividend paying practices of PPL Corporation. CLC shall also have discretion to award Dividend Equivalents to a Participant who has received Restricted Stock, to reflect changes in law or dividend paying practices of PPL Corporation.

(n) "**Eligible Employee**" means any person employed by PPL Corporation, or an Affiliated Company, on a regularly scheduled basis, during any portion of a period for which an Award can be made and who satisfies all of the requirements of Section 6 effective July 1, 2000.

(o) "**Exchange Act**" means the Securities Exchange Act of 1934, or amended from time to time.

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(p) "**Fair Market Value**" means the closing sale price of the Common Stock as reflected in the New York Stock Exchange Composite Transactions on the date as of which Fair Market Value is being determined or, if no Common Stock is traded on the date as of which Fair Market Value is being determined, Fair Market Value shall be the closing price of the Common Stock as reflected in the New York Stock Exchange Composite Transactions on the next preceding day on which the Common Stock was traded.

(q) "**Good Reason**" for termination of Participant's employment with PPL Corporation or an Affiliated Company by such Participant means the occurrence (without Participant's express written consent) after a Change in Control or after a Potential Change in Control (treating all references to a "Change in Control" in clauses (i) through (vii), below, as including references to a "Potential Change in Control" to the extent appropriate ), of any one of the following acts, or failures to act, by PPL Corporation or an Affiliated Company:

(i) the assignment to Participant of any duties inconsistent with Participant's status as an executive officer or key employee of PPL Corporation or an Affiliated Company or a substantial adverse alteration in the nature or status of Participant's responsibilities from those in effect immediately prior to a Change in Control;

(ii) a reduction by PPL Corporation or an Affiliated Company of Participant's annual base salary as in effect immediately prior to date the Change of Control or Potential Change of Control occurs or as the same may be increased from time to time, except that across-the-board decreases uniformly affecting management, key employees and salaried employees of PPL Corporation or an Affiliated Company, or

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the business unit in which Participant is then employed shall not be treated as Good Reason;

(iii) the relocation of Participant's principal work location to a location more than 30 miles from such work location immediately prior to a Change in Control, or PPL Corporation's or an Affiliated Company's requiring the Participant to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on PPL Corporation's or an Affiliated Company's business to an extent substantially consistent with the Participant's present business travel obligations as in effect immediately prior to the Change in Control;

(iv) the failure by PPL Corporation or an Affiliated Company to pay to Participant any portion of Participant's current compensation or to pay to Participant any portion of an installment of deferred compensation under any deferred compensation program of PPL Corporation or an Affiliated Company, within seven (7) days of the date such compensation is due except for across-the-board compensation deferrals uniformly affecting management, key employees and salaried employees of PPL Corporation or an Affiliated Company, or the business unit in which Participant is then employed;

(v) the failure by PPL Corporation or an Affiliated Company to continue in effect any compensation or benefit plan in which Participant participates immediately prior to a Change in Control which is material to Participant's total compensation, or any substitute plans adopted prior to a Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by PPL Corporation or Affiliated Company

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to continue Participant's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of Participant's participation relative to other participants, as existed immediately prior to the Change in Control, or

(vi) the failure by PPL Corporation or an Affiliated Company to continue to provide Participant with benefits substantially similar to those enjoyed by Participant under any of PPL Corporation's or an Affiliated Company's pension, retirement, savings, life insurance, medical, health and accident, or disability plans in which Participant was participating immediately prior to a Change in Control, except for across-the-board changes to any such plans uniformly affecting all participants in such plans, the taking of any action by PPL Corporation or an Affiliated Company which would directly or indirectly materially reduce any of such benefits or deprive Participant of any material fringe benefit enjoyed by Participant immediately prior to a Change in Control, or the failure by PPL Corporation or an Affiliated Company to provide Participant with the number of paid vacation days to which Participant is entitled on the basis of years of service with PPL Corporation or an Affiliated Company in accordance with PPL Corporation's or an Affiliated Company's normal vacation policy in effect at the time of the Change in Control.

(vii) any purported termination of the Participant's employment which is not effected in the manner required by any severance agreement between the Participant and PPL Corporation or an Affiliated Company.

Participant's right to terminate his or her employment with PPL Corporation or an Affiliated Company for Good Reason shall not be affected by Participant's

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incapacity due to physical or mental illness. Participant's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

For purposes of any determination regarding the existence of Good Reason, any claim by the Participant that Good Reason exists shall be presumed correct unless PPL Corporation or an Affiliated Company establishes to the Board by clear and convincing evidence that Good Reason does not exist. If at the time of any such determination, the Participant is employed by an Affiliated Company, such determination shall be made by the board of directors of such Affiliated Company, rather than the Board.

(r) **"Key Employee"** means an Eligible Employee who in the opinion of CLC, has responsibility for the continued growth, development and financial success of PPL Corporation or its Affiliated Companies.

(s) **"Minimum Vesting Requirement"** means the requirement, with respect to any Award, that vesting of any portion or tranche of such Award does not occur any more rapidly than on the first anniversary of the grant date for such Award (or the date of commencement of employment or service, in the case of a grant made in connection with a Participant's commencement of employment or service), or such later date as provided under this Plan with respect to certain Awards, other than (i) in connection with a Change in Control or (ii) as a result of a Participant's death, Retirement or Disability; *provided*, that such Minimum Vesting Requirement will not be required on Awards covering, in the aggregate, a number of shares of Common Stock not to exceed 5% of the Absolute Share Limit. The Minimum Vesting Requirement will not prevent the CLC from accelerating the vesting of any Award in accordance with any of the provisions set forth in this Plan.

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(t) **"Option"** or **"Stock Option"** means a nonqualified stock option granted under Section 8 with respect to Common Stock.

(u) **"Other Stock-Based Awards"** means an award granted under section 11.

(v) **"Participant"** means a Key Employee who has been granted an Award under the Plan.

(w) **"Person"** shall have the meaning given in section 3(a)(9) of the Exchange Act, as modified and used in sections 13(d) and 14(d) thereof; provided, however, a Person shall not include (i) PPL Corporation or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of PPL Corporation or any of its subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of PPL Corporation in substantially the same proportions as their ownership of stock of PPL Corporation.

(x) **"Plan"** means the PPL Corporation Incentive Compensation Plan for Key Employees, as amended (prior to February 14, 2000, the PP&L Resources Incentive Compensation Plan for Key Employees).

(y) **"Potential Change in Control"** means the occurrence of any one of the conditions set forth in the following clauses: (i) PPL Corporation enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (ii) any Person publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control; (iii) any Person is or becomes the beneficial owner, directly or indirectly, of securities of PPL Corporation representing 5% or more of the combined voting power of PPL Corporation then outstanding securities entitled

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to vote generally in the election of directors; or (iv) the Board adopts a resolution to the effect that, for purposes of this Plan, a Potential Change in Control has occurred.

(z) **"PPL"** means PPL Electric Utilities Corporation (prior to February 14, 2000, PP&L, Inc.).

(aa) **"PPL Corporation"** means PPL Corporation (prior to February 14, 2000, PP&L Resources, Inc.).

(bb) **"Restricted Stock"** means Common Stock awarded to a Participant under Section 7.

(cc) **"Restricted Stock Unit"** means an award based on the Fair Market Value of Common Stock, payable at a specified future time in a specified number of shares of Common Stock, and dependent on such conditions as CLC shall determine.

(dd) **"Restriction Period"** means that period of time determined by CLC pursuant to Section 7B that a Restricted Stock Award or Restricted Stock Unit Award is subject to a restriction on its transfer.

(ee) **"Retirement"** means:

(i) eligibility for commencement of benefits at the earliest date under the PPL Retirement Plan, or other defined benefit plan of a PPL affiliated company; or

(ii) for Participants who are not covered by any defined benefit plan, termination of employment with PPL Corporation and all of its Affiliated Companies after (A) attaining age 55, or (B) for a Participant who at the time of termination of employment is an officer of PPL Corporation or any of its Affiliated Companies, after attaining age 50, if CLC, in its sole discretion, determines that such termination constitutes "Retirement" for purposes of this Plan.

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(ff) "**Termination**" means a Participant's resignation or discharge from employment with PPL Corporation and all of its Affiliated Companies for any reason other than death, Disability or Retirement.

### **SECTION 3. EFFECTIVE DATE AND DURATION.**

This Plan was effective as of January 1, 1997, last approved by shareowners on April 25, 2003 and is amended and restated effective October 25, 2018 to incorporate all amendments as of that date. The Plan shall continue in effect until all matters relating to the granting and exercise of Awards and the administration of the Plan have been settled.

### **SECTION 4. ADMINISTRATION OF THE PLAN.**

The Plan shall be administered by CLC. CLC shall have full power and authority to make Awards to Key Employees pursuant to the provisions of the Plan in accordance with the Minimum Vesting Requirements, to interpret the provisions of the Plan, to supervise the administration of the Plan and to delegate any of the foregoing responsibilities to any such person who, in its sole discretion, it deems appropriate. Such person or persons shall be referred to as the "Administrator" herein.

All decisions made by CLC pursuant to the provisions of the Plan shall be final, conclusive and binding upon all parties affected thereby.

### **SECTION 5. GRANT OF AWARDS AND LIMITATION OF NUMBER OF SHARES AWARDED.**

CLC may, from time to time, grant Awards to one or more Key Employees, provided that: (i) subject to any adjustment pursuant to Section 10G, the maximum number of shares of Common Stock subject to Awards shall not exceed 2% of the outstanding

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Common Stock of PPL Corporation on the first day of each calendar year commencing on and after January 1, 1999; (ii) the maximum number of Options awarded to any single Eligible Employee in any calendar year shall not exceed 1.5 million shares; provided that any portion of such maximum number of shares that has not been granted may be carried over and used in any subsequent years; (iii) to the extent that an Award lapses or is forfeited or the rights of the Participant to whom an Award was granted terminate, any shares of Common Stock subject to such Award shall again be available for the grant of an Award under the Plan; and (iv) shares delivered under the Plan may be authorized and unissued Common Stock, Common Stock held in the treasury of PPL Corporation or Common Stock purchased on the open market (including private purchases) in accordance with applicable securities laws. Notwithstanding the foregoing, but subject to any adjustment pursuant to Section 10G, CLC may not grant Awards under the Plan to the extent that the aggregate number of shares subject to Awards granted after approval of the Plan at the 2003 Annual Meeting of Shareowners of PPL Corporation, combined with shares issuable upon exercise of Options outstanding as of such Annual Meeting or upon the vesting of Restricted Stock Units outstanding as of such Annual Meeting, would exceed the Absolute Share Limit, unless the issuance of the shares of Common Stock subject to any such additional Awards has been approved by the shareowners of PPL Corporation.

#### **SECTION 6. ELIGIBILITY.**

Subject to the provisions of the Plan, CLC shall from time to time designate the Key Employees to whom Awards shall be granted and determine the form and amount of

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each such Award. No Eligible Employee of PPL Corporation or an Affiliated Company shall have any right to be granted an Award under the Plan.

## **SECTION 7. RESTRICTED STOCK, RESTRICTED STOCK UNITS.**

**A. Grants of Restricted Stock or Restricted Stock Units.** An Award of Restricted Stock shall be granted in the form of shares of Common Stock, restricted as provided in this Section 7. An Award of Restricted Stock Units shall be granted as a notification to the Participant that a specified number of shares of Common Stock will be granted at the close of a Restriction Period. The Restricted Stock or Restricted Stock Units shall be issued without the payment of consideration by the Participant. The certificates for the Restricted Stock shall be issued, in the name of the Participant to whom the Award is made, shall be retained by PPL Corporation on behalf of the Participant and shall bear a restrictive legend prohibiting the sale, transfer, pledge or hypothecation of the Restricted Stock until the expiration of the Restriction Period. Awards of Restricted Stock made without the issuance of a certificate will be reflected in PPL Corporation's stock register in the appropriate Participant's name and with a notation that the shares are restricted.

CLC may also impose such other restrictions and conditions on the Restricted Stock or Restricted Stock Units as it deems appropriate.

Upon the issuance to a Participant of Restricted Stock, the Participant shall have the right (i) to vote the Restricted Stock, (ii) to receive cash dividends distributable with respect to such Restricted Stock, and (iii) if granted by CLC to reflect changes in law or dividend paying practices of PPL Corporation, to receive Dividend Equivalents. Upon issuance to a Participant of Restricted Stock Units, the Participant shall have the right, if

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granted by CLC, to receive an Award of Dividend Equivalents, which generally shall provide for payout until the earlier of the time Common Stock is issued under the terms of the Award of Restricted Stock Units, such Award is forfeited or such later time as determined by CLC in its discretion.

Upon completion of the Restriction Period for Restricted Stock and Restricted Stock Units, all restrictions on the Award will expire and certificates representing the Restricted Stock or Restricted Stock Units will be issued (or, in the case of Awards of Restricted Stock made without the issuance of certificates, the Administrator will cause the PPL Corporation's stock register to reflect the removal of such restrictions). As a condition precedent to the receipt of the above-referenced certificates or stock register entries, the Participant (or the Participant's Beneficiary or personal representative) will agree to make payment to PPL Corporation or an Affiliated Company of the amount of any federal, state or local taxes, payable by the Participant, which are required to be withheld by PPL Corporation or an Affiliated Company with respect to the Award.

**B. Restriction Period.** At the time a Restricted Stock or Restricted Stock Units Award is granted, CLC shall establish a Restriction Period applicable to such Award which shall be not less than three years. Each Restricted Stock or Restricted Stock Units Award may have a different Restriction Period. All Restricted Stock Units granted after December 31, 2004 shall have a mandatory Restriction Period, except in the case of death, if the Restriction Period has not lapsed as of the day prior to a termination of employment, of six calendar months from the day of termination of employment.

Notwithstanding the other provisions of this Section 7: (i) in the event of a Change in Control, the Restriction Periods on all Restricted Stock Awards previously

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granted shall lapse and in the event of a "Change in ownership or effective control" as defined by Treasury Regulations under Code Section 409A(a)(2)(A)(v), the Restriction Periods on all Restricted Stock Units shall lapse, and (ii) apart from a Change in Control, CLC is authorized in its sole discretion to accelerate the time at which any or all of the restrictions on all or any part of a Restricted Stock Award shall lapse or to remove any or all of such restrictions whenever CLC may decide that changes in tax or other laws or other circumstances arising after the granting of a Restricted Stock Award make such action appropriate.

**C. Forfeiture or Payout of Award.** During the Restriction Period, Restricted Stock or Restricted Stock Units Awards are subject to forfeiture or payout (i.e., removal of restrictions) as indicated for each of the following events:

(i) Termination – In this event, the Restricted Stock or Restricted Stock Units Award will be completely forfeited.

(ii) Retirement - In this event, Restricted Stock will be completely forfeited, but payout of the Restricted Stock Units Award will be made with complete removal of restrictions, but, for Restricted Stock Units granted after December 31, 2004, six calendar months after the last day of employment, if the Participant is eligible for retirement benefits. If retirement or severance benefits are payable under a separation program or policy, the restrictions will be modified, but only in accordance with the express terms of such separation program or policy, and in the absence of such express terms there shall be a complete forfeiture of Restricted Stock or Restricted Stock Units.

(iii) Disability - In this event, payout of the Restricted Stock or Restricted Stock Units Award will be made with complete removal of restrictions, but payout of the Restricted

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Stock Units granted after December 31, 2004 shall not be made until six calendar months after the event of disability.

(iv) Death - In this event, payout of the Restricted Stock or Restricted Stock Units Award will be made with complete removal of restrictions to the Beneficiary.

(v) Conversions between Restricted Stock and Restricted Stock Units. CLC has the discretion to convert with the consent of the Participant any or all Restricted Stock into Restricted Stock Units of equivalent value, and to convert any or all Restricted Stock Units into Restricted Stock of equivalent value, prior to the end of the applicable Restriction Period, but a conversion of Restricted Stock into Restricted Stock Units shall not be implemented less than 12 months prior to the end of the applicable Restriction Period, and the new Restriction Period shall lapse at least 5 years after the end of the old Restriction Period. Upon any such conversion, the Restricted Stock or Restricted Stock Units so converted will be completely forfeited, and the Participant shall have the rights with respect to Restricted Stock, Restricted Stock Units and Dividend Equivalents (if applicable) as may be specified in the conversion notice.

Notwithstanding anything in this Section 7C to the contrary, in the event that prior to any payout of Common Stock a Participant described in this section 7C violates any noncompete agreements between Participant and PPL Corporation or an Affiliated Company, his Restricted Stock or Restricted Stock Units Award, and any Dividend Equivalents, will be completely forfeited.

In any instance where payout of a Restricted Stock or Restricted Stock Units Award is to be prorated, CLC may choose in its sole discretion to provide the Participant

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(or the Participant's Beneficiary) with the entire Award rather than the prorated portion thereof.

Any Restricted Stock which is forfeited hereunder will be transferred to PPL Corporation.

**D. Section 83(b) Election.** As a condition of receiving Restricted Stock, a Participant shall agree in writing to notify PPL Corporation within 30 days of the Date of Grant whether or not the Participant has made an election under section 83(b) of the Code to report the value of the Restricted Stock as income on the Date of Grant.

## **SECTION 8. STOCK OPTIONS.**

**A. Grant of Option.** One or more Options may be granted to any Key Employee designated by CLC in such amounts and subject to such terms and conditions as CLC may from time to time in its sole discretion determine, but which are consistent with the terms of this Plan. In connection with the grant of an Option, CLC may also grant an Award of Dividend Equivalents, which shall provide for payout until the earlier of the time that such Option is exercised, the term of such Option ends or such later time as determined by CLC in its discretion.

**B. Notification of the Grant of an Option.** Each Option granted under the Plan shall be evidenced by a Notification of the Grant of an Option ("Notification"). The Notification shall contain such provisions as determined appropriate by CLC; provided, however, that each Notification must at a minimum include the following terms and conditions: (i) that the Options are exercisable either in whole or in part, with a partial exercise not affecting the exercisability of the balance of the Option; (ii) every share of

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Common Stock purchased through the exercise of an Option shall be paid for in full at the time of the exercise; (iii) each Option shall cease to be exercisable, as to any share of Common Stock, upon the first to occur of (a) the Participant's purchase of the Common Stock to which the Option relates; or (b) the lapse of the Option; and (iv) unless authorized by CLC, Options shall not be transferable by the Participant except by will or the laws of descent and distribution and shall be exercisable during the Participant's lifetime only by the Participant or by the Participant's guardian or legal representative.

**C. Exercise of an Option.** A Participant shall exercise an Option by executing and delivering to PPL Corporation an "Election to Exercise an Option." The Election to Exercise an Option shall be in such form and shall contain such provisions consistent with the terms of this Plan and the Notification with respect to such Option, as are determined by CLC. Notwithstanding the foregoing, if CLC determines that issuance of shares of Common Stock should be delayed pending (A) registration under federal or state securities laws, (B) the receipt of an opinion of counsel satisfactory to CLC that an appropriate exemption from such registration is available, (C) the listing or inclusion of the shares of Common Stock on any securities exchange or an automated quotation system or (D) the consent or approval of any governmental regulatory body whose consent or approval is necessary in connection with the issuance of such Common Stock, CLC may defer exercise of any Option granted hereunder until any of the events described in this sentence has occurred.

**D. Option Price.** The Option price per share of Common Stock shall be set forth in the Notification, but shall not be less than 100% of the Fair Market Value per share as of the Date of Grant.

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**E. Form of Payment.** At the time of the exercise of the Option, the Option price shall be in United States dollars by (i) check or (ii) by such other mode of payment as CLC may approve, including payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board.

**F. Other Terms and Conditions.** Provided the Option price is paid in full, the Option shall be exercisable in whole or in part in such manner and during such periods as shall be set forth in the Notification.

**G. Right to Exercise.**

(a) Notwithstanding anything in this Plan to the contrary other than the last sentence of Section 8(J), effective May 1, 2002, CLC is authorized in its sole discretion to accelerate the time at which all or any part of an Option may be exercisable.

(b) Each Participant must remain in the continuous employ of PPL Corporation or an Affiliated Company for one year from the date the Participant's Option is granted before the Participant can exercise any part thereof; provided, that such one year of continuous employment requirement shall not apply to an Option and an Option shall be exercisable in full (i) if a Change in Control occurs prior to the end of such one year period, or (ii) subject to (c) below, the Participant's Retirement occurs prior to the end of such one year period. Following the satisfaction of the one year of continuous employment requirement (or at the time such requirement is no longer applicable as a result of a Change in Control, a Participant's Retirement or a modification of the Option by CLC), the Option will be exercisable as follows:

(i) Each Option shall be exercisable in its entirety or in such installments, which need not be equal, and upon such contingencies, as CLC shall

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determine in its discretion, provided that in no event shall the right to exercise an Option extend beyond the day before the tenth anniversary of the Date of Grant.

(ii) The right to exercise a portion of the Option included in any exercisable installment is cumulative; once such right has become exercisable, it may be exercised in whole at any time or in part from time to time until the expiration of the Option term.

(c) Unless specifically prohibited by the terms of the Option, all restrictions on exercise of an Option, including the one year of continuous employment requirement, shall lapse and the Option shall be immediately exercisable on the date of a Participant's Retirement, provided the Participant does not receive improved retirement benefits under a separation program or policy. If the Participant receives improved retirement benefits under a separation program or policy, the restrictions on the exercise of an Option shall be modified only in accordance with the express terms of such separation program or policy.

H. **Term of Option.** At the time an Option is granted, CLC shall establish an Option term applicable to such Award. Except as otherwise provided in this Plan or in the Notification, the Option term for any Award shall not end later than the earliest of the following:

(a) the date a Participant violates any noncompete agreement entered into by the Participant and PPL Corporation or an Affiliated Company;

(b) the day before the tenth anniversary of the Date of Grant for such Award; or

(c) the applicable date below:

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(1) Termination - The Option term with respect to all Awards to a Participant who has a Termination that is not for Cause shall end 60 days after the date of such Termination; provided, however, that CLC is authorized in its sole discretion to extend the Option term for a reasonable period after such 60 day period. The Option term with respect to all Awards to a Participant who has a Termination for Cause shall end on the date of Termination.

(2) Retirement, Death or Disability – The Option term with respect to all Awards to a Participant who has a death or Disability shall end 36 months after the date of such death or Disability. The Beneficiary shall have the right to exercise the Option in the event of the Participant's death. The Option term with respect to all awards to a Participant who has a Retirement shall end on the earlier of the date specified in paragraph (a) or (b), above.

(3) Change in Control - Notwithstanding anything in this Section 8H to the contrary, the Option term with respect to all outstanding Options and all Awards to a Participant, following a Change in Control, shall end on the earlier of the date specified in paragraph (a) or (b), above.

I. **Rights as a Shareowner.** A Participant or a transferee of a Participant shall have no rights as a shareowner with respect to any shares of Common Stock covered by an Option until the date of the issuance of a certificate for such shares of Common Stock (or, in the case of shares issued without the issuance of a certificate, the date of the entry of ownership of such shares in PPL Corporation's stock register). No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other

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property) or distributions or other rights for which the record date is prior to the date such certificate is issued (or stock register entry is made), except as provided in Section 10G.

J. **Modification, Extension and Renewal of Options.** Subject to the terms and conditions and within the limitations of the Plan, CLC may modify, extend or renew outstanding Options granted under the Plan. Notwithstanding the foregoing, no modification of an Option shall serve to reduce the exercise price of an Option, except as contemplated in Section 10G, nor, without the consent of the Participant, alter or adversely affect the rights or obligations of a Participant under any Option previously granted under the Plan.

K. **No Obligation to Exercise Option.** The granting of an Option shall impose no obligation on the Participant to exercise such Option.

## **SECTION 9. AMENDMENT OF THE PLAN.**

CLC may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part, except no such action may be taken without the consent of the Participant to whom any Award shall previously have been granted, which adversely affects the rights of such Participant concerning such Award, except as such termination or amendment of the Plan is required by statute, or rules and regulations promulgated thereunder.

## **SECTION 10. MISCELLANEOUS PROVISIONS.**

A. **Nontransferability.** No benefit or right provided under the Plan shall be subject to alienation or assignment by a Participant (or by any person entitled to such

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benefit pursuant to the terms of the Plan) or subject to attachment or other legal process of whatever nature. Any attempted alienation, assignment or attachment shall be void and of no effect. Payment shall be made only to the Participant entitled to receive the same or to the Participant's authorized legal representative. If the Participant has died, payment shall be made to the Beneficiary. Deposit of any sum in any financial institution to the credit of any Participant (or of a person entitled to such sum pursuant to the terms of the Plan) shall constitute payment to that Participant (or such person). PPL Corporation and its Affiliated Companies will observe the terms of the Plan unless and until ordered to do otherwise by a state or federal court. As a condition of participation, each Participant agrees to hold PPL Corporation and all Affiliated Companies harmless from any claim that arises out of PPL Corporation or an Affiliated Company obeying any such order whether such order affects a judgment of such court or is issued to enforce a judgment or order of another court.

**B. No Employment Right.** Neither this Plan nor any action taken hereunder shall be construed as giving any right to be retained as an employee of PPL Corporation or an Affiliated Company.

**C. Tax Withholding.** Whenever under the Plan Common Stock is to be delivered pursuant to an Award, PPL Corporation may require as a condition of delivery that Participant remit an amount sufficient to satisfy all federal, state and local tax withholding requirements related thereto. In addition, PPL Corporation may deduct from any salary or other payment due to such Participant, an amount sufficient to satisfy all federal, state and local tax withholding requirements related to the delivery of Common Stock under the Plan. Without limiting the generality of the foregoing, Participant may

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elect to satisfy all or part of foregoing withholding requirements by delivery of unrestricted shares of Common Stock owned by Participant having a Fair Market Value (determined as of the date of such delivery by Participant) equal to all or part of the amounts to be so withheld. PPL Corporation may permit any such delivery to be made by withholding shares of Common Stock from the shares otherwise issuable pursuant to the Award giving rise to the tax withholding obligation (in which event the shares shall be valued at their fair market value under any reasonable valuation method permitted by IRS regulations for withholding purposes, which shall be consistently applied).

**D . Government and Other Regulations.** The obligation of PPL Corporation to make payment for any Awards shall be subject to all applicable laws, rules and regulations, and to such approvals by any government agencies as CLC may determine in its sole discretion to be required.

**E. Indemnification.** Each person who is or at any time serves as a member of the Board, or CLC shall be indemnified and held harmless by PPL Corporation against and from: (i) any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action or failure to act under the Plan; and (ii) any and all amounts paid by such person in satisfaction of judgment in any such action, suit or proceeding relating to the Plan. Each person covered by this indemnification shall give PPL Corporation an opportunity, at its own expense, to handle and defend the same before such person undertakes to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such

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persons may be entitled under the bylaws of PPL Corporation, as a matter of law, or otherwise, or any power that PPL Corporation may have to indemnify such person or hold such person harmless.

**F. Reliance on Reports.** Each member of the Board and CLC shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of, or counsel for, PPL Corporation and upon any other information furnished in connection with the Plan. In no event shall any person who is or shall have been a member of the Board or CLC be liable for any determination made or other action taken or any failure to act in reliance upon any such report or information or for any action taken, including without limitation the furnishing of information, or failure to act, if in good faith.

**G. Changes in Capital Structure.** In the event of any change in the outstanding shares of Common Stock by reason of any stock dividend or split, recapitalization, combination or exchange of shares or other similar changes in the Common Stock (provided that any such event qualifies as a "corporate transaction" as defined in Treasury Regulation 1.424 – 1(a)(3)), appropriate adjustments shall be made (in accordance with Treasury Regulation 1.409A – 1(b)(5)(v)(D)) in the shares of Restricted Stock or Restricted Stock Units and Dividend Equivalents, if any, theretofore awarded to the Participants, the shares of Common Stock subject to outstanding and unexercised Options and the aggregate number of shares of Common Stock which may be awarded pursuant to the Plan. Such adjustments shall be conclusive and binding for all purposes. Additional shares of Restricted Stock issued to a Participant as the result of any such change shall bear the same restrictions as the shares of Common Stock to which they relate.

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**H. Company Successors.** In the event PPL Corporation becomes a party to a merger, consolidation, sale of substantially all of its assets or any other corporate reorganization in which PPL Corporation will not be the surviving corporation or in which the holders of the Common Stock will receive securities of another corporation, then such other corporation shall assume the rights and obligations of PPL Corporation under this Plan.

**I. Governing Law.** All matters relating to the Plan or to Awards granted hereunder shall be governed by the laws of the Commonwealth of Pennsylvania without regard to its conflict of laws principles.

**J. Relationship to Other Benefits.** Awards under the Plan shall not be taken into account in determining any benefits under any pension, retirement, profit sharing, disability or group insurance plan of PPL Corporation or an Affiliated Company except as may be required by federal tax law and regulations or to meet other applicable legal requirements.

**K. Expenses.** The expenses of administering the Plan shall be borne by PPL Corporation and the Affiliated Companies whose Eligible Employees have been granted Awards.

**L. Titles and Headings.** The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

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## **SECTION 11. OTHER STOCK-BASED AWARDS**

CLC, in its sole discretion, may grant awards of Common Stock, awards of restricted shares and awards that are valued in whole or in part by reference to, or are otherwise based on the Fair Market Value of, Common Stock ("Other Stock-Based Awards"). Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as CLC shall determine, including, without limitation, the right to receive one or more shares of Common Stock (or the equivalent cash value of such Common Stock) upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Other Stock-Based Awards may be granted alone or in addition to any other Awards granted under the Plan. Subject to the provisions of the Plan, CLC shall determine to whom and when Other Stock-Based Awards will be made; the number of Common Stock to be awarded under (or otherwise related to) such Other Stock-Based Awards; whether such Other Stock-Based Awards shall be settled in cash, Common Stock or a combination of cash and Common Stock; and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof).



**PPL CORPORATION AMENDED AND RESTATED  
2012 STOCK INCENTIVE PLAN**

**1. Purpose of the Plan**

The purpose of the Plan is to aid the Company and its Affiliates in recruiting and retaining key employees, directors or other service providers and to motivate such employees, directors or other service providers to exert their best efforts on behalf of the Company and its Affiliates by providing incentives through the granting of Awards. The Company expects that it will benefit from the added interest which such key employees, directors or service providers will have in the welfare of the Company as a result of their proprietary interest in the Company's success.

**2. Definitions**

The following capitalized terms used in the Plan have the respective meanings set forth in this Section:

- (a) Act: The Securities Exchange Act of 1934, as amended, or any successor statute thereto.
  - (b) Affiliate: With respect to any Person, any other Person, directly or indirectly, controlling, controlled by, or under common control with such Person or any other Person designated by the Committee in which any Person has an interest.
  - (c) Award: An Option, Stock Appreciation Right, Other Stock-Based Award or Performance-Based Award granted pursuant to the Plan.
  - (d) Board: The Board of Directors of the Company.
  - (e) Change in Control: The occurrence of any of the following events:
    - (i) any Person or Group, other than a Permitted Holder, is or becomes the "beneficial owner" (as defined in rules 13d-3 and 13d-5 under the Act) directly or indirectly of more than 30% of the total voting power of the voting stock of the Company (or any entity which controls the Company) within a 12-month period, including by way of merger, consolidation, tender or exchange offer, or otherwise;
    - (ii) a reorganization, recapitalization, merger or consolidation (a "Corporate Transaction") involving the Company, unless securities representing 70% or more of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company or the corporation resulting from such Corporate Transaction (or the parent of such corporation) are held subsequent to such transaction by the Person or Persons who were the "beneficial owners" of the outstanding voting securities entitled to vote generally in the election of directors of the
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Company immediately prior to such Corporate Transaction, in substantially the same proportions as their ownership immediately prior to such Corporate Transaction;

(iii) the sale or disposition, in one or a series of related transactions, of all or substantially all, of the assets of the Company to any Person or Group other than the Permitted Holders; or

(iv) during any period of 12 months, individuals who at the beginning of such period constituted the Board (together with any new directors whose election by such Board or whose nomination for election by the shareowners of the Company was approved by a vote of a majority of the directors of the Company, then still in office, who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board, then in office.

(f) Code: The Internal Revenue Code of 1986, as amended, or any successor thereto, and the regulations and guidance promulgated thereunder.

(g) Committee: The Compensation, Governance and Nominating Committee of the Board (or a subcommittee thereof), or such other committee of the Board (including, without limitation, the full Board) to which the Board has delegated power to act under or pursuant to the provisions of the Plan.

(h) Company: PPL Corporation, a Pennsylvania corporation.

(i) Company Group: The Company and its Affiliates.

(j) Disability: Unless otherwise agreed by the Company (or any of its Affiliates) in a written employment agreement or employment letter with such Participant, or as specified in an Award Agreement, "Disability" shall have the meaning of such term as set forth in Section 409A of the Code. The Disability determination shall be in the sole discretion of the Committee.

(k) Effective Date: January 26, 2017, the date the amendment and restatement of the Plan was approved by the Board.

(l) Employment: The term "Employment" as used herein shall be deemed to refer to (i) a Participant's employment if the Participant is an employee of the Company or any of its Affiliates, (ii) a Participant's services, if the Participant is another form of service provider to the Company or any of its Affiliates and (iii) a Participant's services as a non-employee director, if the Participant is a non-employee member of the Board or the board of directors of an Affiliate; provided, however, that unless otherwise determined by the Committee, a change in a Participant's status from employee to non-employee shall constitute a termination of employment hereunder.

(m) Fair Market Value: On a given date, (i) if there should be a public market for the Shares on such date, the closing price of the Shares as reported on such date on the

Composite Tape of the principal national securities exchange on which such Shares are listed or admitted to trading, or if the Shares are not listed or admitted on any national securities exchange but are quoted on an inter-dealer quotation system, the final ask price of the Shares on such system on such date, or, if no sale of Shares shall have been reported on the Composite Tape of any national securities exchange or quoted on an inter-dealer quotation system on such date, then the closing price or final ask price on the immediately preceding date on which sales of the Shares have been so reported or quoted shall be used, and (ii) if there should not be a public market for the Shares on such date, the Fair Market Value shall be the fair market value of the Shares as determined by the Committee in good faith.

(n) Group shall mean “group,” as such term is used for purposes of Section 13(d) or 14(d) of the Act.

(o) ISO: An Option that is also an incentive stock option granted pursuant to Section 6(d) of the Plan.

(p) Minimum Vesting Requirement: The requirement, with respect to any Award, that vesting of any portion or tranche of such Award does not occur any more rapidly than on the first anniversary of the grant date for such Award (or the date of commencement of employment or service, in the case of a grant made in connection with a Participant’s commencement of employment or service), other than (i) in connection with a Change in Control or (ii) as a result of a Participant’s death, retirement or Disability; provided, that such Minimum Vesting Requirement will not be required on Awards covering, in the aggregate, a number of Shares not to exceed 5% of the Absolute Share Limit, as defined in Section 3. The Minimum Vesting Requirement will not prevent the Committee from accelerating the vesting of any Award in accordance with any of the provisions set forth in this Plan.

(q) Option: A stock option granted pursuant to Section 6 of the Plan.

(r) Option Price: The purchase price per Share of an Option, as determined pursuant to Section 6(a) of the Plan.

(s) Other Stock-Based Awards: Awards granted pursuant to Section 8 of the Plan.

(t) Participant: An employee, director or other service provider of the Company or any of its Affiliates who is selected by the Committee to participate in the Plan.

(u) Performance-Based Awards: Certain Other Stock-Based Awards granted pursuant to Section 9 of the Plan.

(v) Permitted Holder: Any of the following: (i) the Company or any of its Affiliates, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareowners of the Company in substantially the same proportions as their ownership of stock of the Company.

(w) Person: “Person” as defined in Section 3(a)(9) of the Act; provided that references to “Person” within the defined term “Change in Control” shall mean a “person” as defined in Section 3(a)(9) of the Act, as modified and used in Sections 13(d) and 14(d) of the Act.

(x) Plan: The PPL Corporation Amended and Restated 2012 Stock Incentive Plan, as it may be amended from time to time.

(y) Service Recipient: The Company or any Affiliate of the Company that satisfies the definition of “service recipient” within the meaning of Treasury Regulation Section 1.409A-1 (or any successor regulation), with respect to which the person is a “service provider” within the meaning of such Treasury Regulation Section 1.409A-1 (or any successor regulation).

(z) Shares: Shares of common stock of the Company.

(aa) Stock Appreciation Right: A stock appreciation right granted pursuant to Section 7 of the Plan.

(bb) Subsidiary: A subsidiary corporation, as defined in Section 424(f) of the Code (or any successor section thereto).

### 3. Shares Subject to the Plan

Subject to Section 10, the total number of Shares which may be issued under the Plan is 15,000,000 (the “Absolute Share Limit”) and the maximum number of Shares for which ISOs may be granted is 2,000,000. Additionally, subject to Section 10, the maximum number of Shares for which Options or Stock Appreciation Rights may be granted during a fiscal year to any Participant shall be 2,000,000. The Shares may consist, in whole or in part, of unissued Shares or treasury Shares. The issuance of Shares or the payment of cash upon the exercise of an Award or in consideration of the cancellation or termination of an Award shall reduce the total number of Shares available under the Plan, as applicable. If Shares are not issued or are withheld from payment of an Award to satisfy tax obligations with respect to the Award, such Shares will not be added back to the aggregate number of Shares with respect to which Awards may be granted under the Plan, but rather will count against the aggregate number of Shares with respect to which Awards may be granted under the Plan. When an Option or Stock Appreciation Right is granted under the Plan, the number of Shares subject to the Option or Stock Appreciation Right will be counted against the aggregate number of Shares with respect to which Awards may be granted under the Plan as one Share for every Share subject to such Option or Stock Appreciation Right, regardless of the actual number of Shares (if any) used to settle such Option or Stock Appreciation Right upon exercise. Shares which are subject to Awards which terminate or lapse without the payment of consideration may be granted again under the Plan. Additionally, the maximum number of Shares subject to Awards granted during a single calendar year to any non-employee director, taken together with any cash fees earned by such non-employee director during such calendar year (whether paid by the Company under this Plan, under the Company’s Directors Deferred Compensation Plan, or otherwise), shall not exceed \$750,000 in total value

(calculating the value of any such Awards based on the grant date fair value of such Awards for financial reporting purposes).

#### 4. Administration

(a) The Plan shall be administered by the Committee; provided, however, that the Board may, in its sole discretion, take any action delegated to the Committee under this Plan as it may deem necessary for the effective administration of this Plan. The Committee may delegate its duties and powers in whole or in part to any subcommittee thereof consisting solely of at least two individuals who are intended to qualify as “Non-Employee Directors” within the meaning of Rule 16b-3 under the Act (or any successor rule thereto), “independent directors” within the meaning of the New York Stock Exchanges listed company rules and “outside directors” within the meaning of Section 162(m) of the Code (or any successor section thereto), to the extent such qualification requirements apply in connection with the contemplated Award grant. Additionally, the Committee may delegate the authority to grant Awards under the Plan to any employee or group of employees of the Company or an Affiliate; provided that (i) such delegation and grants are consistent with applicable law and guidelines established by the Board from time to time and (ii) no such delegation shall be permitted with respect to grants of Awards to Participants who are executive officers of the Company or its Affiliates or members of the Company’s Board.

(b) The Committee shall have the full power and authority to establish the terms and conditions of any Award consistent with the provisions of the Plan and subject to the Minimum Vesting Requirements. Following the grant of any Award, the Committee shall be authorized to waive any such terms and conditions associated with the Award at any time (including, without limitation, accelerating or waiving any vesting conditions). Awards may, in the discretion of the Committee, be made under the Plan in assumption of, or in substitution for, outstanding awards previously granted by the Company or its Affiliates or a company acquired by the Company or with which the Company combines. The number of Shares underlying such substitute awards shall be counted against the aggregate number of Shares available for Awards under the Plan.

(c) In each case subject to Section 16, the Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan, and may delegate such authority, as it deems appropriate. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned (including, but not limited to, Participants and their beneficiaries or successors).

(d) The Committee shall require payment of any amount it may determine to be necessary to withhold for federal, state, local or other taxes as a result of the exercise, grant or vesting of an Award and the Company or any of its Subsidiaries shall have the right and is authorized to withhold any applicable withholding taxes in respect to the Award, its exercise or any payment or transfer under or with respect to the Award and to take such other action as may

be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes. To the extent permitted by the Committee, the Participant may elect to pay a portion or all of such withholding taxes by delivery of Shares or having Shares with a Fair Market Value equal to the amount of such withholding taxes withheld by the Company from any Shares that would have otherwise been received by the Participant (i.e., through a “net settlement” of such tax withholding due).

## 5. Limitations

No Award may be granted under the Plan after the tenth anniversary of the Effective Date, but Awards theretofore granted may extend beyond that date.

## 6. Terms and Conditions of Options

Options granted under the Plan shall be non-qualified stock options unless specifically identified as an ISO (as defined in Section 6(d)), as determined by the Committee and evidenced by the related Award agreements, and shall be subject to such other terms and conditions not inconsistent therewith. In addition to the foregoing, except as otherwise determined by the Committee and evidenced by the related Award agreements, the Options shall also be subject to the following terms and conditions:

(a) **Option Price.** The Option Price per Share shall be determined by the Committee, but shall not be less than 100% of the Fair Market Value of a Share on the date an Option is granted (other than in the case of Options granted in substitution of previously granted awards, as described in Section 4(b)).

(b) **Exercisability.** Options granted under the Plan shall be exercisable at such time and upon such terms and conditions as may be determined by the Committee, but in no event shall an Option be exercisable more than ten years after the date it is granted; provided, however, in the event that any portion of an exercisable Option is scheduled to expire on such tenth anniversary date or otherwise scheduled to expire pursuant to the applicable Award agreement and both (x) the date on which such portion of the Option is scheduled to expire falls during a Company blackout trading period applicable to the Participant (whether such period is imposed at the election of the Company or is required by applicable law to be imposed) and (y) the exercise price per Share of such portion of the Option is less than the Fair Market Value, then on the date that such portion of the Option is scheduled to expire, such portion of the Option (to the extent not previously exercised by the Participant) shall be automatically exercised on behalf of the Participant through a net settlement of both the exercise price and the minimum withholding taxes due (if any) upon such automatic exercise (as described in Section 6(c)(v), below), and the net number of Shares resulting from such automatic exercise shall be delivered to the Participant as soon as practicable thereafter.

(c) **Exercise of Options.** Except as otherwise provided in the Plan or in an Award agreement, an Option may be exercised for all, or from time to time any part, of the Shares for which it is then exercisable. For purposes of Section 6 of the Plan, the exercise date of an Option shall be the later of the date a notice of exercise is received by the Company and, if applicable,

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the date payment is received by the Company pursuant to clauses (i), (ii), (iii), (iv) or (v) in the following sentence. The purchase price for the Shares as to which an Option is exercised shall be paid to the Company in full at the time of exercise at the election of the Participant: (i) in cash or its equivalent (e.g., by check); (ii) to the extent permitted by the Committee, in Shares having a Fair Market Value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee, provided, that such Shares have been held by the Participant for such period of time as the Company's accountants may require to avoid adverse accounting treatment; (iii) partly in cash and, to the extent permitted by the Committee, partly in such Shares; (iv) if there should be a public market for the Shares at such time, to the extent permitted by, and subject to such rules as may be established by the Committee, through the delivery of irrevocable instructions to a broker to sell Shares obtained upon the exercise of the Option and to deliver promptly to the Company an amount out of the proceeds of such sale equal to the aggregate Option Price for the Shares being purchased; or (v) to the extent permitted by the Committee, through a "net settlement" feature (i.e., having Shares with a Fair Market Value equal to the aggregate Option Price withheld by the Company from any Shares that would have otherwise been received by the Participant upon exercise of the Option). No Participant shall have any rights to dividends or other rights of a shareowner with respect to Shares subject to an Option until the Participant has given written notice of exercise of the Option, paid in full for such Shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Plan.

(d) ISOs. The Committee may grant Options under the Plan that are intended to be "incentive stock options" (within the meaning of Section 422 of the Code) ("ISOs"). Such ISOs shall comply with the requirements of Section 422 of the Code (or any successor section thereto). No ISO may be granted to any Participant who at the time of such grant, owns more than 10% of the total combined voting power of all classes of stock of the Company or of any Subsidiary, unless (i) the Option Price for such ISO is at least 110% of the Fair Market Value of a Share on the date the ISO is granted and (ii) the date on which such ISO terminates is a date not later than the day preceding the fifth anniversary of the date on which the ISO is granted. Any Participant who disposes of Shares acquired upon the exercise of an ISO either (x) within two years after the date of grant of such ISO or (y) within one year after the transfer of such Shares to the Participant, shall notify the Company of such disposition and of the amount realized upon such disposition. All Options granted under the Plan are intended to be nonqualified stock options, unless the applicable Award agreement expressly states that the Option is intended to be an ISO. If an Option is intended to be an ISO, and if for any reason such Option (or portion thereof) shall not qualify as an ISO, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a nonqualified stock option granted under the Plan; provided that such Option (or portion thereof) otherwise complies with the Plan's requirements relating to nonqualified stock options. In no event shall any member of the Committee, the Company or any of its Affiliates (or their respective employees, officers or directors) have any liability to any Participant (or any other Person) due to the failure of an Option to qualify for any reason as an ISO.

(e) Attestation. Wherever in this Plan or any agreement evidencing an Award a Participant is permitted to pay the Option Price of an Option or taxes relating to the exercise of

an Option by delivering Shares, the Participant may, subject to procedures satisfactory to the Committee, satisfy such delivery requirement by presenting proof of beneficial ownership of such Shares, in which case the Company shall treat the Option as exercised without further payment and/or shall withhold such number of Shares from the Shares acquired by the exercise of the Option, as appropriate.

(f) Repricing of Options. Notwithstanding any provision herein to the contrary, the repricing of an Option, once granted hereunder, is prohibited without prior approval of the Company's shareowners. For this purpose, a "repricing" means any of the following (or any other action that has the same effect as any of the following): (i) changing the terms of an Option to lower the Option Price; (ii) any other action that is treated as a "repricing" under generally accepted accounting principles; and (iii) repurchasing for cash or canceling an Option in exchange for another Award at a time when the Option Price is greater than the Fair Market Value of the underlying Shares, unless the cancellation and exchange occurs in connection with a change in capitalization or similar change permitted under Section 10(a) below. Such cancellation and exchange would be considered a "repricing" regardless of whether it is treated as a "repricing" under generally accepted accounting principles and regardless of whether it is voluntary on the part of the Participant.

## 7. Terms and Conditions of Stock Appreciation Rights

(a) Grants. The Committee may also grant (i) a Stock Appreciation Right independent of an Option or (ii) a Stock Appreciation Right in connection with an Option, or a portion thereof. A Stock Appreciation Right granted pursuant to clause (ii) of the preceding sentence (A) may be granted at the time the related Option is granted or at any time prior to the exercise or cancellation of the related Option, (B) shall cover the same number of Shares covered by an Option (or such lesser number of Shares as the Committee may determine) and (C) shall be subject to the same terms and conditions as such Option except for such additional limitations as are contemplated by this Section 7 (or such additional limitations as may be included in an Award agreement).

(b) Terms. The exercise price per Share of a Stock Appreciation Right shall be an amount determined by the Committee but in no event shall such amount be less than 100% of the Fair Market Value of a Share on the date the Stock Appreciation Right is granted (other than in the case of Stock Appreciation Rights granted in substitution of previously granted awards, as described in Section 4(b)); provided, however, that in the case of a Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, the exercise price may not be less than the Option Price of the related Option; and provided, further, that the exercise price of a Stock Appreciation Right that is granted in exchange for an Option may be less than the Fair Market Value on the grant date if such exercise price is equal to the Option Price of the exchanged Option. Each Stock Appreciation Right granted independent of an Option shall entitle a Participant upon exercise to an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the exercise price per Share, times (ii) the number of Shares covered by the Stock Appreciation Right. Each Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, shall entitle a Participant to surrender to the

Company the unexercised Option, or any portion thereof, and to receive from the Company in exchange therefore an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the Option Price per Share, times (ii) the number of Shares covered by the Option, or portion thereof, which is surrendered. The date a notice of exercise is received by the Company shall be the exercise date. Payment to the Participant shall be made in Shares or in cash, or partly in Shares and partly in cash (any such Shares valued at such Fair Market Value), all as shall be determined by the Committee. Stock Appreciation Rights may be exercised from time to time upon actual receipt by the Company of written notice of exercise stating the number of Shares with respect to which the Stock Appreciation Right is being exercised. No fractional Shares will be issued in payment for Stock Appreciation Rights, but instead cash will be paid for a fraction or, if the Committee should so determine, the number of Shares will be rounded downward to the next whole Share.

(c) Limitations. The Committee may impose, in its discretion, such conditions upon the exercisability or transferability of Stock Appreciation Rights as it may deem fit, but in no event shall a Stock Appreciation Right be exercisable more than ten years after the date it is granted.

(d) Repricing of Stock Appreciation Rights. Notwithstanding any provision herein to the contrary, the repricing of a Stock Appreciation Right, once granted hereunder, is prohibited without prior approval of the Company's shareowners. For this purpose, a "repricing" means any of the following (or any other action that has the same effect as any of the following): (i) changing the terms of a Stock Appreciation Right to lower its exercise price; (ii) any other action that is treated as a "repricing" under generally accepted accounting principles; and (iii) repurchasing for cash or canceling a Stock Appreciation Right in exchange for another Award at a time when its exercise price is greater than the Fair Market Value of the underlying Shares, unless the cancellation and exchange occurs in connection with a change in capitalization or similar change permitted under Section 10(a) below. Such cancellation and exchange would be considered a "repricing" regardless of whether it is treated as a "repricing" under generally accepted accounting principles and regardless of whether it is voluntary on the part of the Participant.

## **8. Other Stock-Based Awards**

(a) The Committee, in its sole discretion, may grant or sell Awards of Shares, Awards of restricted Shares, Awards of restricted stock units, Awards of dividend equivalent units and Awards that are valued in whole or in part by reference to, or are otherwise based on the Fair Market Value of Shares (such Awards, "Other Stock-Based Awards"), but shall not award any dividend equivalent payment or unit of value with respect to Options. Additionally, no dividend equivalent payments or units shall be payable with respect to Performance-Based Awards unless and until the Shares underlying such Performance-Based Award become vested by satisfaction of the corresponding performance vesting conditions. Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive, or vest with respect to, one or more Shares (or the equivalent cash value of such Shares) upon the completion of a specified period of service, the

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occurrence of an event and/or the attainment of performance objectives. Other Stock-Based Awards may be granted alone or in addition to any other Awards granted under the Plan. Subject to the provisions of the Plan, the Committee shall determine to whom and when Other Stock-Based Awards will be made, the number of Shares to be awarded under (or otherwise related to) such Other Stock-Based Awards, whether such Other Stock-Based Awards shall be settled in cash, Shares or a combination of cash and Shares, and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof and provisions ensuring that all Shares so awarded and issued shall be fully paid and non-assessable).

## 9. Performance-Based Awards.

(a) The Committee, in its sole discretion, may grant Awards which are denominated in Shares or cash (such Awards, “Performance-Based Awards”), which Awards may, but for the avoidance of doubt are not required to, be granted in a manner which is intended to be deductible by the Company under Section 162(m) of the Code (or any successor section thereto). Such Performance-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive, or vest with respect to, one or more Shares or the cash value of the Award upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Performance-Based Awards may be granted alone or in addition to any other Awards granted under the Plan. Subject to the provisions of the Plan, the Committee shall determine to whom and when Performance-Based Awards will be made, the number of Shares or aggregate amount of cash to be awarded under (or otherwise related to) such Performance-Based Awards, whether such Performance-Based Awards shall be settled in cash, Shares or a combination of cash and Shares, and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof and provisions ensuring that all Shares so awarded and issued, to the extent applicable, shall be fully paid and non-assessable).

(b) A Participant’s Performance-Based Award shall be determined based on the attainment of written performance goals approved by the Committee for a performance period established by the Committee. Such determination shall be made (i) while the outcome for that performance period is substantially uncertain and (ii) no more than 90 days after the commencement of the performance period to which the performance goal relates or, if less, the number of days which is equal to 25% of the relevant performance period. The performance goals, which must be objective, shall be based upon one or more of the following criteria: (1) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization or other corporate earnings measures); (2) net income, operating income or other income measures; (3) earnings per share; (4) book value per share; (5) total shareholder return; (6) expense management, including operations and maintenance expenses; (7) return on investment before or after the cost of capital; (8) improvements in capital structure; (9) profitability of an identifiable business unit or product; (10) maintenance or improvement of profit margins, gross margins or operating margins; (11) stock price; (12) market share; (13) revenues or sales; (14) costs, including cost reduction measures; (15) cash flow (or free cash flow); (16) working capital; (17) capital expenditures; (18) changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital); (19) return

measures (including, but not limited to, return on assets, capital, equity, shareholders' equity, investments or sales); (20) economic value added; (21) credit rating; (22) improvement in workforce diversity, inclusion or culture; (23) employee retention; (24) business expansion or consolidation (acquisitions and divestitures); (25) strategic plan development and implementation; (26) independent industry ratings or assessments; (27) environmental, health and safety; (28) reliability; (29) customer satisfaction; and (30) productivity. The foregoing criteria may relate to the Company, one or more of its Subsidiaries or one or more of its or their divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the performance goals may be calculated without regard to certain designated items or events. The maximum amount of a Performance-Based Award granted in respect of any given performance period that may be earned with respect to each fiscal year of the Company covered by the performance period by any Participant shall be: (x) with respect to Performance-Based Awards that are denominated in Shares, 750,000 Shares and (y) with respect to Performance-Based Awards that are denominated in cash, \$15,000,000. For the avoidance of doubt, to the extent that a Performance-Based Award may be earned over a period that is longer than one fiscal year of the Company, the foregoing limitations shall apply to each full or partial fiscal year during or in which such Award may be earned.

(c) The Committee shall determine whether, with respect to a performance period, the applicable performance goals have been met with respect to a given Participant and, if they have, and such Performance-Based Award is intended to be deductible by the Company under Section 162(m) of the Code, shall so certify and ascertain the amount of the applicable Performance-Based Award. No Performance-Based Awards will be paid for such performance period until such certification, to the extent applicable, is made by the Committee. The amount of the Performance-Based Award actually paid to a given Participant may be less than the amount determined by the applicable performance goal formula, at the discretion of the Committee. The amount of the Performance-Based Award determined by the Committee for a performance period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such performance period; provided, however, that a Participant may, if and to the extent permitted by the Committee and consistent with the provisions of Sections 162(m) and 409A of the Code, to the extent applicable, elect to defer payment of a Performance-Based Award.

## 10. Adjustments upon Certain Events

Notwithstanding any other provisions in the Plan to the contrary, the following provisions shall apply to all Awards granted under the Plan:

(a) Generally. In the event of any Share dividend or split, reorganization, recapitalization, merger, consolidation, spin-off, combination or transaction or exchange of Shares or other corporate exchange, any equity restructuring (as defined under Financial Accounting Standards Board (FASB) Accounting Standards Codification 718), or any distribution to shareowners other than regular cash dividends or any transaction similar to the

foregoing, the Committee in its sole discretion and without liability to any Person shall make such substitution or adjustment as it deems reasonably necessary to address, on an equitable basis, the effect of such event (subject to Section 19), as to (i) the number or kind of Shares or other securities issued or reserved for issuance pursuant to the Plan or pursuant to outstanding Awards, (ii) the maximum number of Shares for which Options or Stock Appreciation Rights may be granted during a fiscal year to any Participant, (iii) the maximum amount of a Performance Based Award that may be granted during a fiscal year to any Participant, (iv) the Option Price or exercise price of any Award and/or (v) any other affected terms of such Awards.

(b) Change in Control. In the event of a Change in Control after the Effective Date, the Committee may (subject to Section 19), but shall not be obligated to, (A) accelerate, vest or cause the restrictions to lapse with respect to all or any portion of an Award, (B) cancel such Awards for cash payment of fair value (as determined in the sole discretion of the Committee) which, in the case of Options and Stock Appreciation Rights, may equal the excess, if any, of value of the consideration to be paid in the Change in Control transaction to holders of the same number of Shares subject to such Options or Stock Appreciation Rights (or, if no consideration is paid in any such transaction, the Fair Market Value of the Shares subject to such Options or Stock Appreciation Rights) over the aggregate exercise price of such Options or Stock Appreciation Rights (and otherwise, the Committee may cancel Awards for no consideration if the aggregate Fair Market Value of the shares subject to such Awards is less than or equal to the aggregate Option Price of such Options or exercise price of such Stock Appreciation Rights), (C) provide for the issuance of substitute Awards that will substantially preserve the otherwise applicable terms of any affected Awards previously granted hereunder as determined by the Committee in its sole discretion or (D) provide that for a period of at least 30 days prior to the Change in Control, such Options or Stock Appreciation Rights shall be exercisable as to all shares subject thereto and that upon the occurrence of the Change in Control, such Options or Stock Appreciation Rights shall terminate and be of no further force and effect.

## **11. Forfeiture/Clawback**

The Committee may, in its sole discretion, specify in an Award or a policy that will be incorporated into an Award agreement by reference, that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of Employment for cause, termination of the Participant's provision of services to the Company or any of its Subsidiaries, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the Participant, or restatement of the Company's financial statements to reflect adverse results from those previously released financial statements, as a consequence of errors, omissions, fraud, or misconduct.

## **12. No Right to Employment or Awards**

The granting of an Award under the Plan shall impose no obligation on the Company or any Affiliate to continue the Employment of a Participant and shall not lessen or affect the Company's or Affiliate's right to terminate the Employment of such Participant. No Participant



or other Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants, or holders or beneficiaries of Awards. The terms and conditions of Awards and the Committee's determinations and interpretations with respect thereto need not be the same with respect to each Participant (whether or not such Participants are similarly situated).

### **13. Securities Laws**

The Board may refuse to instruct the Company to issue or transfer any Shares or other consideration under an Award if, acting in its sole discretion, it determines that the issuance or transfer of such Shares or such other consideration might violate any applicable law or regulation and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary. Without limiting the generality of the foregoing, no Award granted hereunder shall be construed as an offer to sell securities of the Company, and no such offer shall be outstanding, unless and until the Committee in its sole discretion has determined that any such offer, if made, would be in compliance with the applicable requirements of applicable securities laws.

### **14. Successors and Assigns**

The Plan shall be binding on all successors and assigns of the Company and a Participant, including without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

### **15. Nontransferability of Awards**

Unless otherwise determined by the Committee, an Award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution. In no event shall an Award be transferable by a Participant to a Person other than such Participant's immediate family (or a trust or estate planning vehicle for the benefit of the Participant's immediate family) for value or consideration. An Award exercisable after the death of a Participant may be exercised by the legatees, personal representatives or distributees of the Participant.

### **16. Amendments or Termination**

Subject to the limitations imposed under Sections 6(f) and 7(d) of this Plan, the Board may amend, alter or discontinue the Plan or any outstanding Award, but no amendment, alteration or discontinuation shall be made, (a) without the approval of the shareowners of the Company (i) to increase the number of Shares reserved under the Plan, (ii) to modify the requirements for participation in the Plan or (iii) to the extent such shareowner approval is required by or desirable to satisfy the requirements of, in each case, any applicable law, regulation or other rule, including, the listing standards of the securities exchange, which is, at the applicable time, the principal market for the Shares, or (b) without the consent of a

Participant, if such action would materially and adversely affect any of the rights of the Participant under any Award theretofore granted to such Participant under the Plan; provided, however, that the Committee may amend the Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws (including, without limitation, to avoid adverse tax or accounting consequences to the Company or to Participants).

Without limiting the generality of the foregoing, to the extent applicable, notwithstanding anything herein to the contrary, this Plan and Awards issued hereunder shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretative guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that the Committee determines that any amounts payable hereunder will be taxable to a Participant under Section 409A of the Code and related Department of Treasury guidance prior to payment to such Participant of such amount, the Company may (a) adopt such amendments to the Plan and Awards and appropriate policies and procedures, including amendments and policies with retroactive effect, that the Committee determines necessary or appropriate to preserve the intended tax treatment of the benefits provided by the Plan and Awards hereunder and/or (b) take such other actions as the Committee determines necessary or appropriate to avoid the imposition of an additional tax under Section 409A of the Code.

#### **17. Choice of Law**

The Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to conflicts of laws.

#### **18. Effectiveness of the Plan**

The Plan shall be effective as of the Effective Date, subject to the approval of the shareowners of the Company.

#### **19. Section 409A of the Code**

Notwithstanding other provisions of the Plan or any Award agreements thereunder, no Award shall be granted, deferred, accelerated, extended, paid out or modified under this Plan in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon a Participant. In the event that it is reasonably determined by the Committee that, as a result of Section 409A of the Code, payments in respect of any Award under the Plan may not be made at the time contemplated by the terms of the Plan or the relevant Award agreement, as the case may be, without causing the Participant holding such Award to be subject to taxation under Section 409A of the Code, the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code. References under the Plan or an Award to the Participant's termination of Employment shall be deemed to refer to the date upon which the Participant has experienced a "separation from service" within the meaning of Section 409A of the Code. Notwithstanding anything herein to the contrary, (a) if

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at the time of the Participant's separation from service with any Service Recipient the Participant is a "specified employee" as defined in Section 409A of the Code, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such separation from service is necessary in order to prevent the imposition of any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Participant) to the minimum extent necessary to satisfy Section 409A of the Code until the date that is six months and one day following the Participant's separation from service with all Service Recipients (or the earliest date as is permitted under Section 409A of the Code), if such payment or benefit is payable upon a termination of Employment and (b) if any other payments of money or other benefits due to the Participant hereunder would cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred, if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the minimum extent necessary, in a manner, reasonably determined by the Board, that does not cause such an accelerated or additional tax or result in an additional cost to the Company (without any reduction in such payments or benefits ultimately paid or provided to the Participant).

The Company shall use commercially reasonable efforts to implement the provisions of this Section 19 in good faith; provided that neither the Company, the Board, the Committee nor any of the Company's employees, directors or representatives shall have any liability to Participants with respect to this Section 19.

## **20. Awards Subject to the Plan**

In the event of a conflict between any term or provision contained in the Plan and a term contained in any Award agreement, the applicable terms and provisions of the Plan will govern and prevail.

## **21. Fractional Shares**

Notwithstanding other provisions of the Plan or any Award agreements thereunder, the Company shall not be obligated to issue or deliver fractional Shares pursuant to the Plan or any Award and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be cancelled, terminated or otherwise eliminated with, or without, consideration.

## **22. Severability**

If any provision of the Plan or any Award is, or becomes or is deemed to be invalid, illegal, unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent

of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

## PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND  
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Nine Months Ended September 30,	Years Ended December 31,				
	2018	2017	2016	2015 (a)	2014 (a)	2013 (a)
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 1,774	\$ 1,912	\$ 2,550	\$ 2,068	\$ 2,129	\$ 1,728
Adjustment to reflect earnings from equity method investments on a cash basis	—	1	(1)	(1)	—	—
	<u>1,774</u>	<u>1,913</u>	<u>2,549</u>	<u>2,067</u>	<u>2,129</u>	<u>1,728</u>
<b>Total fixed charges as below</b>	<b>738</b>	<b>927</b>	<b>917</b>	<b>1,054</b>	<b>1,095</b>	<b>1,096</b>
Less:						
Capitalized interest	6	4	4	11	11	11
Interest expense and fixed charges related to discontinued operations	—	—	—	150	186	235
<b>Total fixed charges included in Income from Continuing Operations Before Income Taxes</b>	<b><u>732</u></b>	<b><u>923</u></b>	<b><u>913</u></b>	<b><u>893</u></b>	<b><u>898</u></b>	<b><u>850</u></b>
<b>Total earnings</b>	<b><u>\$ 2,506</u></b>	<b><u>\$ 2,836</u></b>	<b><u>\$ 3,462</u></b>	<b><u>\$ 2,960</u></b>	<b><u>\$ 3,027</u></b>	<b><u>\$ 2,578</u></b>
Fixed charges, as defined:						
Interest charges (b)	\$ 730	\$ 912	\$ 900	\$ 1,038	\$ 1,073	\$ 1,058
Estimated interest component of operating rentals	8	15	17	16	22	38
<b>Total fixed charges (c)</b>	<b><u>\$ 738</u></b>	<b><u>\$ 927</u></b>	<b><u>\$ 917</u></b>	<b><u>\$ 1,054</u></b>	<b><u>\$ 1,095</u></b>	<b><u>\$ 1,096</u></b>
<b>Ratio of earnings to fixed charges (d)</b>	<b><u>3.4</u></b>	<b><u>3.1</u></b>	<b><u>3.8</u></b>	<b><u>2.8</u></b>	<b><u>2.8</u></b>	<b><u>2.4</u></b>

(a) Reflects PPL's former Supply segment as Discontinued Operations.

(b) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(c) Interest on unrecognized tax benefits is not included in fixed charges.

(d) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

**PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES**  
**COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND**  
**PREFERRED STOCK DIVIDENDS**  
*(Millions of Dollars)*

	Nine Months Ended September 30,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
<b>Earnings, as defined:</b>						
Income Before Income Taxes	\$ 445	\$ 575	\$ 552	\$ 416	\$ 423	\$ 317
Total fixed charges as below	126	153	141	139	131	117
<b>Total earnings</b>	<b>\$ 571</b>	<b>\$ 728</b>	<b>\$ 693</b>	<b>\$ 555</b>	<b>\$ 554</b>	<b>\$ 434</b>
<b>Fixed charges, as defined:</b>						
Interest charges (a)	\$ 123	\$ 149	\$ 137	\$ 135	\$ 127	\$ 113
Estimated interest component of operating rentals	3	4	4	4	4	4
<b>Total fixed charges (b)</b>	<b>\$ 126</b>	<b>\$ 153</b>	<b>\$ 141</b>	<b>\$ 139</b>	<b>\$ 131</b>	<b>\$ 117</b>
<b>Ratio of earnings to fixed charges (c)</b>	<b>4.5</b>	<b>4.8</b>	<b>4.9</b>	<b>4.0</b>	<b>4.2</b>	<b>3.7</b>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) PPL Electric does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.



## LG&amp;E AND KU ENERGY LLC AND SUBSIDIARIES

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Nine Months Ended September 30,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 460	\$ 691	\$ 686	\$ 603	\$ 553	\$ 551
Adjustment to reflect earnings from equity method investments on a cash basis	—	1	(1)	(1)	(1)	(1)
	<u>460</u>	<u>692</u>	<u>685</u>	<u>602</u>	<u>552</u>	<u>550</u>
Total fixed charges as below	<u>179</u>	<u>224</u>	<u>223</u>	<u>189</u>	<u>173</u>	<u>151</u>
Total earnings	<u>\$ 639</u>	<u>\$ 916</u>	<u>\$ 908</u>	<u>\$ 791</u>	<u>\$ 725</u>	<u>\$ 701</u>
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 172	\$ 215	\$ 214	\$ 181	\$ 167	\$ 145
Estimated interest component of operating rentals	7	9	9	8	6	6
Total fixed charges	<u>\$ 179</u>	<u>\$ 224</u>	<u>\$ 223</u>	<u>\$ 189</u>	<u>\$ 173</u>	<u>\$ 151</u>
Ratio of earnings to fixed charges	<u>3.6</u>	<u>4.1</u>	<u>4.1</u>	<u>4.2</u>	<u>4.2</u>	<u>4.6</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
*(Millions of Dollars)*

	Nine Months Ended September 30,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 239	\$ 344	\$ 329	\$ 299	\$ 272	\$ 257
Total fixed charges as below	61	76	76	61	51	36
Total earnings	<u>\$ 300</u>	<u>\$ 420</u>	<u>\$ 405</u>	<u>\$ 360</u>	<u>\$ 323</u>	<u>\$ 293</u>
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 57	\$ 71	\$ 71	\$ 57	\$ 49	\$ 34
Estimated interest component of operating rentals	4	5	5	4	2	2
Total fixed charges	<u>\$ 61</u>	<u>\$ 76</u>	<u>\$ 76</u>	<u>\$ 61</u>	<u>\$ 51</u>	<u>\$ 36</u>
Ratio of earnings to fixed charges	<u>4.9</u>	<u>5.5</u>	<u>5.3</u>	<u>5.9</u>	<u>6.3</u>	<u>8.1</u>

- (a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.  
(b) Includes a credit for amortization of a fair market value adjustment of \$7 million in 2013.

## KENTUCKY UTILITIES COMPANY

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Nine Months Ended September 30, 2018	Years Ended December 31,				
		2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 284	\$ 418	\$ 428	\$ 374	\$ 355	\$ 360
Adjustment to reflect earnings from equity method investments on a cash basis	—	1	(1)	(1)	(1)	(1)
	<u>284</u>	<u>419</u>	<u>427</u>	<u>373</u>	<u>354</u>	<u>359</u>
Total fixed charges as below	<u>77</u>	<u>100</u>	<u>100</u>	<u>86</u>	<u>80</u>	<u>73</u>
Total earnings	<u>\$ 361</u>	<u>\$ 519</u>	<u>\$ 527</u>	<u>\$ 459</u>	<u>\$ 434</u>	<u>\$ 432</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 74	\$ 96	\$ 96	\$ 82	\$ 77	\$ 70
Estimated interest component of operating rentals	<u>3</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>3</u>	<u>3</u>
Total fixed charges	<u>\$ 77</u>	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ 86</u>	<u>\$ 80</u>	<u>\$ 73</u>
Ratio of earnings to fixed charges	<u>4.7</u>	<u>5.2</u>	<u>5.3</u>	<u>5.3</u>	<u>5.4</u>	<u>5.9</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of loss on reacquired debt and amortization of debt discount, expense and premium - net.

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
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: November 1, 2018

/s/ William H. Spence

William H. Spence  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)  
PPL Corporation

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
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: November 1, 2018

/s/ Vincent Sorgi

Vincent Sorgi  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)  
PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
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: November 1, 2018

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation



CERTIFICATION

I, MARLENE C. BEERS, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");
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: November 1, 2018

/s/ Marlene C. Beers

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Marlene C. Beers

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 quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
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: November 1, 2018

/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 quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
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: November 1, 2018

/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 quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
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: November 1, 2018

/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 quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
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: November 1, 2018

/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 quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
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: November 1, 2018

/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 quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
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: November 1, 2018

/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-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2018, 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 Vincent Sorgi, 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: November 1, 2018

/s/ William H. Spence

William H. Spence  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)  
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi  
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-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2018, 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 Marlene C. Beers, 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: November 1, 2018

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

/s/ Marlene C. Beers

Marlene C. Beers

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-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended September 30, 2018, 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: November 1, 2018

/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

/s/ Kent W. Blake

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-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended September 30, 2018, 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: November 1, 2018

/s/ Paul W. Thompson

Paul W. Thompson  
Chairman of the Board, Chief Executive Officer and President  
(Principal Executive Officer)  
Louisville Gas and Electric Company

/s/ Kent W. Blake

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-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended September 30, 2018, 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: November 1, 2018

/s/ Paul W. Thompson

Paul W. Thompson  
Chairman of the Board, Chief Executive Officer and President  
(Principal Executive Officer)  
Kentucky Utilities Company

/s/ Kent W. Blake

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.